S. HRG. 118–429

THE PRESIDENT'S FISCAL YEAR 2024 BUDGET WITH TREASURY SECRETARY JANET L. YELLEN

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

FIRST SESSION

MARCH 16, 2023

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PUBLISHING OFFICE
56–992—PDF WASHINGTON : 2024

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THE PRESIDENT'S FISCAL YEAR 2024 BUDGET WITH TREASURY SECRETARY JANET L. YELLEN

THURSDAY, MARCH 16, 2023

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

The hearing was convened, pursuant to notice, at 10:05 a.m., in Room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Cantwell, Menendez, Carper, Cardin, Brown, Bennet, Casey, Warner, Whitehouse, Hassan, Cortez Masto, Warren, Crapo, Grassley, Cornyn, Thune, Scott, Cassidy, Lankford, Daines, Young, Johnson, Tillis, and Blackburn.

Also present: Democratic staff: Ursula Clausing, Tax Policy Analyst; Eric LoPresti, Detailee; Sarah Schaefer, Chief Tax Advisor; Joshua Sheinkman, Staff Director; and Tiffany Smith, Deputy Staff Director and Chief Counsel. Republican staff: Becky Cole, Chief Economist; Jamie Cummins, Senior Tax Counsel; Kate Lindsey, Tax Policy Advisor; and Mike Quickel, Policy Director.

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

The CHAIRMAN. The Finance Committee will come to order, and we are happy to welcome the Treasury Secretary, Janet Yellen, this morning.

Everyone here, regardless of political views, understands that the FDIC, the Fed, and the Treasury Department are putting in long hours to contain the fallout of the recent bank closures. The process is moving forward under existing law. Investigations are underway at the SEC and the Department of Justice.

Senator Brown, Chair of the Banking Committee and a valued member of this committee, is determined to get to the bottom of exactly what went wrong. Nerves are certainly frayed at this moment. One of the most important steps that Congress can take now is to make sure there are no questions about the full faith and credit of the United States.

That means paying the bills incurred by Presidents of both parties and taking a default off the table. With respect to the budget debate, after a request from myself and Senator Whitehouse, the nonpartisan Congressional Budget Office did the math on the recent fiscal promises we have heard from House Republicans.

The promises pile up, but the numbers do not add up. They wish to balance the budget in 10 years, but they have announced a long list of untouchables. No reductions in defense, no cuts to Medicare or Social Security, no touching veteran's programs, no asking the wealthy or corporations to pay their fair share. A couple of these items could get bipartisan support, but certainly not all of them.

Senator Whitehouse and I asked the Congressional Budget Office to run the numbers. Is it even possible for Republicans to stand behind those commitments? Does the math add up? Madam Secretary, you and I have talked about this. The numbers do not add up; not even close. What the Budget Office found is that for Republicans to make the math work, they would have to cut every Federal program by 86 percent.

Goodbye to Medicaid and the guarantee of nursing home coverage, which I saw when I was director of the Gray Panthers. The border would be unprotected. Roads and bridges would crumble. If Republicans want to extend the Trump tax law, they would have to cut everything else.

Given that, it is not a big mystery why House Republicans have not yet put a budget on paper, a budget to show the public. They are living way, way out there. Democrats are following a smarter approach. The President has put out a budget that is based on a simple proposition: help working families, help the middle class get ahead, reduce the deficit at the same time, and show that these matters are not mutually exclusive.

I am just going to highlight a few budget matters that are important to the Treasury. First, last week the committee had a very good bipartisan hearing on affordable housing. This is an area where I believe there is a clear opportunity for bipartisan cooperation. The budget proposes expanding the Low-Income Housing Tax Credit, creating the Neighborhood Homes program, and other ideas.

Senator Cantwell, Senator Cardin, Senator Young—they are championing bipartisan efforts. I am going to work with them closely on these proposals and more. This crisis needs a solution. There is no substitute—and you and I have talked about this as well, Madam Secretary—for increasing the supply of housing.

Second, the budget calls for expanding two of the most significant sources of support for working people and families: the Child Tax Credit and the Earned Income Tax Credit. When the Congress passed these expansions in 2021, there were huge, almost immediate reductions in poverty. With a little bit of help, millions of working Americans felt like they could breathe for the first time. I would like for them to have that feeling of relief once again.

And third, we have talked for a long time about the need to address the basic unfairness of America's two-tiered tax system—one set of rules for people who work for a living: firefighters, nurses, teachers. They pay their taxes out of every paycheck. Then there is another set of rules for the very wealthy, who can pay what they want when they want to and, for years on end, little or nothing.

Although the President and I have proposed slightly different ideas for addressing the unfairness, we are rowing in the same direction.

One final issue. I've got serious concerns about the administration's approach to implementing a portion of the Inflation Reduction Act that deals with sourcing critical minerals. Free trade agreements cannot be unilaterally decided by the executive branch. They require consultation and consent from the Congress. That includes any agreement on critical minerals.

Secretary Yellen, thank you again for being with us. I know you have a hectic schedule. We are going to have a wide-ranging discussion. We look forward to question and answers, and I understand that you have a hard stop at 1 o'clock, so we will all try to keep it short and get to questions.

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 very much, Mr. Chairman, and welcome to today's hearing, Secretary Yellen. I appreciate you appearing before the committee in a timely manner, following the release of the President's budget.

While the budget is the focus of today's hearing, I expect that the emergency measures that have been taken this weekend by Treasury, the Federal Reserve, and the FDIC will also be appropriately discussed today. It is important to learn more about what initiated the run on Silicon Valley Bank, the impact of the Federal Reserve holding interest rates low for too long, and what steps were—or were not—taken by SVB and the banking regulators.

In the meantime, I am concerned about the precedent of guaranteeing all deposits and the market expectation moving forward. Once started, moral hazard, like inflation, is not easily contained and does long-lasting damage.

Inflation played a key role in the recent bank failures, as rising interest rates and mismanaged interest rate risk led to a liquidity crisis. Indeed, there is no issue more critical than the unacceptably high inflation that American families continue to face every day. Americans have now experienced 16 months of inflation at or above 6 percent. Costs of rent, groceries, and services continue to rise. Wages cannot keep up. Last year, the administration committed to working in a bipartisan fashion to address this serious problem, noting the budget must complement monetary policy.

Instead, what we have seen is a reckless tax-and-spend agenda that was forced through Congress, rolling out trillions of dollars in debt-financed spending and hundreds of billions of dollars in new tax increases on U.S. job creators. The Congressional Budget Office says the Inflation Reduction Act will not only increase inflation in the near term, but Treasury will collect less corporate tax revenue with the partisan IRA in effect, despite being sold as a bill to make corporations pay their fair share.

The Federal Reserve is having to compensate for this by growing interest rate hikes. Rising interest rates are impacting household budgets, the Federal Government's coffers, and as we saw this week, our banking system.

The President's budget demonstrates the administration has not learned from its mistakes. After 2 years of policies that contributed to record-high inflation and excessive deficit spending, this administration is doubling down with more of the same.

The spending binge must stop. We must address our growing deficits in order to put the United States' finances on a sustainable path, and pro-growth tax policy should be a part of the solution.

The Tax Cuts and Jobs Act led to one of the strongest economies in generations. The TCJA introduced competitive tax rates while broadening the base, including by enacting the first global minimum tax of its kind and putting an end to corporate inversions. It also contributed to record-high corporate tax receipts, both nominally and as a share of gross domestic product.

But instead of considering bipartisan, pro-growth policies, the President's budget includes a whopping $4.7 trillion of new and increased taxes on American job creators, which ultimately means fewer jobs and lower wages. It also includes higher taxes on American energy producers.

Earlier today, Senator Barrasso and a number of his Republican colleagues, including myself, sent a letter to you, Secretary Yellen, raising concerns with the over-$100 billion in increased energy taxes proposed in the President's Fiscal Year 2024 budget. Mr. Chairman, I ask that this letter be included in the record.

The CHAIRMAN. Without objection, so ordered.

[The letter appears in the appendix beginning on p. 54.]

Senator CRAPO. The administration's short-sighted, partisan agenda extends to its unilateral approach to the OECD international tax agreement. For the last 2 years, Treasury has used the OECD negotiations to attempt to compel changes in U.S. law without regard for the effect on U.S. revenue, U.S. companies, and U.S. workers. Not only has the administration failed to put a stop to digital services taxes, but now foreign countries threaten to impose extraterritorial taxes on U.S. companies under the global minimum tax at Treasury's invitation.

The latest OECD guidance confirms the administration has agreed to allow foreign countries to collect U.S. GILTI revenue, and worse, tax U.S. companies on their U.S. profits, in violation of our existing tax treaties. The budget fails to consider these revenue impacts, which, if implemented, will result in billions of dollars of lost U.S. revenue.

Meanwhile, the administration continues to hide its true intentions for "transforming" the IRS. The budget doubles down on the $80 billion already given to the IRS, including 2 additional years of plus-up funding totaling $29.1 billion solely for "enforcement and compliance initiatives," in addition to $14.1 billion more of yearly funding. That is another $43 billion!

Secretary Yellen, I agree with you that having a funding plan for an agency budget that dwarfs many others is "critical." In the meantime, the IRS has embarked on a "spend first, plan later" approach that is not transparent or responsible, and is a sure-fire recipe for error, waste, and mismanagement.

While we may not have all the details yet, we do know that only 6 percent of this existing plus-up funding is for modernization, while over 62 percent is solely for hiring—more than 93 percent of which is enforcement hiring.

These new funds are not going to replace retiring IRS agents, as annual appropriations already provide that funding, and the administration has not requested any reductions in IRS annual funding to account for replacing retirees with plus-up up funding.

Secretary Yellen, there are opportunities for the administration to work across the aisle on common-sense economic policies, but nothing suggests the President is abandoning the partisan tax-and-spend policies of the last 2 years.

This administration must recommit to working with Republicans to develop real solutions that will stabilize the economy and create higher wages and opportunities for American workers.

Thank you very much.

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

The CHAIRMAN. Thank you; thank you very much, Senator Crapo.

Our witness today will be Secretary Janet Yellen. She is the first person to have led the White House Council of Economic Advisors, the Federal Reserve, and the Treasury Department. She is also the first woman to lead the Treasury Department.

Before leading Treasury and the Federal Reserve, she was a distinguished fellow in residence at the Brookings Institution. She served as president of the American Economic Association. She is a member of the American Academy of Arts and Science and the Council on Foreign Relations. She also was a founding member of the Climate Leadership Council.

We welcome you, Secretary Yellen, and please proceed.

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 here today. I would like to start with an update on the recent developments in the banking system. This week, the government took decisive and forceful actions to stabilize and strengthen public confidence in our financial system.

First, we worked with the Federal Reserve and FDIC to protect all depositors of the two failed banks. On Monday morning, customers were able to access all of the money in their deposit accounts, so they could make payroll and pay the bills. Shareholders and debt holders are not being protected by the government.

Importantly, no taxpayer money is being used or put at risk with this action. Deposit protection is provided by the Deposit Insurance Fund, which is funded by fees on banks.

Second, the Federal Reserve is providing additional support to the banking system with a new lending facility. This will help financial institutions meet the needs of all of their depositors. I can reassure the members of the committee that our banking system is sound, and that Americans can feel confident that their deposits will be there when they need them. This week's actions demonstrate our resolute commitment to ensure that our financial system remains strong, and that depositors' savings remain safe.

Now let me turn to the topic of the hearing, the President's Fiscal Year 2024 budget. Over the past 2 years, the United States has experienced a historic economic recovery. In January of 2021, our country was in the middle of an economic calamity, triggered by the coronavirus pandemic.

But Congress and the President took decisive action through the American Rescue Plan and our vaccination campaign, and today our unemployment rate is near historic lows. We have seen the strongest 2 years of business creation in history. Now our task is to navigate our economy's transition from rapid recovery to sustainable growth. This includes bringing down inflation.

We have seen some moderation in headline inflation, but more work needs to be done. Our administration will continue to build on the actions we have taken to expand supply and provide cost relief in areas like energy and health care.

With your partnership, we have also laid a foundation for long-term economic growth. In just the past 2 years alone, Congress passed three transformational laws: a generational investment in infrastructure, a historic expansion of American semiconductor manufacturing, and the largest investment in clean energy in our Nation's history.

The strategic priority for our administration this year is to work with you to effectively implement these laws. We are seeing the early results. In just 7 months, there has been a wave of investments in clean energy manufacturing across the country, and our new resources for the IRS are already paying off. Taxpayers are getting drastically improved customer service this year.

For example, we have answered hundreds of thousands more phone calls during this filing season than at this time last year. Our proposed budget builds on our economic progress by making smart, fiscally responsible investments. These investments would be more than fully paid for by requiring corporations and the wealthiest to pay their fair share.

Fiscal discipline remains a central priority in our budget. We have proposed a minimum income tax of 25 percent on taxpayers with wealth in excess of $100 million. We have also proposed an increase of the corporate tax rate to 28 percent from the current 21 percent, and it will come as no surprise that I hope Congress will implement the United States' part of the global minimum tax deal.

On the spending side, we suggest additional investments to boost our long-term growth potential. This includes improving the availability of high-quality child care, providing free and universal preschool, and boosting the supply of affordable housing. We also propose restoring the Child Tax Credit and Earned Income Tax Credit expansions that were enacted in 2021 but have since expired.

Importantly, with the proposed tax reforms, we estimate that this budget will deliver deficit reduction of nearly $3 trillion over the next 10 years.

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

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

The CHAIRMAN. Thank you, Secretary Yellen.

Let me begin with what I emphasized, that it is critically important that Congress take steps to make sure there are no questions about the full faith and credit of the United States. This is a matter within the Finance Committee's jurisdiction.

Now on Friday, the House Ways and Means Republicans passed a plan dealing with what they call prioritizing payments by the Treasury. They say that when Treasury runs out of stopgap funding, it should prioritize payments to Wall Street and creditors and China ahead of everybody else. I am coming off some town hall meetings in Oregon this weekend; that would not be a big hit with anybody.

Now, setting aside the merits of this Republican plan, does the Federal Government have the technical capacity to prioritize some payments ahead of others? I understand there is not even a precedent for this.

Secretary YELLEN. The government on average makes millions of payments each day, and our systems are built to pay all of our bills on time, and not to pick and choose which bills to pay. There is a reason that Treasury Secretaries of both parties have rejected this incredibly risky and dangerous idea, and it has never been tried before.

I cannot give any assurances about the technical feasibility of such a plan. It would be an exceptionally risky, untested, and radical departure from normal payment practices of agencies across the Federal Government, and I consider it essential that Congress come together to recognize that raising the debt ceiling is their responsibility, to protect the full faith and credit in the United States.

The CHAIRMAN. So, you have told us this prioritization scheme is unworkable, and House Republicans do not get to decide what qualifies as a Federal default. If the government can meet some but not all of its obligations, isn't that essentially the definition of a default?

Secretary YELLEN. Failing to pay all of your bills when they are due is what I think of as a default. The United States has always paid all of its bills on time, and it should stay that way. That has been a core American value since 1789, regardless of party. Presidents and Congresses have always honored all of our commitments, and prioritization is effectively a default by just another name.

The CHAIRMAN. I appreciate you bringing us up to date on that, Madam Secretary.

And, colleagues, the reason I have focused on protecting the full faith and credit of the United States is, this is explicitly within this committee's jurisdiction. So I thank you, Secretary Yellen.

Let us talk about the double standard in tax enforcement. Too much of the burden falls on working people and the middle class. It is too easy for corporations and the wealthy to get away with cheating.

Every time out, it seems that Republicans are trying hard to keep it that way. They put out an amendment to the IRA that, according to the Congressional Budget Office, would have led to even more tax avoidance by the wealthy. It would have encouraged billionaires to disguise their income so they appear to the IRS to be typical middle-class wage earners. There have even been Republican efforts to slow down hiring the kind of highly trained and dogged experts that you need to crack down on tax cheating by the wealthy and businesses that have very complicated business structures.

Of course, the first bill out of the gate in the House was this $114-billion giveaway to the wealthy tax cheats and the tax-dodging corporations. It would have in effect repealed the funding Democrats passed in the Inflation Reduction Act.

Secretary Yellen, if Republicans had their way and repealed the IRS funding to go after wealthy tax cheats, what would that do to the agency's ability to really make sure that those people at the very top paid their fair share?

Secretary YELLEN. Well, it would allow the wealthy and large corporations to skip out on taxes they legally owe and make it harder for ordinary middle-class families who pay their taxes to get the kind of service that they deserve from the IRS. It would increase the tax gap and add to the deficit by over $114 billion.

The CHAIRMAN. So, let us talk about improvements in taxpayer services. Now the IRS funding—as of early March, the IRS was answering 90 percent of the calls to its customer service lines and had reduced the backlog of individual returns substantially, in the ballpark of 90 percent. Now that is after spending roughly 1 percent of the IRA funding.

Secretary Yellen, if Republicans were able to successfully repeal the Inflation Reduction Act funding, what would that mean for taxpayer services? The reason I ask that is, right now we are in the middle of the filing season, so this is not some kind of abstract kind of concern. What would it mean for taxpayer services if they repealed the funding?

Secretary YELLEN. Well, it just clearly would lead to worse services for taxpayers. Phones would go unanswered, wait times would grow, mail would be processed more slowly, refunds would be delayed. We are undergoing a transition to digital forms, and improved scanning would be delayed. Paper backlogs would grow, and Taxpayer Assistance Centers that are now being reopened and fully staffed—some of them would have to close or be understaffed.

The CHAIRMAN. I am over my time.

Senator Crapo?

Senator CRAPO. Thank you very much, Mr. Chairman.

Let me start out, Madam Secretary, with the full faith and credit issue that my colleague Senator Wyden has raised. We agree that we need to protect the full faith and credit of the United States.

Frankly, as I indicated in my opening statement, the problem that we see on the Republican side is that it is all tax and all spending increases in terms of the administration's approach to this. While you and the chairman just discussed a number of concerns you have with Republican ideas with regard to how to deal with this, the bottom line is we must stop trying to solve this problem by massive new spending and massive new taxes.

So, we have some disagreements about how to deal with this. What I would ask of you is, at this point, the President has refused to negotiate with Republicans on fiscal restraint policies that they believe need to be put into place with a new extension of the debt ceiling.

We must engage in negotiations to get over some of these disagreements, and this new debt ceiling resolution must include fiscal restraint. We have to get some kind of attention to this. I think the American public is crying out for Congress to pay attention to this issue and put fiscal restraint in place.

Can you commit at least to negotiate with Republicans as we try to move forward to finding some aspects of fiscal restraint to put into the debt ceiling discussion?

Secretary YELLEN. Senator Crapo, the President has indicated that he considers it critically important to have a sustainable and responsible fiscal path, and he has put on the table in the budget a number of ideas, many ideas about how to grow the economy while also cutting deficits.

This is a matter that he is very prepared to discuss and negotiate with Republicans, but it cannot be a condition for raising the debt ceiling. The debt ceiling simply must be raised, and to put at risk the full faith and credit of the United States and to threaten to cause an economic and financial catastrophe is not an acceptable requirement.

Senator CRAPO. Madam Secretary, I interpret your answer to be that you are very willing to discuss the President's budget, tax increases, and increased spending, but you are not willing to discuss, with regard to the debt ceiling discussion, any actual fiscal restraint in terms of spending control in the United States.

Now, if I interpreted it wrong, I am sorry. But we have to get negotiating on more than just whether the President's budget is the right approach. There are other ideas, and we need to be engaged on them. I just hope that you will take that message back to the President.

Secretary YELLEN. The President has indicated that he would welcome discussions about the stance of fiscal policy.

Senator CRAPO. All right. I appreciate that.

Let us move quickly to the SVB crisis and the banking industry. Can we agree—at least as a starter, as we try to understand how this is all playing out—that the issue here in terms of risk is liquidity risk that we are facing in the system, and that SVB had a liquidity risk issue?

Secretary YELLEN. Well, there was a run on the bank. It had high reliance on uninsured deposits, and there was a massive withdrawal of deposits that led to liquidity problems. The bank had to be closed for that reason.

Senator CRAPO. So, do you agree then that it is a liquidity risk that we are dealing with in this issue?

Secretary YELLEN. Well, there was a liquidity risk in this situation. You know, there will be a careful look at what happened in the bank and what initiated this problem. But clearly, the downfall of the bank, the reason it had to be closed, was that it could not meet depositors' withdrawal requests.

Senator CRAPO. Because their capital was losing value and they were not able to access their capital. And I attribute that to the interest rate hikes that we are seeing in the face of the inflation. Am I wrong in that?

Secretary YELLEN. Well, my understanding is that the bank, to meet liquidity needs, had to sell assets that it expected to hold to maturity. And given the interest rate increases that have occurred since those assets were purchased, including treasuries and mortgage-backed securities, they had lost market value.

Senator CRAPO. All right, yes; so we are on the same page on that then. I appreciate that.

One other question with regard to the bank failure—and this is with regard to the efforts to get a private buyer to help solve this issue. Regarding these issues, the solution would have been to get a private-sector solution that protected taxpayers, calmed the markets, and prevented the potential assessments from being inappropriately levied against community banks.

Press reports have indicated that some of the FDIC board members may have slow-walked the negotiations with regard to potential political backlash surrounding mergers and acquisitions, and it was because of that that we were not able to move forward promptly with obtaining a buyer. Are those reports accurate?

Secretary YELLEN. Well, this is something that is a question for the FDIC really, rather than me. But I know that the FDIC looked for buyers, and a merger-acquisition is certainly something that they were open to as a way to resolve the institution.

Senator CRAPO. All right; thank you.

Very quickly on the OECD agreement, I am very much opposed to it. Yet it seems to me that Treasury is pushing for Congress to approve its approach to the OECD negotiations and is already giving support to nations around the world in the OECD to tax U.S. profits.

That would be directly in conflict with U.S. tax treaties. Am I correct in that?

Secretary YELLEN. One hundred thiry-seven countries signed this agreement, and see it as a way to put a floor on taxation of corporations and multinational corporations and stop a race to the bottom. And the European Union has adopted Pillar 2, the global minimum tax, and other jurisdictions are moving forward and——

Senator CRAPO. My question——

Secretary YELLEN [continuing]. We feel it is in the U.S.'s interest to adopt this. We have proposed——

Senator CRAPO. I understand, Madam Secretary. My time has expired, and the chairman is trying to get me to wrap up.

I do want to make one more quick statement. I would like to express my concern about numerous proposals in the Green Book, in the budget, that we will not have time to get into here today.

Last year, Treasury did not provide answers to these questions for the record for 6 months. I just would like to ask you to pay attention to this this year and have your team respond to us promptly as we get questions for the record on this year's budget.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. You did not answer his last question about OECD and tax treaties. Is what you are proposing in any way a violation of the tax treaties that we have had with other countries?

Secretary YELLEN. No, there is no violation in anything we have proposed with tax treaties. We have engaged in this. It is something that the OECD considered very carefully, and there is no violation of our tax treaty.

Senator GRASSLEY. Well, we surely do not agree with your analysis of that. Only Congress has the power to approve treaties.

I want to go to your position as a member of the Social Security board of trustees. You and other people put out in an annual report, quote, "Lawmakers should address the projected trust fund shortfalls in a timely way in order to phase in necessary changes gradually and give workers and beneficiaries time to adjust to them." I do not disagree at all with that statement.

President Biden has claimed that his budget reduces the deficits, while protecting Social Security. However, the President's budget includes no proposal to extend the solvency of the Social Security trust fund.

Anyone who knows how things get done around here knows it takes presidential leadership to lead major reforms to Social Security. Forty years ago, that was President Reagan and a Democratic Speaker of the House, Tip O'Neill, who put together a bipartisan agreement that was overwhelmingly approved by the Congress of the United States, and it has made Social Security sound, at least through 2035.

So I assume that you stand by your recommendations that lawmakers act sooner rather than later to shore up the Social Security trust fund? So can Congress expect to see the President's proposal to put Social Security on a sound fiscal basis along the same lines, replicating the leadership of President Reagan and Tip O'Neill?

Secretary YELLEN. President Biden stands ready to work with Congress to shore up Social Security and discuss possible approaches, so that is a conversation that it is important for us to have. He has made explicit proposals in connection with Medicare in shoring it up, and it is important to have that conversation about Social Security.

The President believes strongly that that should not involve cutting benefits or going back on our commitments to America's seniors, but certainly it is a discussion we need to have.

Senator GRASSLEY. I assume that both you and the President are sincere in what you just said. It would help a lot if the President would quit demagoguing the Social Security issue the way he has in recent weeks.

I want to go to an extension of a conversation you and I had in June of 2021. You defended concerns about the President's spending proposals fueling inflation and interest rate hikes by saying this: "If we ended up with a slightly higher interest rate environment, it would actually be a plus for society's point of view and the Fed's point of view." I want to emphasize "plus for society's point of view."

Now, when you made that statement, inflation was 5.4 percent and the Federal funds rate was effectively zero. Since that time, inflation hit a 40-year high, and the Fed has responded by aggressively hiking interest rates. As a result, families and small businesses are paying the price by way of higher interest rate costs for home loans and business lines of credit.

Moreover, bank failures this past week highlighted how fragile our economy is, given rising interest rates and decades-long inflation. So, do you see still our inflation-driven interest rate hikes as, using your words, "a plus for society"?

Secretary YELLEN. I consider high inflation the number one economic problem that all of us need to face and address. It is the President's top priority. I was very supportive of the American Rescue Plan. I think there are many factors that have contributed to high inflation. It is critical for the Fed to address it, and the President is doing all that he can, both through the Inflation Reduction Act, lowering costs of prescription drugs, lowering the cost of health care, using the strategic petroleum reserve to try to lower and address higher gas and energy costs for Americans.

It is critical for us to do what we can to bring inflation down, and for the Fed to do its part as well. The Inflation Reduction Act was enacted at a time when I believed the greatest threat to our economy was that unemployment would remain shockingly high, and that American families would be scarred by long-term job loss and losing the roofs over their heads, and I believe it was appropriate to take those actions.

Senator GRASSLEY. My time has run out. Just let me finally say this, that what you say about the Inflation Reduction Act reducing inflation, within the last 3 weeks the CBO says it increased inflation.

I yield.

The CHAIRMAN. Thank you, Senator Grassley.

Senator Cardin?

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

I have a question in regard to areas where we have bipartisan support, where we can, I hope, make progress in this Congress in getting some changes in our tax code, particularly as it deals with one of the subjects that you mentioned in your opening statement: affordable housing.

We have fallen behind in affordable housing. We were able to make progress in a lot of areas during the last 2 years, but affordable housing was not one of those areas where we were able to advance. So, your budget includes three initiatives in which there is bipartisan support.

One is to make permanent the New Markets Tax Credits. I am working with Senator Daines on that proposal, to get predictability to New Markets Tax Credits which would be great for, I think, private-sector investment.

Another is the Low-Income Housing Tax Credit, where your budget provides for the expansion and reform of that credit. Senator Cantwell and Senator Young have been leaders on this committee. We joined them in that effort.

And then lastly, the Neighborhood Homes credit, which I have been the sponsor of and Senator Young is my cosponsor. So these are all bipartisan bills that we have a chance of moving forward.

My suggestion is to try to see whether we can't move a housing tax credit program separate from the other areas where we might have more controversy. This is an area where we could perhaps get to the finish line earlier. So, could we have your cooperation in trying to deal with the housing tax credit bill that could perhaps make it to the President's desk earlier rather than later?

Secretary YELLEN. Absolutely, Senator Cardin. I am very pleased that this is an area where there is bipartisan agreement on the need to act. I think the United States really faces a housing supply gap, and we need initiatives to make rents more affordable and home ownership attainable for Americans.

All of the programs that you mentioned—the New Markets Tax Credit, LIHTC, and the Neighborhood Homes tax credit—all of these are important initiatives, and we would look forward to working with Congress to try to see if we can make progress here.

Senator CARDIN. Thank you.

I want to move on to another bipartisan bill that passed in the last Congress with overwhelming support for retirement savings: Secure 2.0. Are you focused on helping us implement that law as quickly as possible? It provides opportunities for, particularly, modest-income families to be able to take advantage of retirement savings opportunities, particularly with the refundable tax credits.

Are you working to make the implementation of that law as smooth as possible, so that we can see some progress?

Secretary YELLEN. Yes, absolutely. It is an important law. It contains many provisions that are complex and do require detailed technical analysis to produce public guidance and regulations. But this is something that we are working hard on, and the IRS and Treasury's Office of Tax Policy are working to implement this.

Senator CARDIN. And another area where I think there is bipartisan support is improving the service at the IRS—and the modernization of its capacities. The chairman already mentioned the fact that you have made some progress. Actually, the successful answering of calls has dramatically been increased.

Do you see continued progress being made in regards to the service levels being provided by the IRS as a result of funds made available through the Inflation Reduction Act?

Secretary YELLEN. Absolutely. This will be a very critical part of the IRS strategic operating plan that should be completed in the coming weeks. It has been a priority since Day 1. I promised during the tax season that there would be 85-percent customer service performance, and so far, we have been in that range and modernizing the way in which IRS interacts with taxpayers, with small businesses.

There have already been other improvements put into effect that, for example, make it easier for small businesses to file 1099 forms online, and this will be an important priority.

Senator CARDIN. I want to ask two questions for the record, and I will just mention them. One will deal with the section 179(d) allocations. I have worked with Senator Crapo on this. The guidance from the IRS is absolutely critical in regard to the allocation issue. I will be asking a question for the record on that.

And also, you mentioned small businesses. The R&D changes in the 2017 tax bill have been very much impacting the ability of companies to do research. I chair the Small Business Committee. It is having a direct impact on the SBIR program, which is critically important for innovation—and for national defense, I might say.

So I will be asking you questions as to how we can mitigate the adverse impact of the change in the R&D credit as it affects small companies in the SBIR program.

The CHAIRMAN. Thank you, Senator Cardin. And this committee is really going to dig in on this housing issue, and my view is we start with the proposition that the only matter that is off the table is taking a pass on it. We have got to act.

Senator Cornyn, you are next.

Senator CORNYN. Good morning, Madam Secretary.

When you testified before this committee almost 2 years ago, you were asked whether inflation was transitory, and you told the committee that you saw important transitory influences at work. But you did not anticipate that inflation would be in any way permanent.

You predicted our economy was on track to get back to more normal operation, that inflation would decline over time—something we all hope for. To be fair, you were not the only person who forecast transitory inflation. The Chairman of the Federal Reserve, Jay Powell, did the same, as did the President of the United States.

We now know that inflation rose to a level not seen in more than 40 years, and that inflation accelerated particularly following the enactment of the partisan American Rescue Plan Act in 2021—and then with the so-called Inflation Reduction Act in 2022, which together added $2.6 trillion to our national debt.

Obviously, all this stimulus going into a constrained economy, with supply chains the way they were, workforce levels down, obviously was like pouring gasoline on the inflation fire. I know inflation has now come down to 6 percent or so, but that is hardly good news to my constituents, who are still struggling to keep up with rising costs.

We know both record housing costs—which we have talked about a little bit here today—and high grocery bills are squeezing consumers all across the country. And to make matters worse, real average hourly earnings—the cash earnings of all workers adjusted for inflation—declined last month and are down over the last year.

In other words, because of inflation, workers have gotten a pay cut. Well, first we saw high inflation, and then higher interest rates of course, and that brings me to the failure of the Silicon Valley Bank and another bank in this last week. Some have suggested that this was an example of mismanagement at the time of higher interest rates and higher inflation.

Others are saying, "Where are the regulators? Were they asleep at the wheel?" Many have suggested that banking regulators need to focus more on regulating banks, protecting depositors and taxpayers, instead of straying off course and examining so-called climate-related risks and other social engineering goals. I think these are all fair points.

When you look at the confluence of concerning economic factors, there is one unavoidable truth. We need to get our fiscal house in order, something that the administration pays lip service to but seems uninterested in working with Republicans to try to address.

The President's budget proposal, of course, just makes that clear, because it offers more taxes, more spending, and more debt. Spending would be at a historical level relative to the economy. The national debt would continue to grow. Social Security and Medicare, which are on a path to insolvency—there is no proposal from the President to deal with these impending disasters.

Of course, interest costs to service this debt would reach about a trillion dollars annually. Our ability to defend our country in an increasingly dangerous world would be diminished because we would be spending more money paying interest to the bondholders rather than paying to keep the American people safe.

And Americans, of course, would be punished with trillions in higher taxes, at a time when tax revenues are already at historical levels. It is not that the American people are taxed too little; it is that the Federal Government continues to spend too much and incur too much debt, which in turn creates this unvirtuous cycle.

One final point. Last year the administration pushed through an $80-billion blank check for the IRS, without a spending plan. Only in Washington, DC would Congress pass an $80-billion spending appropriation without any plan as to how it is going to be implemented. We were told, "Well, it will be forthcoming." That is great, but that is the opposite of what you would do it in the real world.

First, you would want to know what is the plan, and then you would ask how much does it take to finance or pay for that plan. Well, now the administration wants another $29 billion, which would bring the total up to $110 billion. This, of course, is going to mean more audits, more red tape, and violate the President's promise that no one paying less than $400,000 in taxes would pay any more.

So unfortunately, the President's budget misses the mark, which is disappointing, but unfortunately pretty consistent with what we have seen from this administration.

The CHAIRMAN. Thank you, Senator Cornyn.

Next would be Senator Bennet, followed by Senator Cassidy.

Senator BENNET. I am going to yield to Mr. Cassidy, if that is all right?

The CHAIRMAN. Nobody can say there is no collegiality in the Finance Committee.

Senator Cassidy?

Senator CASSIDY. Madam Secretary, the President keeps saying he does not wish to have cuts in Social Security. Is he aware that under current law, when the program goes broke in 9 years, that there will be a 24-percent benefit cut for those who are current recipients? Is he aware of that?

Secretary YELLEN. Well, it is clear that Social Security——

Senator CASSIDY. But is he—I apologize for the interruption, but I have limited time. Is the President aware that when Social Security goes broke in 9 years, under current law there is a 24-percent cut in benefits for people who are currently receiving them?

Secretary YELLEN. If we do not do anything about it, I think that is about right, but the President will want, wants to strengthen Social Security——

Senator CASSIDY. In the $4.5 trillion of taxes the President has proposed, are any of those taxes going to shore up Social Security? I actually know that answer. The answer is, of the $4.5 trillion in taxes he has proposed, not a dime is going to shore up Social Security. Does the President know personally anybody who is dependent upon Social Security, and that if their benefits are cut by 24 percent, they will slide into poverty? It is hard for you to know, so I will give you a pass on that.

Secretary YELLEN. The President knows many people on Social Security.

Senator CASSIDY. Then why doesn't the President care?

Secretary YELLEN. He cares very deeply.

Senator CASSIDY. Then where is his plan?

Secretary YELLEN. He stands ready to work with Congress——

Senator CASSIDY. That is a lie, because when a bipartisan group of Senators has repeatedly requested to meet with him about Social Security, so that somebody who is a current beneficiary will not see her benefits cut by 24 percent, we have not heard anything on our request, and we have made multiple requests to meet with the President.

Now you cannot comment on that, I realize that, but that is a fact, and if you have been told to say he stands ready to meet, I will tell you there is absolutely no evidence, because we have not gotten our meeting.

Secretary YELLEN. Well, I believe the President does stand ready to work with Congress——

Senator CASSIDY. Well, again, empirically that is not true.

Secretary YELLEN [continuing]. To address this issue.

Senator CASSIDY. Now the President, in the past, has proposed increasing taxes on those making over $400,000 to pay for it. Although he has not made that formally, he has said that in the past. Now he has also proposed to tax some more to pay for Medicare, and also to close the debt and deficit.

So, what would the rates have to be on that 2 percent of Americans who earn over 400K, in order to do Medicare, the debt and deficit, and also to address our 75-year shortfall in Social Security? Do you have any sense of what the rates would have to be?

Secretary YELLEN. Well, he has proposed explicit increases in tax rates on very high income——

Senator CASSIDY. But do you think it is realistic that he can pay for Medicare, debt and deficit, and also address a 75-year shortfall in Social Security, by only taxing, by only going—the only thing he is going to do is to lay higher taxes on those who make more than 2 percent.

I am sure there is a projection of how much those rates would have to be. Do you, can you tell us what those rates would have to be to do everything he is saying?

Secretary YELLEN. I cannot tell you that, but I do know that he has put on the table many proposals that would raise very substantial revenues——

Senator CASSIDY. But of that $4.5 trillion, not a dime is going to Social Security. And if you have not—if you cannot tell me, I presume that they have not actually modeled what those rates would have to be, which tells me that he has actually not been developing his plan.

Now, this is incredibly worrisome from a President who should be sympathetic with someone who, under current law, is going to get a 24-percent cut in their benefits.

Secretary YELLEN. The President feels, is completely committed to protecting seniors who rely on Social Security.

Senator CASSIDY. Now, if we doubled our debt-to-GDP ratio, just theoretically if you will—and aside from our conversation—if we doubled that debt-to-GDP ratio, what effect would that have on the economy?

Secretary YELLEN. So right now, in the President's budget proposal——

Senator CASSIDY. No, I asked you just the theoretical—independently of the budget proposal.

Secretary YELLEN. If we were to double the debt-to-GDP ratio?

Senator CASSIDY. Yes.

Secretary YELLEN. I do not see why we would need to——

Senator CASSIDY. But if we did, just—you are an economist. If we did, what would be the effect upon the economy?

Secretary YELLEN. Well, it would tend to raise net interest costs.

Senator CASSIDY. Would it be a negative effect on the economy? Of course, it would be.

Secretary YELLEN. Yes.

Senator CASSIDY. Of course, it would be. We have actually modeled this. For the President to do nothing—let us assume that we cast aside current law and we just doubled the national debt—and that is what it would do—it would have a devastating effect upon the economy. CBO says they cannot model the deleterious effects that would occur because of that.

So, we have a situation where the President has not proposed a single plan. He has turned down multiple requests for meetings with Senators, and our options are a 24-percent cut on a person currently receiving benefits, doubling our national debt—which CBO says cannot be modeled and that you agree would be a deleterious effect.

And he has not modeled the tax rates that would be required if he just wants to raise taxes.

Secretary YELLEN. Look, what I know is that the President is committed to Social Security. He stands ready to work with Congress, and he has put on the table many, many——

Senator CASSIDY. I am out of time. I do not mean to be rude, but since I have had multiple requests on a bipartisan basis to meet with him and he has turned everyone down, that rings hollow.

The CHAIRMAN. My colleague is out of time, and I would just caution colleagues. We have plenty of differences around here, but accusing witnesses of lying is over the line.

Senator CASSIDY. I accept that, and I did not mean that for the Madam Secretary, who is merely saying that which she has been told. I am saying for an empiric observation, when the President says he has ready to meet and he has turned down multiple——

The CHAIRMAN. The time of the gentleman has expired. Accusing witnesses of lying——

Senator CASSIDY. But I did not accuse her.

The CHAIRMAN. Next, we have Senator Carper.

Senator CARPER. Welcome to the Finance Committee, Secretary Yellen.

Secretary YELLEN. Thank you very much.

Senator CARPER. We are normally a pretty jovial group, but we will get back on track here in a sec. But thanks so much for joining us. Thanks for taking on a tough job and making us proud.

As you know, one of our country's most significant achievements, I believe, over the last decade or so in Congress was the passage of the Inflation Reduction Act, maybe right on the heels of the bipartisan infrastructure legislation that some of us right here at this table helped to write. In particular, the clean energy tax incentives included in the Inflation Reduction Act, which were authorized and passed by this committee—and a bunch of us had a chance to work on them—will help us to achieve our climate goals and hopefully save our planet, all while creating good-paying jobs here in the United States. That is what we call, in Delaware, a win-win situation.

However, in order to realize the full potential of the law, it is critical that the American people are not only made aware of these credits, but that they have a clear guidance on their eligibility to benefit from these credits. This is especially true for some of the provisions in the law targeted to low-income and rural communities.

In that spirit, how is the Treasury Department working to increase awareness of these new clean energy incentives and make it as easy as possible for taxpayers to understand their eligibility for these credits?

Secretary YELLEN. That is an important question, and let me just say that this is a very top priority for Treasury and our Office of Tax Policy. There are enormous benefits here for households and for clean energy.

We need to write numerous regulations to implement the IRA programs—from prevailing wage and apprenticeships to electric vehicles and advanced electric energy projects—and we are working very hard on that guidance.

When we have devised those regulations, I think they will help to provide clarity that taxpayers need, to make sure that the goals of the IRA are met. And we will need to find ways of publicizing those programs, so that taxpayers know what they are eligible for.

There are benefits for investing, for example, in electric heat pumps or energy-efficient appliances, and we will need to work to make sure that this information is available to households so they can take advantage of these credits.

Senator CARPER. Thanks for that response.

My second question is also relating to the IRS, but IRS funding implementation.

Another significant accomplishment included in the Inflation Reduction Act was the badly needed investment to revitalize the IRS, in part to help them provide that service to people who are going to be calling, especially as they prepare their tax returns.

But as the chairman mentioned earlier, taxpayers are already reaping the rewards of this funding. And, since the passage of the law, the IRS has used, I am told, nearly $1 billion to boost taxpayer services, including hiring thousands of workers to help answer phone calls and support walk-in tax clinics.

Because of these investments, the IRS—listen to this. This is worth listening to. The IRS is, I am told, answering 90 percent of phone calls from the taxpayers during this filing season. I have a friend. You ask him how he is doing, he says, “Compared to what?” Well, compared to about a year ago, that number was not 90 percent; it was 13 percent, and that is not perfect, but it is one heck of a lot better than it was.

Secretary YELLEN. Sure.

Senator CARPER. And we are just getting started, and with the IRS Commissioner Danny Werfel at the helm—my thanks to everybody on this committee who supported his confirmation—these investments will ensure that the IRS can modernize their technology and their workforce to meet the needs of everyday taxpayers, while improving the fairness of our tax system.

Question: as the IRS puts this funding to work, how should policymakers like us evaluate the success of these critical investments, and what outcomes can the American people expect in the years to come? Please.

Secretary YELLEN. So, a simple metric is customer service. What fraction of phone calls are answered—and you mentioned 13 percent. I promised that this tax filing season, with the money from the IRA, that would rise to 85 percent. We've been measuring it, and it varies from week to week. But it has been consistently between 80 and 90 percent, and there are other metrics we can look at: speed of refunds that taxpayers receive, backlogs in the amount of paper that they are dealing with. And I believe this money will certainly lead to faster responses to taxpayers, more efficient and easier ways for them to, for example, deposit checks directly into their accounts.

Still, we will invent many metrics that I am sure will be able to enable you to monitor how this money is improving——

Senator CARPER. We welcome those metrics. Keep us heading in the right direction. It is very encouraging.

The CHAIRMAN. I thank my colleague.

Senator Bennet was gracious enough to give his time to Senator Cassidy, so the next three will be Senator Brown, Senator Thune, and then Senator Bennet.

Senator Brown?

Senator BROWN. Thank you, Mr. Chairman.

Secretary Yellen, thanks for your work this weekend and our phone conversations, and so much of what you did for the financial system without taxpayers footing the bill. Thank you. On that I spoke to a number—on your recommendation really—of small businesses in Ohio that were worried about making payroll.

They were all over the country. Senator Romney talked about his in Utah—everywhere. I spoke to banks and credit unions who understand how important it was to have confidence, and what you did gave them that confidence; so, thank you.

Bank failures are a painful reminder about the importance of strong safeguards. It is the same thing—maybe it is just what I am thinking about so much. But it is the same thing when I think about the disaster in East Palestine. The railroad lobbyists continued just aggressively to lobby this body and to lobby the regulators, and they succeeded in weakening standards for communities and for workers and for railroad safety.

We see the same kind of aggressive lobbying from bank lobbyists, to weaken standards. The administration weakened standards—the previous administration weakened, under 2155, those standards. So I appreciate how you stand up strong on these issues.

Just today, earlier—you have not seen it yet—I sent you another regulator's letter urging you to do a full review of bank failures and strengthen guard rails so this does not happen again. So, thank you for what you have done and will continue to do there.

Three pretty quick questions, I hope. The Inflation Reduction Act created new tax credits to support the domestic solar industry. As Treasury finalizes rules, will you ensure that China's solar industry cannot profit from these credits without developing a genuine domestic supply chain?

Secretary YELLEN. Yes. The purpose of—one purpose of IRA is to make sure that we reduce our dependence on China and have a strong domestic capacity, and the features of the law guarantee that. And we are working on guidance to implement the law that will lead to that result.

Senator BROWN. Thank you.

Ohio is about to have the biggest solar manufacturer in North America. We will continue working on that.

And, Mr. Chairman, you know I cannot come to this committee when Secretary Yellen is testifying and not bring up the Child Tax Credit.

I want to thank you again for helping us. I mean, it was—it was not unprecedented, but remarkable perhaps. We passed that bill in March. President Biden signed it 2 years ago; signed it quickly. You got it up and running, the Child Tax Credit, by July, and 60 million children and their families benefited from that.

It was so important. We have heard some on the other side who find all kinds of made-up or personally made-up reasons to oppose the Child Tax Credit. They want to cut taxes, but not for middle-income and low-income families.

President Trump's IRS Commissioner asked Congress to give IRS the authority necessary to establish minimum competency standards for paid tax preparers. These issues about CTC and EITC error rates are always exaggerated by the other side. My question is, if paid tax preparers had to demonstrate a bare minimum expertise, do you think we would see fewer errors with both EITC and CTC? Do you think Congress should give IRS this authority?

Secretary YELLEN. Yes, I believe that Congress should. I support that proposal. At present, incompetent and dishonest paid preparers disadvantage taxpayers and undermine confidence in the tax system, and I believe IRS should have the authority to oversee paid preparers and make sure that they help taxpayers file more accurate returns.

In turn, that would protect them from penalties and interest costs from poor-quality advice that some now receive.

Senator BROWN. Thank you. I wish my colleagues were as interested in tax cheating among billionaires as they are low-income people, but I guess that is just the way politics in 2023 seems to work.

Last question. I want to ask you about another fiasco that should be easy to avoid: the debt limit. It is the definition of a self-inflicted blow to the economy. Instead of ensuring we avoid default by paying all our bills on time, some Republicans are pursuing a path we all know will not work. I want you to comment on it.

You said before that debt prioritization is not feasible. You have called it "default by another name"—your words. But Republicans are moving forward anyway with a bill that ranks what order payments should go out. They put Wall Street and China at the front of the line.

If Treasury followed this Republican plan—bearing in mind that China holds about a trillion dollars in U.S. debt—who would get paid first, China or seniors receiving Social Security and vets receiving VA benefits?

Secretary YELLEN. Well, if that were prioritized, China would get paid ahead of them. We believe, I believe that prioritization of payments, as you said, is default by another name. We need to pay our bills; we need to pay all of our bills.

That willingness and commitment to be responsible in paying bills that have already been incurred is what underlies the United States' strong credit rating. And credit rating agencies like Fitch have already weighed in that if we were to fail to pay any of our bills, that would call into question whether or not we deserve our current credit rating.

It is simply a recipe for economic and financial catastrophe, to think we can pay some of our bills and not all of them.

Senator BROWN. Thank you. This debt prioritization sounds like another version of Senator Scott's privatization of Medicare and Social Security. It makes no sense to the country and to most of us.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. And I will just tell my colleague, in red counties in Oregon over the weekend, I went through this idea that we pay China and Wall Street first, and people were just stunned. So I think you made a very important point.

Senator Bennet is next.

Senator BENNET. Thank you, Mr. Chairman, and thank you, Madam Secretary. I wanted to ask you a couple of questions about the banking situation that we are facing today. But I just want to start, Mr. Chairman—because I have heard this discussion on the other side about the deficit.

You know, I have been here for 14 years. The deficit and the debt have not gotten any better over that period of time. But the good news is, if we want to work together, we could actually close the gap, because the gap is not that gigantic compared to the way it has been in other places.

We could get it to a place where our government, our deficit, was not growing faster than our GDP. That would be a really good step forward. But I just want to point out that we need to recognize that we have this problem today, this gap, because of the Bush and Trump tax cuts, and the deal that made 80 percent of the Bush tax cuts permanent—80 percent of the Bush tax cuts permanent—a deal that I and Tom Carper were the only Democrats to vote against. There were three Republicans who voted against it.

And when you combine that with what we did with the Trump tax cuts, that is 2 percent plus 1 percent of GDP. That is 3 percent of GDP right there. So we would have closed that gap and been well on our way.

So, I know that it is going to be a mix of spending cuts, and it is going to be a mix of revenue, and that is how we get back to a place where you get 19 percent of GDP of taxes and 19 percent of GDP of spending. That is a felicitous place for us to be because, maybe before we are dead, we actually will move beyond the political talking points and do something useful for our kids and our grandkids.

But I just want the math to reflect that, and that is why I voted against that bill. That is why I think Tom Carper voted against that bill. I said, in my completely unnoticed campaign for President, on a debate stage with the person who became the President of the United States, that that was a terrible deal that was struck between the Obama administration and Mitch McConnell, frankly, to extend those tax cuts permanently.

So, until we get to a place where we are willing to actually have a rational conversation about what it looks like, what every single State in the union I am aware of, the conversation they have to have, because they have a duty and a responsibility to actually balance their budgets——

I am not even saying we have to balance it. Let's just get to a place where our debt is less than 3 percent of our GDP. We could make some progress, and there is not a committee in Congress that is better situated than this committee to do it.

That is not even what I wanted to talk to you about. I wanted to talk to you about the Child Tax Credit, Madam Secretary, and all the evidence that we have that it worked. It did what it was supposed to do, and you guys did an amazing job of implementing it. So I am going to leave that question for the record as well.

I just want to go to the banking issue that we have in front of us right now, Madam Secretary. It is obvious to you and to me that marijuana—I am going to get to the banking, but marijuana has been legal in Colorado for 9 years. But legal cannabis businesses are frozen out of the financial system, the finance system. Banks refuse to provide them financial services because of strict Federal laws and regulations that prohibit them from offering services to cannabis businesses.

Banking regulators can permanently ban someone from working in a bank or revoke an institution's FDIC coverage for working with cannabis businesses, and this endangers the lives and livelihoods of Colorado business owners who have to operate in this kind of a situation. They have nowhere to put their cash.

Last weekend, Signature Bank failed. The other bank that failed, Silicon Valley Bank—here is what they had to do to fail. They had to not observe the fact that their balance sheet had basically tripled over some period of time; not observe the fact that they were in a volatile high-tech industry where the tide comes in and goes out for all those tech companies at exactly the same time, which is what we are seeing today.

They had to make a decision to lay on 10-year paper with ridiculously low interest rates, compared to the interest rates that are about to be changed by the Fed. I can tell you, unless somebody around here knows something I do not know, Jay Powell was not exactly secretive about what he was doing with them.

They had to get that through their board, they had to get that through that audit committee, and somehow they had to get that through a regulator, I guess, who was looking over that, who was not saying it was insane what they were doing.

We have had all week—it has been it's Dodd-Frank, not Dodd-Frank; 2018, not 2018. I do not know what the answer is going to be about any of that, but I know that what they were doing was not prudentially sound, and I hope that the regulator would be the backstop.

I am 30 seconds over, so I will stop, to go back to my marijuana question. Last weekend, Signature Bank failed, and almost a fifth of its deposits came from crypto. Like they are not allowed to do anything with marijuana, but apparently they can lay 20 percent of this on crypto, a notoriously unstable thing that nobody here even understands, and where the value of the assets can soar and collapse. We have seen that in this sector.

And my question is, what questions come to your mind when you see that, when you have a bank that has now failed, where 20 percent of what it was relying on to claim that it was doing the right thing by its depositors was something, I would argue, is not even as stable as the marijuana industry in the State of Colorado, which cannot get any approval from the Treasury Department?

Secretary YELLEN. Well, as you pointed out, in the case of marijuana, it is against Federal law, and that is a barrier, unfortunately, to appropriate banking services for the industry. It is something the regulators have been looking for solutions to.

I think we need to look into what the regulators do, exactly what happened to create the problems that these two banks that failed faced, and make sure that our regulatory system and supervision is appropriately geared so that banks manage their risks to avoid problems of the type that these banks have suffered from.

The CHAIRMAN. Senator Bennet, thank you, and thank you for always being there to point out when numbers do not add up, because that is exactly what the Budget chairman, who is a member of this committee, Senator Whitehouse, just found a couple of days ago with respect to the health of the republic.

Senator Warner is next.

Senator WARNER. Thank you, Mr. Chairman. And, Madam Secretary, it is great to see you, and let me commend my dear friend from Colorado. I have always noticed, Senator Bennet, what you do, and I think you raised great issues. I think about one of the first gangs that you and Senator Crapo and I and others were on: Simpson-Bowles. It wasn't perfect, but man, we would be a heck of a lot further down the path if we had taken that.

Let me also mention—I want to talk about something I think has not been raised on the banking issue, and I want to join a lot of my colleagues. I think you, the Fed, the FDIC moved very aggressively. I think the potential downside risk for businesses across the country, for other medium-sized banks across the industry, could have been a disaster.

I think the actions you took were bold. You stepped up and shored up the system. I am of the belief that—echoing what Senator Bennet said—traditional prudential regulation should have caught this. Where was the bank management, where were the regulators—both State and Federal—in the case of SVB? They should have got this interest rate mismatch caught much, much earlier.

But the one thing, though, that I worry about, whatever regulatory system we had in place, the other half of what happened happened sometime between Tuesday and Thursday afternoon, where we have seen now the very first social media/Internet-based bank run. To put this in any kind of comparison, when WaMu failed, the largest bank failure in our country's history, $16 billion came out over a 10-day period.

I am not sure what regulatory system anywhere, no matter how much capital, no matter how many stress tests, would have protected any institution from a $42-billion bank run in a single day. That literally, at that point, was 25 cents on the dollar of every dollar that was deposited.

You know, I think most of us have seen "It's a Wonderful Life." We realize that that money was off in small businesses and startup businesses around the country. The question I have is, who was playing the role of Mr. Potter? I think there were some—and listen, I have been supportive of the venture capital community. I was a venture capitalist before.

But I think there were some bad actors in the VC community, who literally started to spur this run by virtually crying "fire" in a crowded theater in terms of rushing all of these deposits out. I am not sure that we have anything in our existing regulatory structure, and I do not—and it is early on, and we need to figure out what happened and who missed this.

But this notion that, you know, 25 cents on every dollar can rush out in a single day and the people who spurred this online Tuesday and Wednesday night bear no responsibility—the hypocrisy of some who are Libertarian until the stuff hits the fan and then want relief is frankly more than a little repugnant.

So early on—this is not normally within the traditional banking regulation, but I think this will go down as history's first Internet-driven run. Do you have any initial thoughts on this?

Secretary YELLEN. Well, you know, no matter how strong capital and liquidity supervision are, if a bank has an overwhelming run that is spurred by social media or whatever, so that it is seeing deposits flee at that pace, a bank can be put in danger of failing. Of course, there is backup liquidity, there is the Fed's discount window.

But this really can be a threat to banks, and one of the reasons we intervened and declared a systemic risk exception is because of the recognition there can be contagion in situations like this, and other banks can then fall prey to the same kinds of runs, which we certainly want to avoid.

But this was a bank that had a very high ratio of uninsured depositors. Insured depositors and retail customers usually do not run. We tend not to see runs among insured depositors. But the liquidity requirements and needs of a bank with such heavy reliance on uninsured deposits that are runnable, I think we need to think about that.

Senator WARNER. And I agree—and a complete concentration in an industry sector. But the notion—and again, I do not have a solution in mind yet—but the idea that there is no responsibility for the equivalent of shouting "fire" in a crowded theater and forcing that run, using technology as a mechanism to accelerate that, you know, presents a problem that I think, I hope we could all kind of put our heads jointly together on.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Our next three would be Senator Thune, Senator Lankford, and Senator Cortez Masto.

Senator Thune?

Senator THUNE. Thank you, Mr. Chairman. Madam Secretary, thank you for being here.

Madam Secretary, would you characterize the pandemic as being over?

Secretary YELLEN. Well, I think we are still living with COVID. Its impact on America has diminished, but it still certainly exists, and it is affecting the economy.

Senator THUNE. I think for all practical purposes—you know, most people acknowledge, yes, there is some overhang, but that it is over. So, just out of curiosity, how much of your workforce is back in the office?

Secretary YELLEN. We are basically back to business as usual, although we have policies that enable a certain amount of work from home, as most companies and offices do. It is a practical and efficient way to conduct business these days.

Senator THUNE. There are some things for which that may be true—and this is not directly your purview. Maybe it is a better question for the banking regulators. But I would be curious to know how much of their workforce is actually back in the office and functioning, because it seems to me that from a supervisory standpoint, if your job is to examine banks, that is something that you kind of have to be there to do.

And it seems to me at least—and your agency as recently as when we were talking about the Inflation Reduction Act back in August, my understanding at that time was that less than half were back in the office. If that is up, I would like to know what the updated number is on that.

Let me ask you: will you commit to keeping this committee apprised of the Treasury's findings when it comes to SVB, what you find there, in a timely and thorough manner?

Secretary YELLEN. We certainly will keep this committee updated. However, much of the investigation of what happened at this bank would be done by the FDIC, and so that is an appropriate source of information.

Senator THUNE. And we will make sure we ask them that same question. But I know that you will be involved. I mean, this obviously is something that, you know, dramatically impacts the economy and would be something significantly of interest, I would think, to the Treasury Department.

And hopefully, you will stick to that commitment. In a previous Finance Committee hearing, you gave your "absolute word" to keep us updated on Treasury's findings about the private taxpayer data that was improperly shared from the IRS to ProPublica. It has been almost 2 years since that breach of taxpayer data was made public, and the administration still, still has not provided a meaningful response.

And you can answer that, but let me move on here. I want to ask a question about the actions taken by the administration to shore up Silicon Valley Bank and others. Treasury issued a joint statement that stated, and I quote: “No losses will be borne by the taxpayer.” Do you stand by that statement?

Secretary YELLEN. Yes.

Senator THUNE. And I just want to stress this is something that is deeply important to taxpayers, and I think it is something that I—and I expect a lot of my colleagues, hopefully on both sides of the aisle—will be strictly holding this administration to account on.

You, in the IRA, got an additional $80 billion, six times the annual budget of the IRS—I should say, not directly Treasury but the IRS—and 87,000 new employees. Now the request in this year’s budget, because that is what we are talking about here today, is for an additional 15-percent increase, somewhere on the order of $29 or $30 billion additional.

We still do not have the plan for the $80 billion in IRS funding, and there was supposed to be a plan made public several weeks ago. So, could you speak to when we might see a plan, since there is a request now for additional funding above and beyond what was a massive, historic amount of funding in the IRA?

Secretary YELLEN. So, the plan is almost complete, and you should have it in the near future.

Senator THUNE. And what does that mean, “near future”?

Secretary YELLEN. In a matter of weeks.

Senator THUNE. Okay; all right. I hope that you can follow through on that. And let me just ask, with respect to the use of that $80 billion. Some of it, I know, was supposed to be funneled towards taxpayer services, which I hope is the case, because the IRS has had a deplorable record of getting back to taxpayers, a 13-percent phone call return rate.

How much of that $80 billion is going to be directed to enforcement, and does the Treasury expect that any of that revenue is going to come from increased audits of middle-class taxpayers?

Secretary YELLEN. The President and I have committed that there will be no increase in audit rates on individuals or small businesses under $400,000, and I stand by that pledge. I have issued a directive to IRS to that effect. Most of the hiring, the large numbers that are seen, are replacement of people who are retiring.

But there will be additional hiring, both of customer service representatives—5,000 more were hired this season, and the response rate has gone from the 13 percent you mentioned to around 85 percent this tax season. We want to keep it at that level and add other things that will make filing and interacting with the IRS more convenient for both individuals and for businesses.

But an important goal is greater enforcement, hiring of skilled tax lawyers and auditors and accountants, to deal with high-income and high-net-worth individuals, complex partnerships, and corporations where we think most of the tax gap is centered.

And so, although $80 billion over 10 years sounds like a huge investment, it is one with an enormous payoff that will substantially lower the budget deficit, because we have a huge tax gap that needs to be addressed.

The CHAIRMAN. Your time, my friend, has expired. We are going to push very hard to get every Finance member a chance to ask their questions before we go. Next will be Senator Lankford, then Senator Cortez Masto. We have the Secretary until 1:00.

Senator Lankford?

Senator LANKFORD. Thank you.

Madam Secretary, thanks for being here. There are a lot of things that I want to be able to talk about on this. We have some tax proposals on the table. I have a bipartisan charitable act dealing with tax policy that we are not going to have time to be able to talk to you about.

I would like to be able to talk about full expensing. Senator Toomey used to be able to champion this, but it is a big issue for our manufacturers in my State and all around the country. I would love to get a chance to talk about that.

I would love to talk about marriage penalties in the tax code, because, quite frankly, they are still there. That is one of the things we have got to be able to work on. Energy independence—I did notice a whole new set of new taxes on energy companies in the United States that I think would hurt our energy independence.

And there is still no definition for the $600—if you do Venmo payments to somebody up to $600, now the IRS is going to track you. I have noticed that you have delayed that, and the IRS has delayed that. But there are a lot of questions with that, and new, creative definitions of what it means to be made in America.

We now have new treaties that are popping up that are not really treaties, not really free trade agreements, but they are being declared free trade agreements to allow—from the Inflation Reduction Act—actions from Japan and Germany to now be defined as made in America. I find that very creative. I would love to talk about all of that.

I do not have time; I need to be able to drill down on a couple of things. Let me start with some of the banking issues we are dealing with on that. Will the deposits in every community bank in Oklahoma, regardless of their size, be fully insured now? Are they fully covered, every bank, every community bank in Oklahoma, regardless of the size of the deposit?

Will they get the same treatment that SVB just got, or Signature Bank just got?

Secretary YELLEN. A bank only gets that treatment if a majority of the FDIC board, a super-majority, and a super-majority of the Fed board and I, in consultation with the President, determine that the failure to protect uninsured depositors would create systemic risk and significant economic and financial consequences.

Senator LANKFORD. So, what is your plan——

Secretary YELLEN. I make that determination——

Senator LANKFORD. Right. So, what is your plan to keep large depositors from moving their funds out of community banks into the big banks? We have seen the mergers of banks over the past decade. I am concerned you are about to accelerate that by encouraging anyone who has a large deposit in a community bank to say, "We are not going to make you whole, but if you go to one of our preferred banks, we will make you whole at that point."

Secretary YELLEN. I mean, we are—that is certainly not something that we are encouraging.

Senator LANKFORD. That is happening right now.

Secretary YELLEN. That is happening because depositors are concerned about the bank failures that have happened, and whether or not other banks could also fail.

Senator LANKFORD. No, it is happening because you are fully insured no matter what the amount is if you are in a big bank. You are not fully insured if you are in a community bank.

Secretary YELLEN. Well, you are not fully insured——

Senator LANKFORD. You were at Signature, and it just barely met the threshold. You were at Signature.

Secretary YELLEN. Well, we felt that there was a serious risk of contagion that could have brought down and triggered runs on many banks, and that something—given that our judgment is that the banking system overall is safe and sound, depositors should have confidence in the system, we took these actions to discourage contagion.

Senator LANKFORD. So, there is a special assessment that has been done on community banks in my State and all banks across the country. Was there any discussion that that special assessment would only apply to the larger banks, or was it always assumed the special assessment would cover every bank, including rural banks in my State?

Secretary YELLEN. I think—I am not certain what the rules are around that. That is up to the FDIC to determine.

Senator LANKFORD. It has been reported publicly that SVB had a large number of Chinese investors that are there, including some that were companies directly connected to the Chinese Communist Party. Will those individuals, companies, entities, and investors that are Chinese investors be made whole based on assessments of my banks in Oklahoma?

So, what I am asking is, will my banks in Oklahoma pay a special assessment to be able to make Chinese investors whole from Silicon Valley Bank?

Secretary YELLEN. Uninsured investors will be made whole in that bank, and I suppose that could include foreign depositors. But I do not believe there is any legal basis to discriminate among the uninsured.

Senator LANKFORD. I get it, but I am just saying my community banks are going to pay this additional fee. It is always fascinating to me as well the conversation that taxpayers are being made whole, and that the taxpayers are not going to have any kind of consequence in this. I am sure my bankers are going to be very excited to know they no longer pay taxes, and their banks no longer pay taxes.

Credit unions do not pay taxes; banks do. So they are definitely taxpayers as well, and all banks make their revenue off of rates and fees and such to their account holders, which means every Oklahoman will pay higher fees in their community banks.

The CHAIRMAN. We are just going to have to move on.

Secretary YELLEN. If we have a collapse of the banking system and its economic consequences, that will have very severe effects on banks in Oklahoma that will also be threatened——

Senator LANKFORD. I am just worried about the—I am just worried about the long-term consequences on our banks——

The CHAIRMAN. We are going to have to move on, or we are not going to get all Senators in.

Senator Cortez Masto?

Senator CORTEZ MASTO. Thank you, Mr. Chairman. Secretary Yellen, it is always good to see you. Thank you.

Secretary YELLEN. Thank you, Senator.

Senator CORTEZ MASTO. But before we get to the banking and the budget, let me ask you something that is important in my State, and I think across the country, quite honestly. These are the low-income solar tax credits, and it is a question that I asked Commissioner Werfel regarding section 13103 of the Inflation Reduction Act, which provides a bonus investment tax credit for certain renewable energy investments that were made in low-income communities.

The February guidance that Treasury put out provides that potential applications will only be considered for this tax credit during limited application windows, and this limit—this is my concern—will limit solar deployment and the ability to drive clean energy investment in these communities, because the investments with tax credits happen when you have certainty up front that the credit can be used.

It is especially important because the law requires that the bonus credit that we put in the Inflation Reduction Act be tied directly towards reductions in energy bills for consumers. So, in light of these challenges and headwinds facing the solar industry—and I am going to talk a little bit about that as well—can you share anything regarding the process for revising the guidance in the very near future, to meet the intent of Congress—not only here with the solar tax credit, to ensure that people can access it in a timely way before it goes away, but the guidance in general that you have talked about?

Because everybody is waiting for guidance to be implementing the Inflation Reduction Act proposals we put in there, and there is concern they are going to come too late before we can even utilize the opportunities.

Secretary YELLEN. All I can say is that we are working 24–7 on the guidance and regulations that need to be written in order to implement the various tax credits that are in the IRA. We have no higher priority at Treasury, and we are really working tirelessly to get this done.

My understanding is that we have committed to open the first phase of applications for this credit in the third quarter of this year, and we will provide detailed guidance ahead of accepting applications.

Senator CORTEZ MASTO. So, let me put a proposal out there, and this is for some of my colleagues as well, because I think in general the Inflation Reduction Act and the work that we have been doing to lead us into this clean energy future requires a bridge to get us there.

And let me just say this. I support the manufacturing here in this country, and we need to build it and grow it. But when it comes to solar, we are not there yet. I support the manufacturing that is happening in Ohio and here across this country. But the manufacturing for the supplies that we need to grow out solar in this country only has a capacity of 5.6 gigawatts.

Now let me just say in 2022, we were able to actually install—the demand was for 20.2 gigawatts. So, we are at a deficit there, and if we do not get these supplies, if we do not have what we need to address bringing these supplies here from somewhere and deal with the tariffs that are out there that are limiting our access to these supplies, we are going to be limited in the amount that we can grow our clean energy in this country through solar.

So that is what I would love the administration to keep in mind, my colleagues as well, that yes, we want to make sure that we are getting our supplies from countries that we support, that are our friends, that are our partners—absolutely. But until we grow our domestic manufacturing here, we are not going to meet the demand for solar in this country that we need right now.

Secretary YELLEN. Well, there are substantial incentives in this legislation to bring manufacturing of solar panels to the United States, and we are certainly picking up great interest among investors in moving manufacturing here. We are trying to get at the regulations as rapidly as we possibly can, to make sure that we provide the certainty that is needed for those investors.

But there are big incentives in this package to do just that, and we are excited to see what is happening——

Senator CORTEZ MASTO. Thank you, and I do not mean to cut you off. I only have so much time. Let me just talk about the budget really quickly, what I see here. Is it true that the Federal deficit has been reduced by over $1.7 trillion just in the last 2 years?

Secretary YELLEN. Yes, that is true.

Senator CORTEZ MASTO. And it is also true what you said earlier that this budget proposed by this administration looks at also an additional deficit reduction of $3 trillion over 10 years?

Secretary YELLEN. That is correct.

Senator CORTEZ MASTO. So, this administration is concerned about reducing the deficit; correct?

Secretary YELLEN. Yes.

Senator CORTEZ MASTO. And the debt limit that we are talking about, everybody is talking about, that debt limit—let us be fair; let us talk in a bipartisan way—that debt was incurred by both previous Republican and Democratic administrations; correct?

Secretary YELLEN. Yes; we are talking about paying bills for spending that the Congress has authorized.

Senator CORTEZ MASTO. I appreciate that; thank you.

I know I am over my time. I will submit the rest of my questions for the record. Thank you, Madam Secretary.

The CHAIRMAN. I thank my colleague, and I will just say, during the 10-year odyssey of developing those clean energy tax credits, it was always our intent to have the bonus solar tax credit for low-income communities. So, we will continue to work with my colleague.

Senator Warren?

Senator WARREN. Thank you, Mr. Chairman.

So, on Friday, the United States faced the second biggest bank failure in our entire history, and as panic spread among small businesses and nonprofits that had money deposited with Silicon Valley

Bank, Treasury and other financial regulators announced they would take emergency measures to stabilize the system.

I am grateful for the administration's steady hand, but we should not have had to be here in the first place. These bank failures were the direct result of policymakers' decisions over the last 5 years, beginning with a 2018 law signed by President Trump with the support of both parties, to weaken the regulations that had been put in place after the 2008 financial crisis to ensure that big banks never again crashed our economy.

On Monday, President Biden called on Congress and regulators to "strengthen the rules for banks to make it less likely that this kind of bank failure will happen again." Secretary Yellen, thank you for being here today. Do you agree with the President, that we need to strengthen our banking rules?

Secretary YELLEN. Well, I think we certainly need to analyze carefully what happened that triggered these bank failures, and reexamine our rules and supervision, and make sure that they are appropriate to address the risk that banks face.

Senator WARREN. Okay. So, we want to make sure we have the right rules in place, and pretty obviously, we need some stronger rules here. So I want to talk about those rules, the stress tests. Stress tests are critical tools in the regulatory toolbox that are designed to expose banks' vulnerabilities if bad things happen and force the banks to shore up any weak points before it is too late.

Now, Secretary Yellen, when you were implementing the Dodd-Frank regulations as Fed chair 6 years ago back in 2017, you said, "Our stress testing regime is forcing banks to greatly improve their risk management and capital planning." But you warned that because "we can never be confident that there will not be another financial crisis, it is important that we maintain the improvements that have been put in place that mitigate the risk and the potential damage."

So I want to talk about those stress tests that you talked about, how important they were 6 years ago. Secretary Yellen, can regular, rigorous, well-designed stress tests help bank regulators spot problems lurking in banks' balance sheets and business models?

Secretary YELLEN. Yes. I continue to endorse the comments that you quoted.

Senator WARREN. Good.

Secretary YELLEN. I think this has been one of the most important and consequential improvements in supervision since the financial crisis.

Senator WARREN. Okay; so two thumbs up for stress tests. Let me just ask: when regulators spot these problems early on, can those regulators then require the banks to clean up the problems long before they trigger a run on the bank?

Secretary YELLEN. Yes, and in that sense, they are useful. But I would like to make one point——

Senator WARREN. Sure.

Secretary YELLEN [continuing]. Which is that the supervisory stress tests focus on capital, and not on liquidity, and in these bank failures liquidity played an important role.

Senator WARREN. Well, let us ask the question then all the way around. If stress tests are done right, if we have robust stress tests the way you described 6 years ago when you were still running the Fed, do they just test one thing that might go wrong, or do they test for lots of different problems if they are done right?

Secretary YELLEN. If they are done right, they test for many possible problems, but they do not focus on liquidity——

Senator WARREN. Okay, but they test for many kinds of things that go wrong, is that right, potentially?

Secretary YELLEN. There are different scenarios every year and——

Senator WARREN. So, let me ask you then a related question. Is one of the problems that stress tests can expose that you have managers who are not very good at managing risk, or management that is otherwise doing a bad job that could put a bank in jeopardy?

Secretary YELLEN. Well, that is the purpose of supervision, and stress tests are one tool. Supervision is another tool that is critical.

Senator WARREN. Okay; so, very important. We have stress tests, we have supervision, we have a lot of pieces here to make this work. In 2018 though, Trump's bank deregulation law and the door it opened for Fed Chair Powell to further hack away at the rules created an exception to annual Fed-administered stress tests, letting banks from $50 billion to $250 billion effectively off the hook.

And that meant that a bank like SVB, which had $209 billion in assets when it failed, would be exempt from annual stress testing. So the question I have here is, if the law had not—let us not just do stress tests. It is stress tests; it is the whole package: enhanced liquidity requirements that ensure that banks have enough cash on hand to meet their obligations, particularly in times of stress; capital requirements that better position banks to absorb losses; regular resolution plans to help guide regulators safely through winding down failed banks.

All of these were weakened in 2018, and when SVB failed, this is a part, in my view, of the Fed's actions that led to weaker regulation. You know, over the last few days, we have heard a lot of Republicans say that this collapse was not their fault; it was the banking regulators who were asleep at the wheel.

Believe me, I have questions for a lot of the banking regulators. But Congress handed Chair Powell the flame thrower that he aimed at the banking rules. In fact, he said so himself. I will quote and then I will quit. When he announced that he was weakening regulations for the banks like SVB, Chair Powell said, and I quote: "In the rules before us, we are applying the discretion granted to us by the Economic Growth Regulatory Relief and Consumer Protection Act."

Translation: "Congress opened the door to weaker regulations, and I am waltzing right through it." That is true. Congress needs to close that door.

I am sorry, Mr. Chairman.

The CHAIRMAN. My colleague has great experience in this, and I apologize for having to cut people off.

Senator Johnson is next.

Senator JOHNSON. Did you call on me? Okay; thank you, Mr. Chairman. Welcome, Secretary Yellen.

I just want to start—do you know how much a dollar that you held at the start of the Biden administration in January 2021 is worth today?

Secretary YELLEN. Well, we have had inflation, and it has declined in its purchasing power.

Senator JOHNSON. It is worth 87 cents. In your testimony, you said that inflation is the number one economic problem. Do you know what the inflation rate was at the start of the Biden administration in January 2021?

Secretary YELLEN. It was substantially lower.

Senator JOHNSON. It was 1.4 percent. You said that inflation has many causes. I agree with that. By the way, I would say that the number one economic problem is our debt and deficit, and I would say that the top three causes of inflation are massive deficit spending; the war on fossil fuels, which has driven energy, gasoline prices to record levels; and obviously supply chain dislocation. That was caused by our miserably failed and incredibly stupid response to COVID, the pandemic. But would you agree those are the top three causes of inflation: deficit spending, high energy costs, and supply dislocations?

Secretary YELLEN. I do not believe that deficit spending is one of the main causes of inflation.

Senator JOHNSON. You do not? I mean, inflation is too many dollars chasing too few goods. So when you are printing all this—so do you know in the first 3 fiscal years of the Biden administration, do you know how much the total deficit spending is going to be?

Secretary YELLEN. We had an economic collapse that was caused by the pandemic.

Senator JOHNSON. Right, and we were certainly coming out of that, because there was all this pent-up demand and the sloshing around of trillions of dollars. So I will answer that question for you too. The first 3 fiscal years of this administration, the total deficits would be about $5.7 trillion.

So now you are here testifying before the committee about the President's budget. How much are the total deficits over that 10-year period, according to the President's budget? [Pause.]

Senator JOHNSON. You do not know that off the top of your head? I am running out of time—it is $17 trillion, okay?

Secretary YELLEN. Yes, that is right.

Senator JOHNSON. You are going to drive the debt from somewhere around $32 trillion up to about $50 trillion; correct?

Secretary YELLEN. Yes, but what I believe is the single most important metric for judging the fiscal stance of the country is real net interest as a share of GDP. We have——

Senator Johnson. Okay. So, are you concerned when you take the debt from $32 to $50 trillion, are you concerned who is going to buy that debt? And also, at what rate will they expect to be compensated for buying riskier and riskier debt? Are you concerned about that?

Secretary YELLEN. Well, if the net interest, real net interest cost of the debt remains low relative to GDP, and we are on this sustainable fiscal——

Senator JOHNSON. But we are not, we are not on a sustainable path.

Senator Cassidy was talking about the President's demagoguery on Social Security, his unwillingness to meet to try and save Social Security. If we do nothing and the Social Security trust fund runs out in 2023 to 2025, at the end of the budget period, are you concerned that we are not going to have the financial wherewithal to plus up benefits to honor those promises?

I mean, do you think we are going to—with $50 trillion in debt, you know, a debt exceeding our GDP, are you not concerned about our inability to honor those promises?

Secretary YELLEN. The interest cost on the debt as a share of our economy remains quite low throughout the 10-year horizon of the President's budget. It remains around 1.6 percent, and that is very manageable.

Senator JOHNSON. Madam Secretary, you were also the one who said that inflation was transitory, and it certainly is not. I think Chairman Powell certainly now agrees with the fact that no, we have got something going on here that is going to take a very long while, unfortunately, to wring out of our system.

Not only you, but OMB Director Young and members on the other side keep talking about how you are cutting deficits. The deficit in 2021 obviously was high because of the pandemic. In 2022, it was about $1.4 trillion. In 2023, we think it is going to be about $1.6 trillion. In 2024, you are projecting $1.85 trillion, and again growing debt by—it never drops below $1.5 trillion. How can you claim that you are cutting deficits?

Secretary YELLEN. Well, it always is a comparison with the baseline of what would happen if our policies were not enacted, and the increase in deficits would be larger. There is net deficit reduction over 10 years.

Senator JOHNSON. But saying you are cutting the deficit is just misleading the American public.

Let me ask you one final question, because we always hear on the other side—the same thing from OMB Director Young yesterday—that we want to make the rich pay their fair share.

So I mean, the fact is—and these are the latest figures we have from the Treasury: in 2020, the top 1 percent made about 22 percent of income, but they paid 42.3 percent of income tax. Now I just—I am not going to ask you the metric.

At what point—I mean, how much of the total income tax should the top 1 percent pay before you will consider, before President Biden will consider, they are finally paying their fair share? I mean, they are paying double the income tax that they are getting in income.

It is an obviously highly progressive rate. By the way, the bottom——

The CHAIRMAN. My colleague is over his time, and I want the witness to answer his question.

Secretary YELLEN. Well, I believe that billionaires should pay rates that are not lower than what a teacher or firefighter pays.

Senator JOHNSON. Okay, the top 1 percent averages——

The CHAIRMAN. The time of the gentleman has expired.

Senator Tillis is next.

Senator JOHNSON. Well, my colleague got 7 minutes. The top 1 percent paid——

The CHAIRMAN. The time of the gentleman has expired——

Senator JOHNSON. The bottom 50 percent paid 3.1. We have a highly progressive tax system.

The CHAIRMAN. Senator Tillis, you are next.

Senator TILLIS. Thank you, Mr. Chairman.

Madam Secretary, just really quickly on this question. The President's budget, I think, assumes 4.3 percent of inflation through Calendar Year 2023.

Number one, can you confirm that or give me an accurate number if I am wrong, and just describe for me how do we do that, particularly in light of what has happened with SVB and when I think we will continue to see monetary policy that is going to increase incrementally until we get inflation under control.

That creates other stressors for the banking community, but is it 4.3 percent, and do you agree with that assumption?

Secretary YELLEN. Did you say inflation?

Senator TILLIS. Yes, inflation for Calendar Year 2023.

Secretary YELLEN. For 2023, we assume that inflation would run at 3 percent.

Senator TILLIS. At 3 percent, and we are in the tail end of March. So you still believe, given the inflation estimates we got, that that is still a valid assumption?

Secretary YELLEN. It is coming down on a 12-month basis and——

Senator TILLIS. Yes; okay. If you could just get to the committee the analysis that went into that, I think it would be helpful.

I want to go back to Senator Warren's comments very quickly. Back in 2017, I think you were quoted before the Joint Economic Committee with respect to Senate bill 2155 that "the Fed would still be able to impose enhanced prudential standards on firms if necessary, and that the bill is a move in the right direction. That would be a good enabling for the Fed to appropriately tailor its supervision." Do you still stand by that statement?

Secretary YELLEN. I think that tailoring—I said that I thought tailoring is appropriate, and I still believe that.

Senator TILLIS. Okay.

Secretary YELLEN. And I think the Fed continues to have at least some discretion——

Senator TILLIS. I guess the question that I have, because I do not agree with Senator Warren, the premise of her questions. It seems to me unless we—oh, and I should say that in that same time frame, Mr. Tarullo was responsible for implementing a bill that he publicly criticized, Senate bill 2155. He did not like the bill. He is over there helping implement it, and yesterday——

Secretary YELLEN. Wasn't it passed in 2018? He left——

Senator TILLIS. No, no, I am sorry. When you were implementing Dodd-Frank. I am sorry. When you were implementing Dodd-Frank, Tarullo was in play. Then we passed Senate bill 2155. He was highly critical of it.

However, he said, as late as yesterday, he does not believe that Senate bill 2155 had anything to do with what occurred at Silicon Valley Bank, and that his suspicion was that it was maybe supervisors not being aggressive and potentially using some of the discretionary regulatory regimens that were allowed in Senate bill

2155, if you happen to have a specific bank that had activities where you should increase the level of supervision. So it seems to me that here, we are using 2155 as a red herring for something that I believe, fundamentally, is going to be a supervisory or regulatory lapse.

I want to ask a question about OECD in my time remaining, and I do want to get close to 5 minutes. The baseline agreement does not have what I consider to be the most basic standards for dispute resolution, but it looks as if we still want to move forward with congressional action absent that.

I also have some concerns with the exemptions that are in the agreement, particularly with respect to China, and I am grossly summarizing my context to give you a chance to respond. But let me tell you, even beyond the exceptions that benefit China and state-owned enterprises, neither this committee nor the Committee on Taxation has received the data and analysis that you all used as a basis for negotiating the deal.

Can I just simply get a commitment that the Joint Committee on Taxation and that this committee will get that data and analysis as a part of our future consideration for the provision that has to come before Congress?

Secretary YELLEN. I am sorry. I am not sure if you are talking about Pillar 2 or Pillar 1.

Senator TILLIS. I think it is all of the above, to the extent that they are both in the agreement.

Secretary YELLEN. Well, I think the analysis on Pillar 2 has been done. Correct me if I am wrong, but I believe the Joint Committee on Taxation has looked at that, and we have provided estimates as well that have used standard methods, and I can discuss that with you——

Senator TILLIS. We will submit——

Secretary YELLEN. On Pillar 2, we have had——

Senator TILLIS. We will submit a question for the record. My time has expired. We will submit a question for the record to fully describe exactly what we are looking for. And, to the extent that it is possessed by some members, then I will stipulate that I was wrong. But I am going in with a little bit of a skeptical position.

Thank you.

The CHAIRMAN. I thank my colleague for his courtesy, and we will have the staff, the Finance staff, share what we have on Pillar 1 and Pillar 2 with my colleague.

Senator Blackburn is next.

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

I want to return to the SVB issue and ask you—I have not heard you say today, when were you first notified that there were problems with SVB, and when did you alert members of Congress? What was that timeline?

Secretary YELLEN. I believe that I first found out about the troubles at Silicon Valley Bank, I guess it was last Thursday.

Senator BLACKBURN. Last Thursday, and then your notification to Congress came when?

Secretary YELLEN. The bank was put in——

Senator BLACKBURN. Why don't you just put that in writing for me, so I do not waste my time?

I know Senator Lankford asked you about the Deposit Insurance Fund, and how that would affect our local banks. There is a lot of concern over this, and I know you were uncertain about that.

If you would, run the numbers on that and let us know a ballpark of what you think this would cost if you end up insuring everybody's deposit. And then I have to ask you, being from Tennessee—you know, we have a long and storied history of opposing nationalizing the banking system. Do you see this as a step to nationalize the banking system?

Secretary YELLEN. Absolutely not. I think this is a step toward stemming contagion that could come from the failure of these banks that would place community banks across the country at great risk of runs, as well that we want to——

Senator BLACKBURN. Thank you, ma'am.

Let me move to the Inflation Reduction Act and that implementation. I hear a lot about this from local Mayors and our State agencies. There is a lot of money that can be doled out. Treasury and other agencies are going to be required to issue guidance. That has not come, and so there is a lot of confusion there, and I was looking at the structure.

I want to make certain that I am viewing this right. We have you, the Deputy Secretary, the Office of IRA Implementation within Treasury, the Office of IRA Implementation in the IRS, and Danny Werfel, who is the new, recently confirmed IRS Commissioner. So, with all of these bodies involved, who is actually in charge? Who is the final decision-maker on the guidance and the timeline for releasing that guidance?

Secretary YELLEN. Well, our Office of Tax Policy drafts regulations——

Senator BLACKBURN. Okay. So, you——

Secretary YELLEN [continuing]. And we go through a regular rulemaking.

Senator BLACKBURN. Then do you sign off on it? Are you the final say?

Secretary YELLEN. I do, I do.

Senator BLACKBURN. So you are the one who has the final say.

Secretary YELLEN. I do sign off on it. We confer with many, many people in the process of drafting that, and it will go through full comment and review before final——

Senator BLACKBURN. All right.

Let me ask you something else, because the buck stops with you. You have really praised the IRA. I want to ask you one more thing about that, because your statements contradict themselves somewhat. You talk about the IRA as a way to really bring prosperity, to lower inflation, to lower the debt.

So, do you really believe that we can spend our way to lower inflation, to debt reduction, and to economic prosperity?

Secretary YELLEN. I believe that this law promotes clean energy and R&D and investment in the United States that will——

Senator BLACKBURN. But that is not my question. Do you believe we can spend our way to lower inflation? And I am going to move on, obviously.

Secretary YELLEN. I have never said any such—I have never said that I think that that is a way to lower inflation.

Senator BLACKBURN. All right. Thank you, ma'am.

You have mentioned the IRS being able to answer more phone calls and respond more quickly because of the IRA funding. I was looking at the IRS data, and it shows that the IRS actually answered 2.6 million fewer calls this March during the tax filing season. And I know Senator Thune asked you about this.

If we could get some clarity from you and from your testimony about this—what is the rate, how often are these calls answered and missed, what percentage of people at the IRS are still working remotely, and what is your timeline for bringing them all back?

Secretary YELLEN. What I can tell you is that the response rate to customer calls has been between 80 and 90 percent every week during this tax filing season, and that is a massive improvement. The IRS hired 5,000 new people to put into customer service, and that relied on funds from the IRA.

Senator BLACKBURN. My time has expired, but in the 8 quarters data that the IRS gave in early March, the IRS says they actually answered 2.6 million fewer calls in this tax filing season.

Secretary YELLEN. Well, there may have been fewer calls, but the rate of response was very much higher, substantially higher.

Senator BLACKBURN. Thank you, Madam Secretary.

The CHAIRMAN. Thank you. We do need to move on.

Senator Menendez?

Senator MENENDEZ. The Federal Reserve's emergency lending facility is predicated upon the notion that Treasury and agency securities have no credit risk. That facility will be extending loans of up to a year using these securities as collateral.

The one potential problem is that unless Congress raises the debt ceiling in the next few months, U.S. Treasury and agency securities will face the prospect of default. Now, while I certainly will not vote to default on the debt, I think some of my colleagues may not feel the same way.

In light of the events in the financial system over the past week, how damaging would a debt default be to our banking sector, particularly to regional banks?

Secretary YELLEN. It would be completely devastating, and I do not think that Congress should for a second contemplate the possibility of not raising the debt ceiling to pay our bills. This is the cornerstone of what makes our financial markets the soundest and best in the world, and people trust that the government stands ready to pay its bills. It would be a calamity.

Senator MENENDEZ. And obviously, if we are using Treasury securities to back up the loans that we are making, if those Treasury securities default, then we have a cascading effect.

Secretary YELLEN. It is beyond contemplation.

Senator MENENDEZ. Is it possible, or I should say isn't it possible that if Congress fails to raise the debt ceiling well before any default, that we could run the risk of seeing more runs on regional banks?

Secretary YELLEN. Yes. Well, we have seen that the concern about whether Congress would meet this responsibility has provoked concern in financial markets. That was evident, for example, in 2011, when there was a downgrading of the U.S. credit rating because of doubts as to whether or not Congress would act appropriately.

Senator MENENDEZ. Well, the fact is that a debt ceiling fight has always been dangerous. It is dangerous for our financial system——

Secretary YELLEN. Agreed.

Senator MENENDEZ [continuing]. It is dangerous for our businesses, it is dangerous for working families, and it is dangerous to put at risk the U.S. dollar as the reserve of choice in the world—which others are seeking to replace us in—which has enormous benefits to us. Wouldn't you say that having our dollar as the reserve choice in the world——

Secretary YELLEN. Yes, I completely agree. And it is because, in part because our financial system is so deep, and Treasuries are regarded as so safe and liquid.

Senator MENENDEZ. Now in 2018, Congress passed a bill which was signed into law by President Trump that relaxed regulation for institutions like Silicon Valley Bank. That law, which I opposed, exempted those banks from enhanced prudential standards and stress tests, raising the threshold at which a bank would be considered systemically important.

So, even as the law kept Silicon Valley Bank off the list of systemically important institutions, regulators on a bipartisan basis rightly cited systemic risk to justify their actions over the weekend. So, Secretary Yellen, isn't it true that the situation at Silicon Valley Bank posed systemic risks?

Secretary YELLEN. Well, look, I think it is important for regulators, the banking supervisors, to examine what happened at this bank. But clearly the bank had a very high proportion of uninsured deposits, which made it vulnerable to runs, and it experienced devastating runs.

Senator MENENDEZ. But, Madam Secretary, if the regulators say that the reason they are intervening is because there was systemic risk, then it must have been systemic risk, right?

Secretary YELLEN. Well, in the sense that the chances of contagion—that other banks might be regarded as unsound and suffer runs—seemed extremely high, and the consequences would be very serious.

Senator MENENDEZ. It seems to me that institutions like Silicon Valley Bank, while we still have a lot to learn, have the potential to be systemically important, and our laws and regulations should treat them as such.

Let me close on the following. In the President's budget proposal, there is yet a glaring absence of an issue critical to families in my State and in other States in the country. The budget continues to allow C corporations to fully deduct State and local taxes as under current law. Isn't that the case?

Secretary YELLEN. I am not sure. I think so, but——

Senator MENENDEZ. Well, for the purposes of our discussion, let me just assure you that the budget allows C corporations to fully deduct State and local taxes under current law. But it does not propose the same tax benefit for middle-class families. Is that fair to say?

Secretary YELLEN. The issue of State and local taxes is one we think that Congress should address.

Senator MENENDEZ. Well, I will close by saying if C corporations can deduct State and local taxes, middle-class families should be able to deduct State and local taxes.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Scott?

Senator SCOTT. Thank you, Mr. Chairman. And, Secretary Yellen, thank you for being here this morning. Thank you also for the conversation that we had on Monday. We may not always see eye to eye on a number of issues, but your availability was helpful in understanding and appreciating the actions of the administration. So, thank you for that part.

Secretary YELLEN. Thank you, Senator.

Senator SCOTT. I am sure you have seen, and maybe even had a big hand in proposing some of the President's budget requests. I can honestly spend hours talking about the President's budget, and how much I dislike it. I think it is bad for the economy; I think it is bad for the American people.

We certainly see $5 trillion of tax increases, $7 trillion of spending, the highest rate of taxes on individuals in the last 40 years, and a new corporate tax rate higher than the tax rate imposed by the Chinese Communist Party on their own businesses, more and more policies that undermine our own Nation's energy independence and energy security. This is not a budget that unifies the country. This budget only seeks to isolate and divide us. This budget, simply said, taxes too much and spends too much.

In the midst of all this budget talk, however, we are once again having to exercise important oversight over the Federal regulators and agencies responsible for ensuring they are doing the job that Congress gave them the tools to do. As such, I want to spend some time discussing Silicon Valley Bank.

While there are many questions that must be answered, I do know a few things for sure. First, the bank failed because of its management and because of its board. I know that the failure of SVB also was contributed to by a lax regulatory environment.

I believe that the State and Federal regulators failed to appropriately use the tools they have to supervise and regulate the failed institutions; and finally, that Biden's handling of the economy contributed to these bank failures. The President's budget is further evidence of reckless taxes and spending that will only exacerbate the highest inflation we have seen in 40 years.

This impact will be felt by everyone and everything from grocery bills to financial institutions. It appears that the San Francisco Fed was asleep at the wheel. They failed to meet their basic, not enhanced, but basic supervisory responsibilities, and therefore missed their opportunity to use enhanced supervisory tools if necessary.

Instead of taking accountability for this blatant failure, regulators are now forecasting that they plan to increase regulations on the rest of the banking industry; in other words, the banks that made responsible business decisions and have not failed. The failure to supervise is inexcusable, and I plan to hold the regulators accountable.

This administration's tax-and-spend reckless policies fueled inflation and will only further lead to unmanageable inflation and higher and higher interest rates.

Secretary Yellen, will this administration acknowledge that their reckless tax and spending contributed to not only the challenges that we see in everyday households, but also to challenges that we are facing today with SVB?

Secretary YELLEN. Look, inflation is too high, and it is the President's top priority to bring it down. And there are many contributors to why inflation is too high; importantly, fallout from the pandemic and Russia's war on Ukraine that boosted food and energy prices. Many countries around the world suffer from this same problem regardless of what their fiscal policy was.

Senator SCOTT. Thank you. I do not want to cut you off, but I only have a minute left, and I want to just offer my synopsis. There is no doubt that the pandemic was in the rearview mirror when we saw the COVID relief response in January of 2021 that spent $1.9 trillion.

The only thing missing in that COVID relief bill was COVID relief. We had 1 percent for COVID vaccines, under 10 percent for COVID-related health, but we had a lot of liberal policies embedded in the $2 trillion of spending, which then led and accelerated inflation to 9.1 percent or a 40-year high.

The Fed response to the high level of inflation was to have eight rate increases, leading to a liquidity challenge that we are now seeing the results of.

Thank you very much.

Senator CRAPO [presiding]. Thank you.

Senator Hassan?

Senator HASSAN. Thank you, Ranking Member Crapo, and for holding this hearing today. A "thank you" to you and the chair.

Secretary Yellen, thank you so much for being here and for testifying before the committee. I would like to follow up on issues that my colleagues asked about, concerning the recent actions that the administration has taken to protect our economy.

Last weekend, the Treasury and other agencies took several steps to strengthen public confidence following the failure of two banks. The priority of Federal regulators needs to continue to be protecting families and small businesses, by ensuring the stability of our banking system and our economy more broadly.

Given the events of the past week, I would like to understand how Treasury is evaluating the effectiveness of its recent action. So, what specific benchmarks are you using to measure the success of Treasury's actions? For example, what are the economic indicators that you are actively monitoring?

Secretary YELLEN. Well, we are looking at indicators of the functioning and stress in the banking system. We want to make sure that the problems of these two banks do not spread to others. So we are monitoring very carefully the situation of banks in the United States using a wide range of indicators.

And a more general problem that concerns us is the possibility that if banks are under stress, they might be reluctant to lend while they worry about shoring up liquidity and capital. We could see credit become more expensive and less available, and there are a variety of statistics that we can look at to judge whether or not banks are tightening credit—things like the senior loan officers' survey of credit terms and related statistics on the cost of borrowing, because that could turn this into a source of significant downside economic risk.

Senator HASSAN. Well, I appreciate that. I think being really clear about what the goals are and having transparency about defining success is critical here, and I just want to urge you and the administration to continue communicating with Congress as it closely monitors the situation, to ensure that we have a coordinated and responsible and effective response to the entire situation.

I want to turn now to tax issues that are overseen by Treasury. Last year, my bipartisan Home Energy Savings Act, something I introduced with Senator Collins, was signed into law. This bill expanded tax cuts for homeowners who make energy efficiency upgrades, such as installing a more efficient HVAC system in their homes, which also, obviously, lowers energy bills.

How is the Treasury increasing awareness of these tax cuts for homeowners, given the high energy and other costs that families are facing?

Secretary YELLEN. Well, as you point out, there are really critical supports here for taxpayers. They can get up to $2,000 for upgrades like heat pumps, 30 percent on the cost of installing solar panels, and so forth. We have worked with IRS to publish plain language frequently asked questions on all of these credits, and you can find these on the IRS's IRA home page.

There is also a site, something called *cleanenergy.gov*. But really, we want to get the word out broadly, and we would be eager to work with you to discuss ways that we can make sure homeowners know what they are eligible for.

Senator HASSAN. Well, I would look forward to continuing to work on that. Obviously, with high energy costs being what they are, especially in the Northeast, it is really, really important that we get the word out.

Last question here. Along with Senator Brown, I am leading the effort to cut red tape for online sellers by reducing the number of casual online sellers who receive unnecessary and confusing 1099 tax forms. It is important that we work across the aisle to find a bipartisan way to cut down on these unnecessary forms.

As Congress considers various ways to address this challenge in a bipartisan way, will Treasury provide analysis of the impact of different proposals on online sellers?

Secretary YELLEN. Certainly, we will try to work with you on that. You know, we were trying to implement a provision of the Rescue Plan that required reporting of transactions over $600. It is set to take effect this year, but we realized that there were concerns, broad concerns about that timeline.

So we have delayed. And certainly we want to reduce confusion, and we will work with you to try to do that.

Senator HASSAN. Well, I appreciate that very much, and I see that I am over time. I will just note that there are a number of us in Congress who want to do more than delay it. We want to correct what we think is a bad policy——

Secretary YELLEN. We would work with Congress.

Senator HASSAN [continuing]. And provides lots of confusion. So, thank you very much.

Thank you, Mr. Chair.

The CHAIRMAN. I thank my colleague.

Senator Young is next.

Senator YOUNG. Welcome, Madam Secretary. It is good to have you here before the committee. I want to take a moment to join my Republican colleagues in expressing my frustration and displeasure over the way the administration has handled the OECD Pillar 2 negotiations. To that end, Mr. Chairman, I would ask unanimous consent that a copy of my longer statement on this topic be entered into the record.

The CHAIRMAN. Without objection, so ordered.

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

Senator YOUNG. Thank you. So, to summarize this statement, my concern is whether enacting the regime globally would undermine the incentive to invest in the United States and to grow jobs here in the United States. I fear the answer to that question is "yes."

In particular, the Pillar 2 Under-Taxed Profits Rule would uniquely disadvantage American workers and job-creating businesses by providing our trading partners with the political blessing to tax the U.S. activity of U.S. companies. That is right. Let me repeat that.

Foreign countries, under the Under-Taxed Profits Rule of these negotiations, could tax the U.S. activity of U.S. companies. This would of course directly undercut our American sovereignty, but it would also impact the legislative power of tax writers to provide bipartisan, well-crafted, thoughtful economic incentives like the research and development tax provisions, important to our dynamic economy.

This credit, which my bipartisan colleagues and I are fighting so hard to protect—and much more—look to be wiped out under Pillar 2. So, Madam Secretary, American workers and American companies deserve a better deal, and I want to begin by asking you to go back to the negotiating table and negotiate that deal for them.

Moving on. Madam Secretary, as you know, President Biden has promised dozens of times that he will not raise taxes on anyone earning less than $400,000 a year. During the budget reconciliation exercise in August of last year—that was our second budget reconciliation, you will recall—I introduced the Not One Penny in Taxes Raised amendment, to allow the American people to hold members of Congress who agreed with that pledge, and to hold the President accountable.

That amendment passed the United States Senate by a vote of 98 to 1, 49 out of 50 of my Democratic colleagues agreed with Republicans, we cannot raise taxes when Americans are struggling. Mr. Chairman, I ask unanimous consent that a copy of my amendment and the roll call votes be entered into the record.

The CHAIRMAN. Without objection, so ordered.

[The documents appear in the appendix beginning on p. 108.]

Senator YOUNG. Secretary Yellen, in the view of the administration, which tax rates or other provisions from the Tax Cuts and Jobs Act that are scheduled to sunset after 2025 must be extended in order not to violate President Biden's pledge that no taxes will be increased on anyone earning less than $400,000?

For the benefit of all members in understanding these important red lines for the President of the United States, please include all provisions that you understand would cause the President's pledge to be violated if they are not extended.

Secretary YELLEN. Well, there certainly are aspects of TCJA that, if they sunset, would impact households or taxpayers earning under $400,000. The President has, as you mentioned, pledged he does not want to see taxes raised by a penny on anyone making under that.

Senator YOUNG. That is right.

Secretary YELLEN. So, he stands ready to work with Congress——

Senator YOUNG. Well, no, no. The President made the pledge, and so I want to know the administration's position on this. I know my Democratic colleagues want to know it as well. My time is short, so can you please provide the specific TCJA provisions that have to be extended in order to keep President Biden's tax promise?

Secretary YELLEN. I do not know that I can provide you with that. I think there are a lot of complicated provisions, and exactly what happens to different taxpayers will depend on——

Senator YOUNG. That is reasonable.

You are a reasonable person. I am known as a reasonable person, one right now who is 2 seconds over time. So I would just ask you, Madam Secretary, could you commit to providing me and other members of this committee with that comprehensive list within 2 weeks from today? It should not be difficult. You have an army of people supporting you.

Secretary YELLEN. I think it is a very complex exercise, and I am not sure that——

Senator YOUNG. Is it complex to keep the pledge?

The CHAIRMAN. The time of the gentleman has expired. I want to work with the gentleman with respect to the updates on the tax law. It is well known that on our side we opposed it, and your side supported it. The gentleman wants to know how we are going to proceed, and the Secretary said it is complicated. I am going to work with my colleague.

Senator YOUNG. Well, let us work our way through the complications so we can all keep our pledges not to—this cannot be violated. I have told my constituents it will not be, so——

Secretary YELLEN. And we agree with that and would like to work with you.

Senator YOUNG. All right. I will look forward to that list. Thank you.

The CHAIRMAN. Senator Daines is next.

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

Secretary YELLEN. Thank you.

Senator DAINES. Secretary Yellen, the President's budget includes $4.7 trillion—with a "t"—in total tax hikes, including $1.8 trillion in new taxes on Main Street businesses. The President's budget also includes a shadow tax increase on small businesses in

Montana and across the country by remaining aptly silent on the future of the 20-percent pass-through business tax deduction.

We must remind ourselves that 95 percent of the businesses in the United States of America are pass-throughs. They are not C corps, and yet this budget was silent on a 20-percent tax increase coming for many small businesses in the course of 2026. I am planning to reintroduce my Main Street Tax Certainty Act in the coming weeks, which will protect these businesses from this shadow tax hike by making this important deduction permanent.

With the President's pledge in mind, will you commit to making the 199A deduction permanent?

Secretary YELLEN. I mean, all I can really say is that the President has pledged not to raise taxes on individuals or small businesses making under $400,000, but no promises beyond that.

Senator DAINES. Okay. I will take that as a "no" and move on to my next question.

Senator Young raised this issue of Pillar 2 of the OECD proposal, which you spearheaded or championed. It is littered with these complex rules that would benefit state-owned enterprises at the expense of capitalist competitors.

Why are you a proponent for a framework that would allow China to tax American companies—and I understand this; I was involved with global operations for most of my 20-year career in the private sector—tax companies on their American operations if they fall below the minimum tax threshold, even if they fall below the threshold by utilizing the bipartisan tax incentives, such as the R&D tax credit.

Secretary YELLEN. So, the agreement does permit—it includes an under-taxed payments rule by which other countries can exercise their rights to impose taxes on operations of foreign countries——

Senator DAINES. Which would include China?

Secretary YELLEN [continuing]. That do not abide by the 15-percent tax. The United States can impose a top-up tax to ensure that those revenues end up in the U.S. Treasury instead of in a foreign country.

Senator DAINES. I will move on to the Child Tax Credits. As you know, Secretary Yellen, the 2017 Tax Cuts and Job Act doubled the Child Tax Credit, from $1,000 to $2,000, and increased the refundability threshold to $1,400. I was certainly disappointed at the time that all of my colleagues on the other side of the aisle opposed this change and made it impossible to make it permanent. But I am glad that we enacted it, as Republicans, into law.

The President's budget proposes increasing the Child Tax Credit from the current $2,000 to $3,600. It makes it fully refundable and delivered on a monthly basis. However, I see they did not make that change permanent. It expires in 2025, even though there are no limitations in presidential budgets to do so.

My question would be this. Does the President believe that the Child Tax Credit should be made permanent at $3,600, and if so, are you willing to then eliminate the SALT deduction, which overwhelmingly benefits the wealthy, to give working families an expanded Child Tax Credit that importantly never ends?

Secretary YELLEN. So the President is very supportive of the Child Tax Credit, proposes to continue it for several years until many of the provisions in the individual income tax from TCJA that affect exemptions and the Child Tax Credit expire. And then there will need to be consideration of what to do as those——

Senator DAINES. Right, but he will not make that provision permanent is what you are saying? The budget says it is going to expire in 2025.

Secretary YELLEN. That is because there needs to be a broader consideration——

Senator DAINES. There does not have to be, though. You could put the Child Tax Credit there and make that permanent. So, we could debate the tax cuts but——

Secretary YELLEN. He is very supportive of it, and we would look to work with you to make sure that it is——

The CHAIRMAN. The time of the gentleman has expired.

Senator Cantwell is next.

Senator CANTWELL. Thank you, Mr. Chairman. Secretary Yellen, thank you so much for not just today, but over the weekend and all the attention that you have given to this issue.

It really does impact small businesses, and while the name of the bank might be Silicon Valley Bank, I guarantee you the innovation economy comes through Seattle, and probably many small businesses in my State were impacted by what transpired. And that is why we need to make sure that the banking system really does have mechanisms that help the start-up economy and the innovators.

In my mind, that is why we did CHIPS and Science, to let a lot of innovation unfold. But people have to get financing. So, Jesse Salk, the grandson of Jonas Salk, is a molecular biologist and clinical oncologist who started TwinStrand Biosciences in the State of Washington.

He and his team at TwinStrand are developing cutting-edge gene sequencing techniques to help us fight cancer, and he told my office this week that "it was a big deal to step outside my comfort zone and start a company to help get a new genomic technology to help treat cancer patients faster. The last thing I expected us to need to think about was if we could rely on a bank."

So, the potential impact of Jesse's company having to pause or even cease operations due to banking failure is not just jobs or dollars lost—which are important considerations to our economy—it is actually lives lost too. So, I again appreciate what the Federal Reserve, the FDIC, and everyone who stepped in did. But it never should have happened in the first place.

So my questions really are about these small businesses. Again, I think people think of them like, "Oh, they are going to be giant businesses." But at their start, they are small businesses. And I think Silicon Valley Bank was able to attract and help further this. So now where do we go? Where do we go?

Are we going to push Jesse back towards a larger bank? I am curious—one of the reasons why there was so much of a concentration is that there was a requirement by the bank that you have all of your holdings in that bank. And so, I want to hear what you think about that.

How do we ensure that these small businesses feel safe, and are we just going to see—how do we, again, treat a start-up economy and allow these funds to work cost-effectively, and should we get rid of this requirement by a bank that says that, to get these terms, they have to have all their funds in that bank?

Secretary YELLEN. So, I am not aware of the requirement that you mentioned, but certainly we want to make sure that depositors—whether they are individuals or households or small businesses—feel confident that the banks that they entrust their savings to or their working balances that they use to pay their workers, we want to make sure that they feel confident that these banks are safe and that they can do business with them.

And that is an important reason why we stepped in with the FDIC and the Federal Reserve to intervene, because I do believe the banking system in the United States is sound and resilient, and we wanted to make sure that the problems at Silicon Valley Bank and Signature Bank did not undermine confidence in the soundness of banks around the country.

And we wanted to make sure that there was not contagion that could affect other banks and their depositors.

Senator CANTWELL. Yes. So, it is basically a requirement, an affirmative covenant that they maintain all borrowers' depositors.

Secretary YELLEN. That is something imposed by the bank, I assume?

Senator CANTWELL. Yes, yes, on the start-ups, as a way to corral. So I think this is why you had such a concentration, and we should look at that as a particular issue.

What about Glass-Steagall? I have been a big supporter of Glass-Steagall. And when you come to this moment—and I keep thinking, "Why did we ever allow us to have the commingling of commercial and investment banking?"

It seems to me that continuing to protect depositors, and having a system where people can take risk, and if they suffer loss, is okay. But that is not what we have. We have such a commingled system now. What do you think about relooking at Glass-Steagall?

Now, I am not asking for the Treasury Secretary to make big news here. I am really just asking if you think this same situation would have occurred, the way it occurred, if we had not, in 2000, gotten rid of Glass-Steagall?

Secretary YELLEN. You know, we are very focused right now on stabilizing the banking system and shoring up confidence, and I think there will be plenty of time when it will be appropriate to look at what happened and consider whether or not regulatory or supervisory changes are necessary. And I look forward to working with you and discussing what happened and what response is appropriate.

But for now, I would like to see confidence restored in the soundness of American banks.

Senator CANTWELL. Thank you.

Well, I would just say this on this subject. I believe, in the information age, one of America's secrets is access to capital. So I want great access to capital formation. I do not want to see these banks that understand start-ups go away. I do not want it to be concentrated at big banks.

But I also want us to make sure that we have a system that is—I think we see now from 2009 what happened, and now with this incident, that the commingling of these things or giving people—I am not sure that is the way we get access to capital. I am not sure that that is—or at least we did not have a system that protected us. It did not protect us in the end. So, we have to get something——

Secretary YELLEN. These were depository institutions; they were not investment banks.

Senator CANTWELL. Yes.

Secretary YELLEN. They were normal banks.

Senator CANTWELL. Yes, but blurred.

The CHAIRMAN. Madam Secretary, we have to move on. I happen to share Senator Cantwell's views with respect to this matter.

Next is Senator Whitehouse, then Senator Casey.

Senator WHITEHOUSE. Thank you, Mr. Chairman. Secretary Yellen, I think you are the most available of all of the cabinet members to come to hearings, and I just want you to know that I appreciate it. You seem quite fearless about coming into the lion's den, and we are always grateful to have you.

Secretary YELLEN. Thank you.

Senator WHITEHOUSE. You spoke recently to the Climate-related Financial Risk Advisory Committee, and in your remarks you pointed out that climate change will likely become "a source of shocks to the financial system that would lead to declines. This would be precipitated by declines in asset values that could cascade through the financial system," which is a warning that Freddie Mac has also made with respect to coastal property values.

You added that rising insured losses could cause insurers to pull back from high-risk areas, with potentially devastating consequences for property values.

We just had a hearing in my Budget Committee on wildfire risk causing that effect to insurance and property markets, and before that, coastal flooding and storm risk causing that effect in insurance and property markets, and then the whole thing can spill over to other parts of our interconnected financial system—again, part of what Freddie Mac warned about, that it would be worse than 2008.

We also heard testimony that the coastal property value crash risk—and the wildfire property risk—could perfectly well happen at the same time. It is not a question of one or the other; they could both come to pass.

So we all know that shocks and panics and collapses and disorderly transitions are notoriously hard to predict as to exactly when they will occur. They are far easier to predict as to what their level of severity will be should they occur.

My question to you is, setting aside timing, how serious to the U.S. economy could the economic shocks that you warned of in that speech be?

Secretary YELLEN. So, I do not know how to quantify that for you, but I do believe these are very serious risks. The Financial Stability Oversight Council is prioritizing analyzing those risks and has recognized that they pose a systemic threat to American financial stability.

The regulators, the banking regulators, FHFA, are all taking steps to analyze the way in which these risks could affect the financial system, financial institutions. And we created the committee that you referred to in order to bring expertise into this enterprise.

But I think it is critically, critically important, and these are severe risks.

Senator WHITEHOUSE. Potentially deadly serious.

Secretary YELLEN. Yes, very severe risks.

Senator WHITEHOUSE. And just to—for people who are not familiar with this particular arena, the words "systemic risk" sound like a rather mild and inoffensive term. But it actually refers to pretty devastating stuff, does it not?

Secretary YELLEN. Yes, that is what systemic refers to, exactly. Things that could cascade throughout the financial system and have severe consequences for financial stability and the economy.

Senator WHITEHOUSE. Thank you.

In the time that I have left, I wanted to flag for you a letter that I will put into the record now, if I may, Mr. Chairman——

The CHAIRMAN. Without objection, so ordered.

[The letter appears in the appendix beginning on p. 56.]

Senator WHITEHOUSE [continuing]. That a great number of us on this committee signed to the Acting Director of FinCEN. The chairman was a signatory of it; Senator Grassley was a signatory of it; Senator Warren was a signatory of it. And we are concerned that the development of the beneficial ownership rule has been far less than we had hoped, and far less than we believed the actual statutory language directed, both regarding the so-called access rule, which is a subject of the letter, and regarding the verification standard, and regarding the court order requirement.

If you would, be good enough to take this back to your team and make sure that you have a look at this, and make sure that you approve of where they are going, because I believe they have missed a very significant opportunity to significantly strengthen our battle against kleptocracy with the rather weak way in which these three parts of the rule have been rolled out.

Thank you very much.

Secretary YELLEN. Thank you.

Senator WHITEHOUSE. That is for "under advisement."

Secretary YELLEN. Thank you. I take it that way.

The CHAIRMAN. Senator Casey?

Senator CASEY. Thank you, Mr. Chairman. Secretary Yellen, you have been very patient. I am the last questioner, and I will try to keep within my time, in light of your appearance here. We are grateful for your time here. We are grateful for your service to the country.

I do want to start just preliminarily by noting, in earlier questioning about the phone call return rate at the IRS, there have been statements made today, some of which went unchallenged. Am I right to say that last year the phone call return rate at the IRS was about a low number, like 13 percent?

Secretary YELLEN. Correct.

Senator CASEY. And the current number is between 80 and 90 percent?

Secretary YELLEN. That is correct.

Senator CASEY. That is important for the public record, because I know there is a narrative that the other side falsely is perpetuating. So, 80 to 90 percent is a whole lot better than 13. You do not have to comment on that, but I will just state that for the record.

Secretary YELLEN. It is a huge, huge improvement.

Senator CASEY. And that is——

Secretary YELLEN. And the IRS has been tremendously under-resourced, and the resources that Congress provided through the IRA are critically important. They hired 5,000 customer service representatives, have made enormous progress in working through the paper backlog, and now we are going to see continued improvements and great improvements in customer service.

Senator CASEY. Thanks so much for that.

I want to talk to you first more broadly about energy communities, in particular coal communities. I live in Scranton, PA, born and raised there, still live there, and it happens to be the hometown of the President.

But we live in a region that has basically five counties that were so-called anthracite, hard coal counties historically. Then in southwestern Pennsylvania, we have a much larger number of counties that were so-called bituminous or soft coal counties.

I do not have to tell you—most Americans know the story of what happened to that industry. We were told, though, most recently that the Appalachian Regional Commission reports that coal employment has fallen by some 62 percent over the last decade, leading to a broader decline in the region. That is true in these communities in Pennsylvania.

The report also indicates that overall private-sector employment in Appalachian coal counties—that would of course go to West Virginia and several other States—has been flat since the Great Recession, but it was increasing in the non-coal communities. In the IRA, the Inflation Reduction Act, I fought for an additional tax credit of 10 percent that would encourage private companies to build new energy and manufacturing projects in these energy communities.

To date, the Treasury Department has not released guidance on how companies can claim these credits, or guidance on what exact areas qualify. So, without that guidance, companies have been reluctant to announce new projects in these coal or energy communities, and we have seen new investment flowing to non-energy communities.

So I would ask you to tell us, if you can, when can Pennsylvania and other States that have these coal communities expect Treasury to finalize the rules, the guidance, so these coal country communities can get their share of new jobs and investment?

Secretary YELLEN. This is a tremendously important provision. We recognize how hard hit these communities are, and how important this bonus is. I can tell you that my staff is working literally around the clock to write and implement these regulations. They are tremendously complex, and we will do this; it is a priority item. We will do this as quickly as we possibly can.

I typically have several meetings a week with Tax Policy to make sure that things are moving as rapidly as humanly possible, and this is a priority item for us.

Senator CASEY. Thank you, Madam Secretary. I appreciate that.

And the next question I think I will submit for the record. I just want to preview it for you. We have this bizarre circumstance in the tax code where corporations are given a tax break for activities that are often union-busting activities.

So, they get a tax break for that, and at the same time in the 2017 tax bill passed here in the Senate, a provision for union dues deduction and work expense deductions was taken away from individuals. So the worker got a tax break taken away, and big corporations have had this benefit to allow them to union bust and get a break for it.

I have a No Tax Breaks for Union Busting Act with 30 of our colleagues that I am trying to pass, and I will ask you a specific question about that. But in the interest of time, I will submit that for the record.

Thanks very much.

Secretary YELLEN. Thank you, Senator Casey.

The CHAIRMAN. Madam Secretary, I very much share Senator Casey's views. I am on his legislation for No Tax Breaks for Union Busting. And I think you all had that dialogue about the energy communities provision. Madam Secretary, I think we would call this a priority. I would like to designate it a super-priority, because Senator Casey led the effort for those energy communities in the effort on the IRA.

I know it is extraordinarily important to a host of these communities where there is a history of one energy policy, and we have to get them the help Senator Casey's measure envisioned. So, I thank him for it.

Madam Secretary, we are going to let you leave in the kind of 2 minutes that I think we may have remaining, so we keep you on the clock. As usual, you have accounted for yourself very well today.

Secretary YELLEN. Thank you, Mr. Chairman.

The CHAIRMAN. And I especially appreciate your saying, for what I believe is the first time, that prioritization of debt ceiling payments is just unworkable. That is the message that needs to go out far and wide. In this committee—let the record show—the Secretary has again said that is correct. This committee has jurisdiction over these issues relating to the full faith and credit of the United States, so I very much appreciate what you are saying to us in your comments about clean energy, your comments about housing.

You had the waterfront in front of you to talk about, and I just want to make one point in wrapping up. Republicans, in their tax amendments, these various tax amendments, define taxable income so as to give many billionaires a free pass on taxes.

That is really what the difference is. We feel very strongly about protecting all those firefighters and nurses and all the small business people. We all share that view. We are just unwilling, as are you and the President—to your credit—to give billionaires a free pass.

It is all about how these amendments define taxable income, which would basically keep billionaires from getting audited or paying little if any taxes for years on end. So, we look forward to working with you in the days ahead.

For the information of members, questions for the record for the Secretary are due at 5 p.m. next Thursday, March 23rd.

And the Finance Committee—and we thank you again, Secretary Yellen—is adjourned.

Secretary YELLEN. Thank you, Chair Wyden.

[Whereupon, at 12:59 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

Thank you, Mr. Chairman, and welcome to today's hearing, Secretary Yellen. I appreciate you appearing before the committee in a timely manner following the release of the President's budget.

While the budget is the focus of today's hearing, I expect that the emergency measures taken this weekend by the Treasury Department, Federal Reserve, and FDIC will also be appropriately discussed today. It is important to learn more about what initiated the run on Silicon Valley Bank, the impact of the Federal Reserve holding interest rates low for too long, and what steps were—or were not—taken by Silicon Valley Bank and the banking regulators.

In the meantime, I am concerned about the precedent of guaranteeing all deposits and the market expectation moving forward. Once started, moral hazard—like inflation—is not easily contained and does long-lasting damage.

Inflation played a key role in the recent bank failures, as rising interest rates and mismanaged interest rate risk led to a liquidity crisis. Indeed, there is no issue more critical than the unacceptably high inflation American families continue to face every day. Americans have now experienced 16 months of inflation at or above 6 percent. Costs of rent, groceries, and services continue to rise. Wages cannot keep up.

Last year, the administration committed to working in a bipartisan fashion to address this serious problem, noting the budget must complement monetary policy. Instead, a reckless tax-and-spend agenda was forced through Congress, rolling out trillions of dollars in debt-financed spending and hundreds of billions of dollars in new taxes on U.S. job creators.

The Congressional Budget Office says the Inflation Reduction Act will not only increase inflation in the near term, but Treasury will collect *less* corporate tax revenue with the partisan IRA in effect—despite being sold as a bill to make corporations pay their "fair share."

The Federal Reserve is having to compensate for this administration's lack of budget discipline with growing interest rate hikes. Rising interest rates are impacting household budgets; the Federal Government's coffers; and, as we saw this week, our banking system.

The President's budget demonstrates the administration has not learned from its mistakes. After 2 years of policies that contributed to record-high inflation and excessive deficit spending, this administration is doubling down with more of the same. The spending binge must stop. We must address our growing deficits in order to put the United States' finances on a sustainable path, and pro-growth tax policy should be part of the solution.

The Tax Cuts and Jobs Act led to one of the strongest economies in generations. TCJA introduced competitive tax rates while broadening the base, including by enacting the first global minimum tax of its kind, and putting an end to corporate inversions. It also contributed to record-high corporate tax receipts, both nominally and as a share of gross domestic product.

But instead of considering bipartisan, pro-growth policies, the President's budget includes a whopping $4.7 trillion of new and increased taxes on American job creators, which ultimately means fewer jobs and lower wages. It also includes higher taxes on American energy producers.

Earlier today, Senator Barrasso and a number of his Republican colleagues, including myself, sent a letter to you, Secretary Yellen, raising concerns with the over-$100 billion in increased energy taxes proposed in the President's fiscal year 2024 budget. Mr. Chairman, I ask that the letter be included in the hearing record.

The administration's shortsighted, partisan agenda extends to its unilateral approach to the OECD international tax agreement. For the last 2 years, Treasury has used the OECD negotiations to attempt to compel changes in U.S. law without regard for the effect on U.S. revenue, U.S. companies, and U.S. workers.

Not only has the administration failed to put a stop to digital services taxes, but now foreign countries threaten to impose extraterritorial taxes on U.S. companies under the global minimum tax—at Treasury's invitation. The latest OECD guidance confirms the administration has agreed to allow foreign countries to collect U.S. GILTI revenue, and worse, tax U.S. companies on their U.S. profits in violation of our tax treaties. The budget fails to consider these revenue impacts, which, if implemented, will result in billions of dollars of lost U.S. revenue.

Meanwhile, the administration continues to hide its true intentions for "transforming" the IRS. The budget doubles down on the $80 billion already given to the IRS, including 2 additional years of plus-up funding totaling $29.1 billion solely for "enforcement and compliance initiatives," in addition to $14.1 billion more of yearly funding. That's another $43 billion!

Secretary Yellen, I agree with you that having a funding plan for an agency budget that dwarfs many others is "critical." In the meantime, the IRS has embarked on a "spend first, plan later" approach that is not transparent or responsible, and is a surefire recipe for error, waste, and mismanagement.

While we may not have all the details, we do know that only 6 percent of the existing plus-up funding is for modernization, while over 62 percent is solely for hiring—more than 93 percent of which is enforcement hiring. These new funds are not going to replace retiring IRS agents, as annual appropriations already provide that funding, and the administration has not requested any reductions in IRS annual funding to account for replacing retirees with plus-up funding.

Secretary Yellen, there are opportunities for the administration to work across the aisle on common-sense economic policies, but nothing suggests the President is abandoning the partisan tax-and-spend policies of the last 2 years.

This administration must recommit to working with Republicans to develop real solutions that will stabilize the economy and create higher wages and opportunities for American workers.

United States Senate

WASHINGTON, DC 20510

March 16, 2023

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

Dear Secretary Yellen:

We write with grave concern regarding the administration's continued hostility towards American energy production. Currently, working families and small businesses are facing immense challenges including high energy prices. At the same time, our allies and partners across the globe are asking for reliable American energy resources to escape their dependence on Russian energy and to deal with the energy crisis. Instead of increasing U.S. energy production, the administration is focused on increasing energy taxes. The administration has once again doubled down on weaponizing the tax code against U.S. energy producers. The Department of Treasury's *General Explanations of the Administration's Fiscal Year 2024 Revenue*

Proposals (Green Book) is filled with crippling tax hikes on the production of oil, gas, and coal.

The latest Green Book calls for $4.7 trillion in new tax increases, which will fall on a wide range of industries, as well as workers. These tax hikes alone will deliver a heavy blow to energy production while simultaneously suppressing growth in numerous sectors of the economy. The administration decided to go even further in imposing additional burdens on energy producers by deleting virtually every long-standing tax provision in the Internal Revenue Code designed to support traditional energy production. Specifically, the Green Book calls for more than $100 billion in targeted tax increases on fossil fuels.

What is most troubling is that the administration explicitly acknowledges its intention to chill investment in conventional energy production, stating, "These oil, gas, and coal tax preferences distort markets by encouraging more investment in the fossil fuel sector than would occur under a neutral system. This market distortion is detrimental to long-term energy security and is also inconsistent with the administration's policy of supporting a clean energy economy, reducing our reliance on oil and reducing greenhouse gas emissions." It is alarming that the administration believes utilizing our Nation's abundant natural resources will be detrimental to long-term energy security. Unbelievably, the administration would willingly suppress domestic energy production knowing it means fewer jobs and higher prices for the American people. The Green Book proposals are neither policy neutral nor do they give proper consideration to the fact that fossil fuels are the highest taxed industry in the world, and pay relatively high rates of tax to the Federal Government—as well as State and local governments.

Many of the President's targeted tax hikes would repeal cost recovery provisions and deny necessary and ordinary deductions which give energy producers parity with other sectors of the economy. One example of this is the proposed repeal for the expensing of Intangible Drilling Costs (IDCs), which are widely utilized by independent producers to deduct expenses related to drilling. These expenses include labor, site preparation, repairs, equipment rentals, and survey work. Oftentimes these items represent between 60 and 80 percent of total production costs.

Another important cost recovery mechanism the administration seeks to eliminate is Percentage Depletion. This is a type of depreciation for mineral-based assets that allows for a deduction from taxable income to reflect the declining production of reserves over time. Percentage Depletion is in line with standard depreciation for other assets and is necessary to recover costs associated with maintaining production on marginal wells, mines, and deposits. The entities benefitting from Percentage Depletion are often independent and family-owned production companies, as well as farmers and ranchers who may rely on small royalty payments.

There are more than a dozen other related energy tax provisions in the cross hairs of the administration's tax plan, all of which pale in comparison to the lavish subsidies afforded to the renewable energy industry. These proposals undermine the very industry responsible for providing 80 percent of the Nation's energy needs. The administration is attacking the industry providing our allies with an alternative to relying on and lining the pockets of dictators in Russia, Iran, and Venezuela. These totalitarian regimes do not produce, or refine, with the same environmental standards we see with American-made energy.

America is fortunate to have abundant energy resources. Our Nation needs to be focused on unleashing American energy and innovation instead of throwing away one of our biggest economic and geopolitical advantages. When facing a whole-of-government assault, American energy producers cannot continue to make long-term investments, which provide stability and energy security both at home and overseas. These crushing tax proposals, paired with the administration's heavy handed regulations and mandates, would threaten American families' access to affordable and reliable energy, while giving our adversaries the upper-hand in the global energy markets.

Sincerely,

John Barrasso, M.D.
U.S. Senator

Mike Crapo
U.S. Senator

Cynthia M. Lummis
U.S. Senator

Roger Marshall, M.D.
U.S. Senator

Kevin Cramer
U.S. Senator

Dan Sullivan
U.S. Senator

John Cornyn
U.S. Senator

James Lankford
U.S. Senator

James E. Risch
U.S. Senator

Mike Braun
U.S. Senator

John Hoeven
U.S. Senator

Tim Scott
U.S. Senator

John Kennedy
U.S. Senator

Bill Cassidy, M.D.
U.S. Senator

J.D. Vance
U.S. Senator

Rick Scott
U.S. Senator

Thom Tillis
U.S. Senator

Katie Boyd Britt
U.S. Senator

Marsha Blackburn
U.S. Senator

Steve Daines
U.S. Senator

Shelley Moore Capito
U.S. Senator

Ted Cruz
U.S. Senator

SUBMITTED BY HON. SHELDON WHITEHOUSE,
A U.S. SENATOR FROM RHODE ISLAND

United States Senate

WASHINGTON, DC 20510

March 15, 2023

Himamauli Das
Acting Director
Financial Crimes Enforcement Network
U.S. Department of the Treasury
P.O. Box 39
Vienna, VA 22183

RE: Beneficial Ownership Information Access and Safeguards, and Use of FinCEN Identifiers for Entities
Docket Number: FINCEN–2021–0005; RJN: 1506–AB49/AB59; Document Number: 2022–27031

Dear Director Das,

We write in response to the Financial Crimes Enforcement Network's (FinCEN) notice of proposed rulemaking regarding "Beneficial Ownership Information Access and Safeguards, and Use of FinCEN Identifiers for Entities." This rulemaking is an important step in implementing the bipartisan Corporate Transparency Act (CTA),[1] part of the Anti-Money Laundering Act of 2020 (AML Act), which was enacted into law as a piece of the National Defense Authorization Act for Fiscal Year 2021.[2] While we appreciate the time and effort you have put into the implementation of this critical law, we have concerns that this proposed rule strays from congressional intent and erects unnecessary and costly barriers to accessing beneficial ownership information (BOI) that risk undermining the utility of the beneficial ownership directory. We encourage you to revise the rule to ensure it tracks closer to the text of the statute, remove excessive barriers to accessing the directory by authorized recipients, and enhance the utility of the directory.

Enacted at the end of the 116th Congress, the CTA is the product of a sensitive and painstaking legislative process, and its passage represents perhaps the most important anti-money laundering reform in 2 decades. "For years, experts routinely ranked anonymous shell companies—where the true, 'beneficial' owners are un-

[1] William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116–283, §§ 6401–6403, 134 Stat. 3388, 4604–4625.
[2] §§ 6001–6511, 134 Stat. at 4547–4633.

known—as the biggest weakness in our anti-money laundering safeguards."[3] The CTA directly tackled this problem by requiring FinCEN to create a national directory of beneficial owners of companies within the United States,[4] bolstering our nation's efforts to combat "money laundering, the financing of terrorism, proliferation finance, tax evasion, human and drug trafficking, sanctions evasion, and other financial crimes."[5] Despite its legislative success, this achievement can only be realized if the system works in practice. To that end, we offer the following recommendations.

Access and Use

State, Local, and Tribal Law Enforcement

While we appreciate that the proposed rule aligns with congressional intent by ensuring that law enforcement is defined to include the enforcement of both civil and criminal law,[6] we have concerns that the proposed access procedures for State, local, and Tribal (SLT) law enforcement create excessive and costly barriers that were considered and rejected by Congress before enactment of the CTA. As drafted, the proposed rule would require SLT law enforcement to obtain "a court order" before requesting BOI from FinCEN.[7] Lawmakers debated such a requirement,[8] but Congress ultimately rejected that language in favor of granting access to any "State, local, or Tribal law enforcement agency, if a court of competent jurisdiction, including any officer of such a court, has authorized the law enforcement agency to seek the information in a criminal or civil investigation."[9] Legislators were clear that, while approval from a "'Court of competent jurisdiction,' for purposes of this measure," required sign-off from a lawyer, it was not limited to a court order from a judge—but rather encompassed authorization from "an officer of such a court such as a judge, magistrate, or a Clerk of Courts."[10] The final rule should hew to congressional intent in this regard.

We also have concerns that the proposed rule deviates from congressional intent by requiring SLT law enforcement agencies to file additional information with FinCEN after obtaining authorization from a court of competent jurisdiction that needlessly risks complicating and slowing investigations.[11] Moreover, asking FinCEN to collect and manually review extra information from SLT law enforcement agencies that was not mandated by the statute is likely to overwhelm FinCEN's capacities, thereby undermining the usefulness of the directory and conflicting with the clear purpose of the CTA. As such, we request that the final rule remove these additional barriers to accessing the directory.

Additionally, we recommend amending the proposed 31 CFR § 1010.955(b)(2) to ensure the ability to use BOI in court cases following the conclusion of any related investigation.[12]

Financial Institutions

As drafted, this proposed rule risks impeding financial institutions' timely access to the beneficial ownership directory. Once the database is live, financial institutions across the country will immediately begin requesting access to BOI for the 32 mil-

[3] Press Release, Ian Gary, Executive Director, FACT Coalition, Landmark Bill Ending Anonymous U.S. Companies Is Enacted (January 1, 2021), *https://thefactcoalition.org/landmark-bill-ending-anonymous-u-s-companies-is-enacted.*
[4] § 6403, 134 Stat. at 4605–4625.
[5] H.R. Rep. No. 116–617, at 2139 (2020) (Conf. Rep.).
[6] *See* Beneficial Ownership Information Access and Safeguards, and Use of FinCEN Identifiers for Entities, 87 Fed. Reg. 77404, 77454 (proposed December 16, 2022) (to be codified at 31 CFR pt. 1010).
[7] 87 Fed. Reg. at 77456.
[8] For example, the House Financial Services Committee considered and rejected an amendment seeking to require State, local, and Tribal agencies to obtain a "court-issued subpoena or warrant" before accessing the beneficial ownership directory. *Corporate Transparency Act of 2019: Markup of H.R. 2513 Before the House Committee on Financial Services,* 116th Congress (June 11, 2019) ("An amendment offered by Mr. Davidson, no. 2d, was NOT AGREED TO by a record vote of 25 ayes and 29 nays."), *https://democrats-financialservices.house.gov/events/eventsingle.aspx?EventID=403829.*
[9] 31 U.S.C. § 5336(c)(2)(B)(i)(II). Congress's decision to allow clerks to approve access should be viewed as a one-off, due to the relative insensitivity of this business data, and should not be viewed as congressional approval for court clerks to be able to authorize access to more intrusive surveillance authorities for which authorization has been traditionally entrusted to judges.
[10] H.R. Rep. No. 116–617, at 2140 (2020)(Conf. Rep.).
[11] 87 Fed. Reg. at 77456.
[12] 87 Fed. Reg. at 77454.

lion reporting companies in the country.[13] It is essential that FinCEN establish an automated process (ideally one that integrates with existing compliance systems at financial institutions) for fielding and responding to these requests. If FinCEN manually reviews every request from each financial institution, it risks overwhelming the capacity of the agency, generating major delays in the financial system, and undermining the utility of the directory.

We also urge FinCEN to clarify in the final rule that financial institutions are not expected to affirmatively obtain new consent from an existing reporting company customer each time a financial institution needs to query the directory for information on such customer—assuming the customer previously provided the financial institution with its consent to request BOI from FinCEN.

Finally, the proposed rule deviates from congressional intent by inappropriately restricting financial institution access to and use of BOI.[14] The current proposal could be read to forbid financial institutions from accessing the directory to assist with most of their Bank Secrecy Act, anti-fraud, and sanctions screening requirements. Congress intended that the directory be "highly useful" to financial institutions, among other authorized users, and the CTA explicitly contemplates that financial institutions will incorporate BOI into their AML/CFT programs.[15] Further, Congress was clear that the purpose of the legislation was to combat the abuse of anonymous companies writ large, including their use in sanctions evasion, financial fraud, and myriad other illicit activity.[16] Since enactment, Vladimir Putin's invasion of Ukraine has only amplified the importance of the CTA, especially with regards to sanctions enforcement. While this proposed rule would provide national security, law enforcement, and intelligence agencies with critical information to aid federal implementation of sanctions against Putin and his oligarchs, financial institutions may continue to struggle to screen customers against sanctions lists if they are forbidden from accessing the BOI directory for that purpose. This undermines the law and should be changed.

Treasury OIG and GAO

The draft rule drifts from the statute by failing to provide explicit access to two key bodies tasked with conducting congressionally-mandated audits, studies, and investigations regarding the beneficial ownership directory: the Department of the Treasury's Office of Inspector General (OIG) and the Comptroller General of the United States.

The Inspector General and OIG staff are mandated with "official duties" by the CTA to field complaints and comments regarding the beneficial ownership directory, conduct investigations related to such complaints and comments or with regard to any cybersecurity breaches of the directory, and submit reports to Congress summarizing such complaints and comments, detailing the findings of such investigations, and providing critical policy recommendations.[17] The proposed 31 CFR § 1010.955(b)(5) would authorize the Secretary of the Treasury to provide access to any "officers and employees of the Department of the Treasury whose official duties the Secretary determines require such inspection or disclosure."[18] However, the proposed rule does not explicitly address the unique role of the Inspector General, potentially causing confusion. As such, we encourage you to update the rule to provide explicit access for OIG in accordance with the statute.

Further, the AML Act instructs the Comptroller General of the United States and employees of the Government Accountability Office (GAO) with conducting multiple audits and studies related to the beneficial ownership directory.[19] Congress clearly intended for Treasury to grant the Comptroller General and GAO employees access to the directory for their official duties related to these audits and studies, but the proposed rule includes no mention of either the Comptroller General or GAO. We urge you to clarify appropriate Comptroller General and GAO access in the final rule.

Verification

We are concerned that the proposed rule does not implement the congressional mandate that FinCEN ensure that beneficial ownership information reported to FinCEN

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[13] *See* 87 Fed. Reg. at 77408.
[14] *See* 87 Fed. Reg. at 77415.
[15] §§ 6402(6)(B), 6402(8)(C), 6403(d)(l)(B), 134 Stat. at 4605, 4624.
[16] § 6402, 134 Stat. at 4604–4605; H.R. Rep. No. 116–617, at 2139 (2020) (Conf. Rep.).
[17] 31 U.S.C. § 5336(c)(5)(A), 5336(h)(4)–(5).
[18] 87 Fed. Reg. at 77454.
[19] *See* 31 U.S.C. § 5336(c)(I0); § 6502, 134 Stat. at 4626–4628.

be accurate, complete, and highly useful by implementing appropriate verification mechanisms. We urge you to ensure any final rule and the processes pursuant to which BOI is collected and maintained include verification.

In drafting the CTA, Congress was aware of deficiencies limiting the utility of the information collected by certain foreign beneficial ownership directories which did not verify reported information.[20] As such, Congress explicitly stated that one of the purposes of the CTA was to "bring the United States into compliance with international anti-money laundering and countering the financing of terrorism standards;"[21] such standards define "accurate" BOI as "information, which has been verified to confirm its accuracy by verifying the identity and status of the beneficial owner using reliable, independently sourced/obtained documents, data or information."[22] Accordingly, the statute requires Treasury, on its own and coordinating with other relevant federal, state, and tribal agencies, to implement BOI verification mechanisms.[23]

Moreover, it is critical that this verification process be automated and built into the BOI reporting process. If FinCEN were to manually verify every submission of BOI, it risks overwhelming the capacity of the agency, generating major inefficiencies for reporting companies, and delaying access to accurate, complete, and highly useful BOI for authorized recipients.

Outreach, Templates, and Step-by-Step Guides

As you move forward with the implementation of the CTA, we urge you to create clear, concise templates and forms for requesting and accessing the BOI directory tailored to each type of authorized recipient. We also encourage FinCEN to create clear and concise training videos and step-by-step guides tailored to each type of authorized recipient of BOI explaining in plain language how to go about requesting and accessing BOI information from FinCEN. The CTA will only achieve its goals if appropriate users know how to access BOI and feel confident in their ability to access the directory within the confines of the law.

We commend FinCEN for your work to implement this historic legislation. Pending consideration of our feedback, we look forward to the swift implementation of the beneficial ownership information directory.

Sincerely,

Sheldon Whitehouse
U.S. Senator

Charles E. Grassley
U.S. Senator

Ron Wyden
U.S. Senator

Marco Rubio
U.S. Senator

Elizabeth Warren
U.S. Senator

CC: The Honorable Janet Yellen, U.S. Secretary of the Treasury

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

This morning the Finance Committee welcomes Treasury Secretary Janet Yellen for a hearing on the President's budget proposal.

Everyone here, regardless of political stripe, understands that the FDIC, the Fed, and the Treasury Department are putting in long hours to contain the fallout of the recent bank closures. The process is moving forward under existing law.

Investigations are underway at the SEC and Department of Justice. Senator Brown, chair of the Banking Committee and a valued member of this committee, is determined to get to the bottom of exactly what went wrong.

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[20] *See, e.g., Curbing Corruption Through Corporate Transparency and Collaboration: The British Model: Briefing of the Commission on Security and Cooperation in Europe,* 116th Congress (May 29, 2019).

[21] § 1A6402(5)(E), 134 Stat. at 4604–4605.

[22] FATF, International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation, at 94 (2023), *https://cfatf-gafic.org/home-test/english-documents/cfatf-resources/14728-fatf-recommendations-2012-updated-october-2020/file.*

[23] 31 U.S.C. §§ 5336(d)(1)–(2).

Nerves are frayed at the moment. One of the most important steps the Congress can take now is make sure there are no questions about the full faith and credit of the United States. That means paying the bills incurred by Presidents of both parties and taking a default off the table.

With respect to the budget debate, after a request from me and Senator Whitehouse, the nonpartisan Congressional Budget Office did the math on the recent fiscal promises we've heard from House Republicans. Those promises are piling up, but their numbers aren't adding up. They want to balance the budget in 10 years, but they've announced a long list of untouchables. No reductions in defense spending. No cuts to Medicare or Social Security. No touching veterans' programs. No asking the wealthy or corporations to pay a penny more in taxes. A couple of those items would get bipartisan support, but certainly not all of them.

Senator Whitehouse and I asked the CBO to run the numbers. Is it even possible for Republicans to stand by all those commitments? Does the math add up? The short answer is "no." Not even close.

What CBO found is that for Republicans to make the math work, they would have to cut every other Federal program by 86 percent. Goodbye to Medicaid and the guarantee of nursing home coverage. The border would be unprotected. Roads and bridges would crumble back into the stone age. And if Republicans also want to extend the Trump tax law, then you'd have to cut everything else. Gone.

Given that, it's not a big mystery why House Republicans haven't yet put a budget on paper to show to the American people. They're living way out in la-la land.

Democrats are following a smarter approach. The President has put out a budget that's based on a simple proposition: helping working families and the middle class get ahead and reducing the deficit at the same time are not mutually exclusive.

There are a few budget items I want to highlight that are relevant to the Treasury.

First, last week this committee held an excellent hearing on the affordable housing crisis. That's an area where I believe there's a clear opportunity for bipartisan cooperation in this Congress. The budget proposes expanding the Low-Income Housing Tax Credit and creating the Neighborhood Homes Tax Credit, among other ideas. Senator Cantwell, Senator Cardin, and Senator Young are championing our efforts here. I'm going to continue to work with them on these proposals and more. This crisis needs a solution, and there's no substitute for increasing the supply of affordable housing.

Second, the budget calls for expanding two of the most significant sources of support for working people and families: the Child Tax Credit and the Earned Income Tax Credit. When the Congress passed those expansions in 2021, there were huge, almost immediate reductions in poverty. With a little financial relief, millions of working Americans felt like they could finally breathe for the first time in a long time. I'd like for them to have that feeling of relief once again.

And third, I've talked for a long time about the need to address the basic unfairness of our two-tiered tax system. There's one set of rules for people who work for a living—teachers, nurses, and firefighters—who pay taxes straight out of every paycheck. Then there's another set of rules for the uber-wealthy, who can pay what they want, when they want, and potentially nothing at all. Although the President and I have proposed slightly different ideas for addressing this unfairness, it's clear we're rowing in the same direction.

One final issue before I wrap up. I've got serious concerns about the approach the administration has taken to implementing the portion of the Inflation Reduction Act that deals with sourcing critical minerals. Free trade agreements cannot be unilaterally decided by the executive branch. They require consultation and consent from Congress. That includes any agreements on critical minerals.

I want to thank Secretary Yellen for joining the committee today.

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

Chairman Wyden, Ranking Member Crapo, and members of the committee, thank you for inviting me here today.

I'd like to begin with an update on the recent developments in the banking system. This week, the government took decisive and forceful actions to strengthen public confidence in our banking system.

First, we worked with the Federal Reserve and FDIC to protect all depositors of the two failed banks. On Monday morning, customers were able to access all of the money in their deposit accounts so they could make payroll and pay the bills. Shareholders and debt holders are not being protected by the government. Importantly, no taxpayer money is being used or put at risk with this action. Deposit protection is provided by the Deposit Insurance Fund, which is funded by fees on banks. Second, the Federal Reserve is providing additional support to the banking system with a new lending facility. This will help financial institutions meet the needs of all of their depositors.

I can reassure the members of the committee that our banking system remains sound, and that Americans can feel confident that their deposits will be there when they need them. This week's actions demonstrate our resolute commitment to ensure that depositors' savings remain safe.

Now, let me turn to the topic of this hearing: the President's Fiscal Year 2024 budget.

Over the past 2 years, the United States has experienced a historic economic recovery. In January 2021, our country was in the middle of an economic calamity triggered by the coronavirus pandemic. But Congress and the President took decisive action through the American Rescue Plan and our vaccination campaign. Today, our unemployment rate is near historic lows. And we've seen the strongest 2 years of business creation in history.

Now our task is to navigate our economy's transition from rapid recovery to sustainable growth. This includes bringing down inflation. We have seen some moderation in headline inflation, but more work needs to be done. Our administration will continue to build on the actions we've taken to expand supply and provide cost relief in areas like energy and health care.

With your partnership, we've also laid a foundation for long-term economic growth. In just the past 2 years alone, Congress passed three transformational laws: a generational investment in infrastructure; a historic expansion of American semiconductor manufacturing; and the largest investment in clean energy in our Nation's history.

A strategic priority for our administration this year is to work with you to effectively implement these laws. We are seeing the early results. In just 7 months, there's been a wave of investments in clean energy manufacturing across the country. And our new resources for the IRS are already paying off. Taxpayers are getting drastically improved customer service this year. For example, we've answered hundreds of thousands more phone calls during this filing season than at this time last year.

Our proposed budget builds on our economic progress by making smart, fiscally responsible investments. These investments would be more than fully paid for by requiring corporations and the wealthiest to pay their fair share. Fiscal discipline remains a central priority in our budget. We've proposed a minimum income tax of 25 percent on taxpayers with wealth in excess of $100 million. We've also proposed an increase of the corporate tax rate to 28 percent from the current 21 percent. And it will come as no surprise that I hope Congress will implement the United States' part of the global minimum tax deal.

On the spending side, we suggest additional investments to boost our long-term growth potential. This includes improving the availability of high-quality child care, providing free and universal pre-school, and boosting the supply of affordable housing. We also propose restoring the Child Tax Credit and Earned Income Tax Credit expansions that were enacted in 2021 but have since expired. Importantly, with the proposed tax reforms, we estimate that this budget will deliver deficit reduction of nearly $3 trillion over the next 10 years.

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. President Biden is absolutely right when he says that the tax system in America is deeply unfair. There's one set of rules that apply to workers who pay out of every paycheck and there's another set of rules that lets billionaires pay what they want, when they want. I am glad to see the President agrees that we need to put an end to two tax codes and has built on my Billionaires Income Tax with his own tax on billionaires.

The administration's analysis found the top 400 billionaires paid just 8.2 percent in tax on average.

How does the current tax system allow billionaires to pay so little in tax, and how do proposals like mine and the President's billionaires proposals make billionaires finally pay their fair share?

Answer. Under current law, some of the wealthiest Americans pay very little tax because they receive their income as capital gains, which are not taxed until realized and may escape income taxation entirely at death.

The President's budget would impose a minimum tax of 25 percent on total income, inclusive of unrealized capital gains. It would apply to the wealthiest 0.01 percent, taxpayers with more than $100 million in wealth. This proposal would put an end to the situation that exists today, in which wealthy households borrow against their wealth and use that borrowed money to finance a lavish lifestyle while at the same time reporting that their wealth generates little income for tax purposes.

Your proposal for a billionaires income tax would address the same root problem using a different approach: marking-to-market the value of publicly traded assets every year and imposing a deferral charge on other assets. It would also put an end to the problem of wealthy taxpayers with large investment gains reporting little income for tax purposes.

Question. President Biden has put out a budget that reduces the deficit by nearly $3 trillion. Meanwhile Republicans continue to push to make Trump's 2017 tax cut for the rich permanent, which would only add to the deficit over time.

How much would making the 2017 tax law permanent add to the deficit, and what percentage of the tax cuts would go to just the top 1 percent of households?

Answer. The Congressional Budget Office estimates that making permanent the individual and estate tax provisions of the TCJA would cost $2.6 trillion over the next decade. According to the Tax Policy Center, about one-fifth of the individual and estate tax cuts would go to the top 1 percent.

QUESTIONS SUBMITTED BY HON. MIKE CRAPO

Question. When outstanding debt was approaching the statutory limit of $31.4 trillion in January, you told Congress that Treasury was "not currently able to provide an estimate of how long extraordinary measures will enable us to continue to pay the government's obligations." Since that time, the non-partisan Congressional Budget Office (CBO) has estimated how long the government can pay the bills and projected the X-Date between July and September 2023. Private forecasters have concurred, but note the uncertainly in tax revenue, such as filings in April.

When will Treasury be able to provide a more accurate X-Date range to Congress?

Answer. I wrote to congressional leaders on January 13, 2023 and communicated that although the period of time that extraordinary measures would last is subject to considerable uncertainty, it was "unlikely that cash and extraordinary measures [would] be exhausted before early June."[1] When the government reached the debt limit on January 19, 2023, Treasury sent a further notification to congressional

[1] *https://home.treasury.gov/system/files/136/Debt-Limit-Letter-to-Congress-McCarthy-20230113.pdf.*

leaders [2] and also posted online a detailed description of the extraordinary measures Treasury was considering using during the debt limit impasse.[3]

Treasury committed to keep Congress informed as we approached the exhaustion of our resources, and we sent letters to congressional leaders on May 1st, May 15th, May 22nd, and May 26th underscoring the importance of raising or suspending the debt limit by early June. Debt limit projections from other organizations were generally consistent with Treasury's estimates.

Treasury's estimates were based on data and projections regarding Federal receipts, outlays, and debt. As early June approached, Treasury posted online detailed information regarding outstanding debt subject to the limit and the amounts of remaining extraordinary resources.[4] This information was in addition to the Daily Treasury Statement, which provides information on Treasury's cash and debt operations for the Federal Government.[5] As the information shows, by June 1st, Treasury's cash balance had fallen below $23 billion, indicating considerable risks to the Federal Government's ability to continue to satisfy all of its obligations, and available resources continued to decline over the following days.

Question. President Biden pledged that no American earning less than $400,000 would see any of their taxes increase while he is President. During your testimony to the Finance Committee, Senator Young asked you to provide a list of TCJA tax rates or other provisions, that if allowed to sunset after 2025, would increase taxes on taxpayers earning less than $400,000 a year, in violation of the President's pledge. In your response to Senator Young, you stated, "I don't know that I can provide you with that. . . . I think that it is a very complex exercise, and I'm not sure."

If Congress is to engage in sincere discussions with the President and his team about these important provisions, and take him at his word about the clear red line he has issued publicly many times when it comes to Americans earning less than $400,000, then it is essential that members of Congress on both sides have a clear understanding of exactly where the President's red line exists when it comes to all expiring TCJA rates and provisions. Understanding there may be complexities involved makes it even more essential that Congress can receive clarity from you on how the administration views each and every one of these TCJA provisions with regard to the President's pledge.

Please provide a list of TCJA tax rate or other provisions that if allowed to sunset after 2025 would increase taxes on taxpayers earning less than $400,000 a year, in violation of the President's pledge.

Answer. The TCJA is a complex piece of legislation with many interrelated parts, including both gross tax increases and tax cuts. The net effect of the expiring provisions on a household depends on how all expiring provisions are addressed. The President will work with the Congress to address the 2025 expiration of portions of the TCJA, and focus tax policy on rewarding work not wealth, based on the following guiding principles. The President:

- Opposes increasing taxes on people earning less than $400,000 and supports cutting taxes for working people and families with children to give them more breathing room;
- Opposes cutting taxes for the wealthy—either extending tax cuts for the wealthy or bringing back tax breaks that would benefit the wealthy; and
- Supports additional reforms to ensure that wealthy people and big corporations pay their fair share, so that America pays for the continuation of tax cuts for people earning less than $400,000 in a fiscally responsible manner and address the problematic sunsets created by President Trump and congressional Republicans.

Question. In testimony to the House Committee on Ways and Means, you stated that "the European Union has adopted it [meaning, the Pillar 2 regime] and other

[2] *https://home.treasury.gov/system/files/136/Debt-Limit-Letter-to-Congress-20230119-McCarthy.pdf.*
[3] *https://home.treasury.gov/system/files/136/Description_Extraordinary_Measures-2023_01_19.pdf.*
[4] *See, e.g., https://home.treasury.gov/system/files/136/Daily-Debt-Subject-to-Limit-Activity-2023-May-02.pdf, https://home.treasury.gov/system/files/136/Daily-Debt-Subject-Limit-Activity-2023_05_05.pdf, https://home.treasury.gov/system/files/136/Daily-Debt-Subject-to-Limit-Activity-2023-05-12.pdf.*
[5] *https://www.fiscal.treasury.gov/reports-statements/dts.*

countries are moving forward—Japan, the United Kingdom, Singapore—many countries are going forward with this so the issue of our going first and will others follow no longer exists.'' Yet, your proposal to apply the Under-Taxed Profits Rule, or UTPR, follows a conventional revenue estimating methodology that looks at whether other countries have adopted the Pillar 2 rules into domestic law. The result is a more than half a trillion dollar revenue estimate of imposing a UTPR because other countries have not officially adopted the Pillar 2 rules into law.

To confirm, does your UTPR revenue estimate assume that no other country has implemented the Pillar 2 regime?

However, if other countries are moving forward with implementing Pillar 2, as you have indicated they are, is the UTPR revenue that actually could be collected by the U.S. much less than what you have included in your revenue estimate?

Answer. The revenue estimate for the UTPR was done following longstanding revenue estimating conventions and is consistent with the policies of foreign countries at a given point in time. The estimate would change as foreign countries enact Pillar 2.

Question. In response to last year's questions for the record (QFRs), you responded that Treasury has briefed members of Congress and their staff numerous times on the OECD agreement and that there has been meaningful consultation. In reality, you have briefed Senate Finance members only once—in 2021—on the OECD agreement and there has been no meaningful consultation. Treasury has also repeatedly declined to answer our questions regarding the revenue effect of the agreement, the impact on American companies and U.S. tax incentives, like the research and development tax credit, and the treaty implications of the agreement. The lack of transparency and consultation with Congress is particularly concerning given the assurances Treasury has made to other countries that the U.S. will implement the agreement. Treasury would be wise to remember that Congress has sole tax-writing authority, not the administration.

Please provide the dates that Treasury has formally briefed members of Congress, as well as congressional staff members.

Answer. Congressional input on the OECD agreement continues to be a priority for Treasury. Our Office of Tax Policy staff has briefed congressional staff on a bipartisan, bicameral basis throughout the negotiations on the agreement. Congressional input has been valuable in developing our negotiating positions and is ultimately reflected in the substance of the current agreement.

Question. Will you commit to formally briefing Senate Finance members at least quarterly on OECD negotiations?

Answer. My tax policy staff would be pleased to brief members on the OECD negotiations when invited to do so.

Questions Submitted by Hon. John Barrasso

Question. The Green Book proposals contain numerous provisions targeting fossil fuels production. With roughly $100 billion in total tax increases on energy production, $31 billion falls squarely on domestic production. The vast majority of which is cost recovery including: expensing for intangible drilling costs, depletion, geological and geophysical amortization, etc. Furthermore, the FY 2024 tax proposals says that ''. . . oil, gas, and coal tax preferences distort markets by encouraging more investment in the fossil fuel sector than would occur under a neutral system.''

Is this an admission that the administration is intentionally aiming to limit investment in domestic energy production of oil, gas, and coal? Has the administration given consideration to the impact that this could have on energy prices and job creation, particularly workers in the energy sector? Does the administration believe that less production of energy is a positive for American families and our allies around the world? Would taxpayers, or royalty owners, that makes less than $400,000 be impacted, including through higher effective tax rates, from some of these repeals?

Answer. The President's FY 2024 budget proposes to eliminate certain special tax preferences for fossil fuel industries. As the Green Book emphasizes, those special subsidies are detrimental to long-term energy security and inconsistent with the administration's policy of supporting a clean energy economy, reducing our reliance on oil, and reducing greenhouse gas emissions. By contrast, the investments made in clean energy industries in the Inflation Reduction Act will reduce energy costs for families, strengthen our energy and national security, reduce harmful emissions, and create jobs and economic opportunity.

Question. The Green Book proposals include the repeal of stepped-up basis as well as other changes to capital gains, estate, and gift taxation. The changes proposed create what would be a new "supercharged death tax."

Does the administration have any concerns that echo those of the small business community and family-owned farms and ranch operations regarding the forced sale of assets, massive complexity, and high tax burdens? Does the administration have specific language to ensure that family businesses will be protected? How complex might those proposals be?

Answer. The stepped-up basis loophole allows some investment gains to escape income taxation forever. The proposal to reform the taxation of capital income in the President's budget would address this loophole and also tax capital income for high-income earners at ordinary rates, ensuring more equal treatment of labor and capital income.

The proposal would exclude any gain on tangible personal property (excluding collectibles). The $250,000 per-person exclusion under current law for capital gain on a principal residence would apply to all residences and would be portable to the decedent's surviving spouse, making the exclusion effectively $500,000 per couple. Finally, the exclusion under current law for capital gain on certain small business stock would also apply.

In addition to the above exclusions, the proposal would allow a $5 million per-donor exclusion from recognition of other unrealized capital gains on property transferred by gift during life. This exclusion would apply only to unrealized appreciation on gifts to the extent that the donor's cumulative total of lifetime gifts exceeds the basic exclusion amount in effect at the time of the gift. In addition, the proposal would allow any remaining portion of the $5 million exclusion that has not been used during life as an exclusion from recognition of other unrealized capital gains on property transferred by reason of death. This exclusion would be portable to the decedent's surviving spouse under the same rules that apply to portability for estate and gift tax purposes (resulting in a married couple having an aggregate $10 million exclusion) and would be indexed for inflation after 2023.

The proposal also includes several deferral elections. Taxpayers could elect not to recognize unrealized appreciation of certain family-owned and -operated businesses until the interest in the business is sold or the business ceases to be family-owned and -operated. Furthermore, the proposal would allow a 15-year fixed-rate payment plan for the tax on appreciated assets transferred at death, other than liquid assets such as publicly traded financial assets and other than businesses for which the deferral election is made.

Question. There are many families who typically make far below $400,000 each year, absent a one-time life event, like the death of a parent.

Would a middle-class family in that situation, who has a one-time windfall, be subject to the repeal of stepped-up basis, capital gains rates of 39.6 percent (before other additional surtaxes are included), and a taxable event from the loss of a family member?

Answer. The proposal to treat transfers of appreciated property by gift or on death as realization events would only apply to donors that have more than $5 million of untaxed investment gains per donor (*i.e.,* more than $10 million of untaxed investments for a married couple). The proposal to tax capital income at ordinary rates only applies to taxpayers with income in excess of $1 million.

Question. Starting in 2022, a stricter interest expense limitation (163(j)) went into effect that essentially acts as a tax on job creating investments. In fact, a recent study shows that a failure to reverse this stricter limit on interest deductibility could cost the economy nearly half a million jobs. This is also a competitiveness issue in that the U.S. is a global outlier in the tax treatment of interest expense.

Will the administration support reversing this harmful policy in order to help ensure America remains a welcome home for job creating investments?

Answer. Under section 163(j), which was enacted as part of the Tax Cuts and Jobs Act (TCJA), most large businesses' net interest expense deductions are limited to 30 percent of their "adjusted taxable income." Under the TCJA, adjusted taxable income was initially based on earnings before interest, tax, depreciation, and amortization (EBITDA), but for taxable years beginning on or after January 1, 2022, adjusted taxable income is based on earnings before interest and tax (EBIT).[6]

Because this stricter interest expense limitation is required by statute, it can only be changed by congressional action.

The Treasury stands ready to work with Congress on this topic and to implement any legislation that is enacted.

Question. The previous administration had taken the position that our current GILTI regime should be deemed compliant with the OECD agreement. In 2021, Treasury abandoned this posture.

Why was the change in America's interest, and what, if anything, did we get in exchange?

Answer. There was never any agreement at the OECD that our current GILTI regime would be treated as compliant with the Pillar 2 framework; rather the agreement ensures that taxes paid under our current GILTI regime will be taken into account in determining whether the income of U.S. subsidiaries is subject to a minimum rate of tax. Pillar 2 serves the important goal of leveling the playing field for U.S. businesses, while also protecting U.S. workers and middle-class families by ending the race to the bottom in corporate tax rates. It will create a system under which foreign corporations will face minimum taxes wherever they do business, just like U.S. businesses do today. By leveling the playing field, it will create a system in which U.S. businesses will be more competitive than they are now.

Question. Despite having negotiated for a minimum tax of 15 percent, the Green Book proposes that U.S. companies must pay 21 percent, not including technical aspects of the foreign tax credit regime that pushes the rate to more than 22 percent. Treasury has held the position when asked this question that having a global minimum tax would be a better situation for U.S. companies than what we have now. But in talking to taxpayers affected by the proposal, it's clear they don't see it that way—they see the administration proposing a regime that uniquely disadvantages U.S. companies and the workers they employ. They would much prefer the current system to the one you have proposed.

If you claim that the rest of the world is finally catching up to the U.S., why would Treasury suddenly propose higher tax rates for U.S. companies compared to their foreign competitors, along with more punitive rules, when foreign countries finally move closer to adopting a global minimum tax structure? Additionally, what percentage of the revenue collected in a Pillar 2 minimum tax regime would be collected from U.S. companies by foreign jurisdictions?

Answer. U.S. companies are currently subject to a minimum tax regime that their foreign competitors are not, and despite that difference, the United States remains a desirable jurisdiction in which to operate, and U.S. businesses thrive. We have confidence that under the proposals in the administration's Green Book, when combined with the worldwide adoption of the OECD framework, U.S. businesses will be better off than they are currently.

Treasury revenue estimates are done following long-standing revenue estimating conventions and are consistent with the policies of foreign countries at a given point in time. When another jurisdiction adopts the UTPR, our UTPR proposal would ensure that the U.S. collects its share of the tax revenue. Taken together our UTPR proposal combined with our reformed GILTI proposal minimize the potential for foreign jurisdictions to collect Pillar 2 minimum tax from U.S. companies.

Question. The Green Book Proposes to increase the corporate rate from 21 percent to 28 percent. This is in addition to the recently enacted corporate alternative minimum tax. The previous rate was 35 percent, the highest in the OECD. Moving away from a 35-percent rate put the United States in the middle of the pack in terms of both statutory rate and average effective tax rate. Combined with State corporate income tax rates, this proposal to increase the rate to 28 percent would put the United States at the top of OECD once again.

Has the administration considered what this might do to competitiveness, as well as its impact on workers and wages? Additionally, has the administration considered the impact it might have on small businesses, considering the fact that the vast majority of corporations are actually smaller, main street businesses?

[6] 26 U.S.C. § 163(j)(8)(A)(v).

Answer. The administration's revenue proposals would ensure that the wealthy and large corporations pay their fair share and, in doing so, fully pay for the investments proposed in the President's budget while generating $2.6 trillion in additional deficit reduction over the next decade. In 2019, the most recent year for which data is available, active corporations other than those filing Forms 1120S, 1120–REIT, and 1120–RIC with business receipts of $1 billion or more accounted for more than all of the net income reported by such corporations regardless of the size of their business receipts.

Moreover, raising the corporate income tax rate is an administratively simple way to raise revenue to pay for the administration's fiscal priorities. A significant share of the effects of the corporate tax increase would be borne by foreign investors. A corporate tax rate increase can also increase the progressivity of the tax system and help reduce income inequality. Finally, the majority of income from capital investments in domestic C corporations is untaxed by the U.S. Government at the shareholder level, so the corporate tax is a primary mechanism for taxing such capital income.

Question. The Green Book proposes changes to the Net Investment Income Tax (NIIT) as well as increases to the Medicare payroll tax. Specifically, the Green Book would expand the base of the NIIT to apply to active pass-through business income, which is often small business income, above $400,000 and increase the NIIT and Medicare payroll tax rates from 3.8 percent to 5 percent. This proposal will hit, according to the National Federation of Independent Businesses, more than 750,000 pass-through businesses. Combined with other changes in the Green Book, as well as average State and local tax rates, small business owners would be facing marginal income tax rates of 45.4 percent and capital gains rates as high as 49.6 percent. This is far above the OECD average, which are 42.6 percent and 18.9 percent respectively. The changes to the NIIT and Medicare payroll tax alone equals $650 billion in new tax hikes. This does not even include other changes to income tax and capital gains rates.

Does the administration, especially in a time of high inflation, economic uncertainty, and rising interest rates, believe an expanded tax on small businesses will not have a drastic and adverse impact on these pass-through entities and the economy as a whole? Has the administration conducted any macroeconomic analysis of this specific proposal? If so, what were the findings?

Answer. The President's budget would extend the life of the Medicare Trust Fund by more than 25 years, through a combination of fiscally responsible tax reforms and prescription drug savings.

Active owners of pass-through businesses, including S corporations and partnerships, are treated differently for purposes of the Net Investment Income Tax (NIIT), Self-Employment Contributions Act (SECA) tax, and Federal Insurance Contributions Act (FICA) tax according to the legal form of their ownership and the legal form of the payment that they receive. While general partners and sole proprietors pay SECA tax on earnings from their businesses, S corporation owner-employees pay employment taxes on only a portion of their earnings, and limited partners often pay little or no SECA tax. Although the NIIT reflects an intention to impose the 3.8-percent tax on both earned and unearned income of high-income taxpayers, certain income, specifically distributions to S corporation shareholder-employees and distributions to limited partners who claim the statutory exclusion for limited partners, escape the combined 3.8-percent tax from FICA or SECA and the NIIT.

These inconsistencies in the treatment of pass-through business income are unfair and inefficient. They distort choice of organizational form and provide tax planning opportunities for business owners, particularly those with high incomes, to avoid paying their fair share of taxes.

Question. The World Bank and the Asian Development Bank were created to promote economic growth in developing countries and eliminate extreme poverty. Despite having access to capital and being the second largest economy in the world, China is still receiving loans and assistance from both banks. Since reaching the criteria for graduation from lending in 2016, the World Bank approved $9.6 billion in projects to China. The Asian Development Bank provided China with $10.6 billion in loans and $2.4 billion in non-sovereign commitments in China during that same time frame. When I asked Secretary of State Blinken about the Biden administration continuing to support these loans to China, he said, "on that specific question, I really have to defer to my colleagues at the Treasury Department."

Do you believe China is a developing country? Why should American taxpayers be supporting lending and financial assistance to China? Do you support ending all lending to China at the World Bank and Asian Development Bank? Is China engaging in predatory lending to developing countries while simultaneously receiving subsidized loans from the World Bank and the Asian Development Banks? What is your strategy to ensure countries that meet the graduation threshold criteria are no longer lending from the World Bank and Asian Development Bank?

Answer. We support ending all lending to China, and the U.S. Executive Directors (USEDs) at both the International Bank for Reconstruction and Development (IBRD) and Asian Development Bank (ADB) oppose all project proposals for China. I believe China meets both of those institutions' criteria for graduation, given its high per capita income, institutional capacity, and ample access to other sources of finance. There is not a formal process for graduating countries from IBRD lending, and graduation from IBRD lending is effectively voluntary. The ADB's Graduation Policy mirrors the IBRD graduation policy and assesses readiness for graduation on three factors: gross national income (GNI) per capita, market access, and institutional development. China's GNI per capita has been above the IBRD and ADB graduation threshold since 2014 and is nearing the threshold to be classified by the World Bank as a high-income country. China holds an A+ rating from the three major credit rating agencies and score scores relatively high on the World Bank's Worldwide Governance Indicators, except on the Voice and Accountability metric. China is ready for graduation by all accounts.

China is engaging in predatory lending to developing countries. That is why I have instructed our USEDs at the IBRD and ADB to call attention to China's predatory lending practices through the voice and vote of the United States on the World Bank's board of directors. In addition, I have instructed our USEDs to advocate for World Bank assistance to countries with building debt management capacity, promoting debt transparency through debt data collection and reporting, and supporting countries participating in debt relief initiatives, such as the G20 Common Framework.

World Bank Management assesses countries' readiness for graduation based on sustained per capita income about the graduation discussion income threshold, creditworthiness and access to other sources of finance, and institutional capacity. I will continue to press for transparency in assessments of graduation readiness and targeting assistance on addressing constraints to graduation. In the case of China, I will continue to work with the U.S. Executive Directors to the World Bank and ADB, as well as others in the U.S. Government to press for the PRC's graduation.

Question. Chinese firms are the largest recipients of World Bank contracts. Chinese firms won nearly a quarter of investment projects between 2016 and 2020. At the same time, numerous state-owned Chinese firms have been disqualified by the World Bank and other multilateral development banks for violating procurement policies.

What are the risks and challenges posed by the World Bank's reliance on Chinese firms for implementation of its development projects? What is the administration's plan to address this issue?

Answer. Competition with China is one of the central challenges of the 21st century, including competition with China's economic statecraft. As we have seen, supply chain diversification is an important global priority for numerous reasons. Investments from the World Bank to developing countries can help with this effort.

I will work with President Biden and Congress to continue to shore up U.S. leadership in the World Bank so that: (1) the institution offers a high-quality, sustainable alternative to borrowing from China; (2) there is an emphasis on increasing developing countries' capacity to evaluate procurement bids and contracts on the basis of quality and life cycle value-for-money; and (3) there are investments in responsible efforts at supply chain diversification. I will also continue to advocate for robust resourcing for the World Bank's Integrity Unit, so that firms and individuals found to have engaged in corruption are restricted from MDB procurement opportunities.

Question. The U.S. Department of the Treasury announced plans to end support for fossil fuels at multilateral development bank, except for exceptional circumstances.

What are the “exceptional circumstances” in which the United States would support a fossil fuel project at the World Bank? What actions has the United States taken to end World Bank support for fossil fuels?

Answer. Treasury’s fossil fuel guidance for multilateral development banks (MDBs) allows support for stand-alone investments in certain technologies such as carbon capture, use, and storage (CCUS) and methane abatement, provided these investments do not expand the capacity of the existing project or a significantly extend its operational life. The guidance also allows support for the use of natural gas and oil products for household heat generation projects, in particular clean cooking projects, if no cleaner options are feasible.

The fossil fuel guidance at the MDBs also allows narrow support for natural gas investments in midstream and downstream projects when certain criteria are met. These criteria include: (1) the availability of a credible alternatives analysis that demonstrates that there is no economically and technically feasible clean energy alternative; (2) the project has a significant positive impact on energy security, energy access, or development; and (3) the project is aligned with and supports the goals of the Paris Agreement.

The fossil fuel guidance is in addition to, and does not supersede, other U.S. policies, considerations, and legislative provisions regarding MDB projects.

The United States has supported projects that meet the guidance.

Question. At the beginning of this year, the new corporate alternative minimum tax (CAMT) has gone into effect. This has created tremendous challenges for companies doing business in the United States. The provision claws back longstanding, bipartisan provisions of the tax code designed to promote domestic investment. Further, the provision is immensely complex. One, of many, particular issues facing taxpayers is the possibility of double taxation.

How will Treasury implement the new corporate alternative minimum tax to ensure double taxation of income does not occur? Has Treasury considered transition rules so that income taxed under the traditional corporate tax rules before CAMT was enacted isn’t taxed a second time under the CAMT due to differences in timing between tax and financial statement inclusions?

Answer. Treasury has received a number of comments from stakeholders asking for various forms of transition rules for the CAMT. In addition, Treasury has released guidance, including Notice 2023–42, which provides relief from penalties for failure to make a sufficient and timely payment of estimated income tax in connection with the application of the new CAMT. Some of the requested transition rules would provide that items of income taxed under the corporate income tax rules before CAMT was enacted would be excluded from adjusted financial statement income (and therefore would not be taxed under the CAMT due to differences in timing between tax and financial statement inclusions). Notice 2023–64 provided interim guidance that clarified that timing differences between regular tax and CAMT do not give rise to duplications or omissions to be addressed by guidance, even if the timing difference originated before the effective date of the CAMT and reversed after that date. Treasury is considering all comments that are provided on this rule, and will address these comments in future guidance.

QUESTIONS SUBMITTED BY HON. MARSHA BLACKBURN

Question. Will Treasury clarify in its guidance for 48(D) the eligibility of semiconductor producers, including polysilicon manufacturers?

Answer. Earlier this year, in coordination with the Department of Commerce and the Department of Defense, Treasury and the IRS published a notice of proposed rulemaking with proposed rules to implement the section 48D investment tax credit and the special “applicable transaction” recapture rule in section 50(a)(3). The NPRM expressly requested public comment on issues like the scope of terms like “semiconductor,” and we will carefully consider public feedback and work with interagency partners before issuing final rules.

Question. Can you share with the committee the process by which the Treasury is proceeding with issuing guidance for implementing the 48D tax credit established in the CHIPS and Science Act and the timeline for when guidance will be issued?

Answer. Earlier this year, in coordination with the Department of Commerce and the Department of Defense, Treasury and the IRS published a notice of proposed rulemaking (NPRM) containing proposed rules to implement the section 48D investment tax credit and the special "applicable transaction" recapture rule in section 50(a)(3). After considering all comments received, including through the public hearing process, we will coordinate the publication of final regulations with the Department of Commerce and the Department of Defense, as required by law.

Question. When were you first notified that there were problems with Silicon Valley Bank (SVB), and when did you first alert members of Congress to the unfolding situation?

Answer. I became aware of issues at Silicon Valley Bank on Thursday, March 9th, the week of its failure. In testimony before the House Ways and Means Committee the next day, I mentioned that I was carefully monitoring developments in a few banks.

On March 12, 2023, I approved emergency systemic risk exceptions (SREs) with regard to Silicon Valley Bank and Signature Bank upon the unanimous written recommendations of both the Board of Directors of the Federal Deposit Insurance Corporation (FDIC) and the Board of Governors of the Federal Reserve System (Federal Reserve Board). I also approved the establishment of the Bank Term Funding Program (BTFP) by the Federal Reserve Board and the use of the Exchange Stabilization Fund (ESF) as a backstop for the BTFP. Pursuant to these actions, all depositors of Silicon Valley Bank and Signature Bank have been made whole, with no losses borne by the taxpayer. Shareholders and certain unsecured debtholders were not, and will not be, protected.

The SRE determinations and establishment of the BTFP were publicly announced at 6:15 p.m. on March 12th. Treasury promptly notified congressional leadership at 6:26 p.m. and scheduled a bicameral, bipartisan briefing for shortly thereafter. At 7 p.m. that evening, Treasury's Under Secretary for Domestic Finance briefed members of Congress, including committee members, on the SRE determinations. Concurrently with this briefing, the FSOC met at 7:30 p.m. to discuss developments in the banking sector and the actions taken by the FDIC, the Federal Reserve Board, and Treasury. Treasury further provided written congressional notification of the SRE determinations by letter on March 13th.

Question. How many agency staff are currently working from home? How many workers do you expect to be back full-time in the office by the end of the year?

Answer. Telework usage accordingly varies across offices and bureaus, depending on mission needs and work roles. Employees performing national security functions or engaged in the manufacturing of currency are required to maintain a significant on-site work presence, while other Treasury employees have been able to operate effectively on a hybrid schedule.

For example, approximately 2,480 personnel are assigned to DO, almost 60 percent of whom are assigned to Main Treasury (headquarters) office space. After DO issued a post-pandemic return-to-work order in May 2022, DO employees were required to telework only pursuant to an approved telework agreement, as previously required before the pandemic. The majority of DO positions allow at least some telework flexibility, however, as mentioned, certain functions, such as those that provide security or intelligence functions or maintain Treasury facilities, require in-person presence. At the direction of OPM, Treasury encourages employees in eligible positions to enter telework agreements (including situational/episodic agreements) to allow for continued operations during emergencies (including weather-related events).

While the majority of DO employees have telework agreements, Main Treasury access data shows a large number of DO employees are performing their work on-site. Treasury reviewed a recent 8-week snapshot (April 23rd through June 17th) of on-site passholders at the Main Treasury Complex. Over that period, an average of 956 passholders were on-site daily, which represents approximately 67 percent of assigned personnel.

Question. As Secretary of the Department of the Treasury ("Treasury"), you serve as chair of the Committee on Foreign Investment in the United States ("CFIUS"). In its congressional budget justification related to CFIUS, Treasury explained that:

> Treasury is responsible for leading CFIUS in establishing policies, implementing processes and functions, and managing its daily operations. Treasury participates in every aspect of CFIUS, including reviews and investigations, policy and international relations, mitigation monitoring and enforce-

ment, non-notified transaction analysis, legal support, and national security threat assessments.

Given Treasury's role in CFIUS, please answer the following questions to the degree you are able, given the restrictions on the CFIUS process.

According to recent reports, CFIUS has demanded divestiture between TikTok and ByteDance. The reports reveal that CFIUS "told TikTok that the government planned to ban the app in the U.S. if its owners didn't sell it, according to a TikTok source familiar with the situation."

Are these reports accurate?

If so, why did CFIUS decide to offer this ultimatum now?

If the reports are accurate, what considerations went into this decision?

Answer. Treasury is committed to keeping Congress informed about the activities of the committee and appreciates the interest in the acquisition of musical.ly by ByteDance Ltd. At this time, we are not in a position to discuss the substance of any engagement with the parties for a matter that is the subject of ongoing litigation and under active executive branch consideration. We intend to provide a briefing on relevant matters to members of Congress at the appropriate time.

Question. As the Treasury Secretary, you are at the forefront of ensuring that our economy is to the best extent possible. As such, if the FDIC were to guarantee full insurance on deposits, as they have with SVB, how much would Deposit Insurance Fund costs need to be raised?

What would be the total cost to insure all U.S. bank deposits?

Answer. I would refer you to the FDIC for estimates related to the costs of insurance guarantees and associated impact on the Deposit Insurance Fund. The FDIC's report on Options for Deposit Insurance Reform,[7] which was released on May 10, 2023, identifies a number of considerations put forward for analysis by the FDIC, including Deposit Insurance Fund costs, including the agency's analysis of several options for reforming the deposit insurance system.

Question. Are you aware of any conversations following the collapse of SVB where regulators told Globally Systemically Important Banks (GSIB) not to acquire SVB out of fear it could lead to GSIBs getting larger?

Answer. I would refer you to the Federal prudential bank regulators—the FDIC, Federal Reserve Board, and the Office of the Comptroller of the Currency—regarding their communications with the banks they regulate.

Question. According to *The Wall Street Journal,* TikTok issued the following statement in response to the reported CFIUS ultimatum: "Divestment doesn't solve the problem: a change in ownership would not impose any new restrictions on data flows or access." Given that (1) CFIUS is demanding TikTok divest or be banned from the United States and that (2) TikTok says divesture would not solve the perceived security risk, does this mean TikTok should be banned? Why or why not?

Answer. In the Foreign Investment Risk Review Modernization Act of 2018, Congress recognized that certain transactions may expose sensitive data of United States citizens to access by a foreign government or foreign person that may exploit such information in a manner that threatens national security. Furthermore, on September 15, 2022, the President issued Executive Order 14083 (Ensuring Robust Consideration of Evolving National Security Risks by the Committee on Foreign Investment in the United States), which underscores the risk presented by foreign adversaries' access to data of United States persons: "Data is an increasingly powerful tool for the surveillance, tracing, tracking, and targeting of individuals or groups of individuals, with potential adverse impacts on national security." As chair of the Committee on Foreign Investment in the United States, Treasury takes this risk to national security very seriously.

Treasury is committed to keeping Congress informed about the activities of the committee and appreciates the interest in the acquisition of musical.ly by ByteDance Ltd. At this time, we are not in a position to discuss the substance of any engagement with the parties for a matter that is the subject of ongoing litigation and under active executive branch consideration. We intend to provide a briefing on relevant matters to members of Congress at the appropriate time.

[7] Available at *https://www.fdic.gov/analysis/options-deposit-insurance-reforms/index.html.*

Question. In your own opinion, how can Congress improve the CFIUS process?

Answer. The Department of the Treasury is grateful for the bipartisan support from Congress in passing the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) that strengthened and modernized CFIUS. Consistent with the authority provided under FIRRMA, CFIUS is reviewing more types of transactions and in some cases requiring parties to submit transactions to CFIUS for review. CFIUS may review any transaction that could result in foreign control of a U.S. business; certain non-controlling, non-passive transactions by foreign persons in certain U.S. businesses involved in critical technology, critical infrastructure, and sensitive personal data; and transactions by foreign persons involving real estate in proximity to sensitive government facilities.

Utilizing the authorities and resources that Congress provided, CFIUS is appropriately equipped with the processes necessary to fully consider the risks to national security presented by certain foreign investments in the United States. When a transaction is identified and falls within CFIUS's statutory jurisdiction, CFIUS thoroughly considers the national security effects of each such transaction and takes appropriate action, including through legally binding and enforceable mitigation measures or a recommendation to the President for his decision regarding a transaction.

Question. Pillar 2's enforcement is via the "Under-Taxed Profits Rule" (UTPR). There has been skepticism from the tax and legal communities suggesting that the UTPR is inconsistent with our existing tax treaty obligations as well as historic international norms.

How did the U.S. Treasury conclude that this extraterritorial tax regime is consistent with the existing treaty obligations previously negotiated by the United States?

Why did Treasury choose not to pursue a multilateral instrument to resolve these questions?

If U.S.-based MNE claimed treaty protection related to UTPRs asserted by our treaty partners, would the U.S. Treasury support the U.S.-based taxpayers in these claims?

How will disputes between countries and businesses be resolved?

What protections are in place to ensure that U.S. MNEs are fairly treated during these disputes?

Answer. When developing legislative proposals that would affect the international provisions of the Internal Revenue Code, the Treasury Department takes care to closely evaluate the question of the compatibility of the proposals with the obligations of the United States under its bilateral income tax treaties. The Treasury Department has taken the same approach with the development of Pillar 2 and believes that the Pillar 2 rules are compatible with U.S. tax treaties. As a general matter, the enactment of Pillar 2 in the United States would require the passage of legislation by the Congress without the need for a multilateral instrument. Nevertheless, the Treasury Department is participating in ongoing discussions at the OECD about the possibility of a multilateral instrument that would facilitate the resolution of disputes between countries regarding the application of the Pillar 2 taxes.

QUESTIONS SUBMITTED BY HON. SHERROD BROWN

Question. One of the key objectives of the Inflation Reduction Act was to establish a robust manufacturing supply chain—in the United States—for clean energy technologies. In the past, our tax laws have allowed critical components for those technologies to be sourced outside the United States and provided a tax subsidy for those items—including in cases where foreign governments already substantially subsidize component manufacturing to the detriment of U.S. manufacturers. This is particularly true of solar modules and solar module components—which are predominantly made in China and subsidized by the Chinese Government. Congress enacted the section 45X advanced manufacturing tax credit and domestic content bonus credit to redress these inequities to U.S. manufacturers and incentivize a U.S.-based supply chain for clean energy equipment including solar modules.

As Treasury prepares regulations with respect to section 45X, will the regulations prevent companies subsidized by China or other foreign governments from profiting from these tax incentives without establishing a true U.S. supply chain? If not, why not?

Answer. Building a clean energy economy here in the United States, and reducing our reliance on China, are core goals of the Inflation Reduction Act and the administration. The IRA contains powerful incentives for manufacturing in the United States, and we are seeing its effects across the country through major new investments in solar, batteries, and other clean energy technologies. We are working on guidance on the section 45X Advanced Manufacturing Tax Credit, I assure you that our national security and energy security are paramount considerations.

Question. Section 45X provides credits for each step in the supply chain with respect to eligible components and provides that a taxpayer will be treated as having sold an eligible component to an unrelated person if such component is integrated, incorporated, or assembled into another eligible component which is sold to an unrelated person—for example, a solar manufacturer that manufacturers wafers and cells that are integrated, incorporated, or assembled into a solar module.

Will the guidance issued by Treasury confirm that a manufacturer that performs several steps of the supply chain will be entitled to the full amount of credits for each of the individual eligible components it produces—for example, credits for the wafers, the cells, and the modules?

Answer. We are working expeditiously on guidance on the section 45X credit, taking into careful consideration the hundreds of comments we have received and other public input. We understand the need to provide clarity and certainty for taxpayers to realize section 45X's powerful incentives for domestic manufacturing, consistent with congressional intent and sound tax administration.

QUESTIONS SUBMITTED BY HON. BENJAMIN L. CARDIN

Question. As you know, our tax code significantly changed as a result of the 2017 Tax Cuts and Jobs Act. One of the many negative consequences of this legislation is a provision that changed the way companies treat research and development costs. Instead of allowing companies to expense research and development costs in the same year the costs were incurred. The 2017 Tax Cuts and Jobs Act requires that R&D costs be capitalized and amortized over 5 years for domestic costs.

The TCJA change in treatment of R&D costs will cause many small businesses to incur a larger tax burden on their R&D investments in the short term. As a result of these changes coming into effect recently, I have heard from numerous small businesses that participate in the Small Business Administration's Small Business Innovation and Research program and the Small Business Technology Transfer Program expressing how detrimental the 2017 TCJA change is to their small business's ability to continue to operate and innovate. Unlike large companies, these small companies do not have the flexibility and are more susceptible to short-term cash disruptions than large companies.

How can we mitigate the impact of this change on small businesses participating in the SBIR program to ensure their continued innovation and retain their important contributions to national security?

Answer. The TCJA requires domestic R&D expenses incurred after December 31, 2021 to be amortized over 5 years instead of being immediately deductible. On September 8, 2023, Treasury and the IRS issued Notice 2023–63, which provided interim guidance to address this change in law so that businesses may file their tax returns with certainty. Treasury and the IRS intend to issue additional guidance under section 174 to address this change in law to provide additional certainty to businesses.

Question. As I have stated before at different hearings and in letters to the Department of the 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 in the 116th 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. I also appreciate your response last Congress, highlighting that a project was included to address this issue on the IRS priority guidance list.

These actions run counter to the intent of section 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.

Will you commit to working with us to complete the project listed to address this issue on the IRS priority guidance list this year? Can you provide an update on this project?

Answer. Treasury and IRS are actively working on guidance on the Inflation Reduction Act's energy efficiency incentives, including guidance under the section 179D Energy Efficient Commercial Buildings Deduction to clarify the definition of designer and other issues. In October, we released Notice 2022–48, requesting public input on the IRA's energy efficiency incentives for residential and commercial buildings, including the section 179D deduction. In December, we published Announcement 2023–1, updating the applicable reference standard used for determining the section 179D deduction. We are pleased to stay in touch with you and your staff as further guidance is issued.

Question. In 2012 in my home State of Maryland, the Bank of Eastern Shore was closed by the Maryland Commissioner of Financial Regulation and the Federal Deposit Insurance Corporation was named receiver in order to protect depositors and the public. The problem then was a lack of capital, which is quite different than the situation that we find ourselves in with Silicon Valley Bank, but the outcome is the same. A lack of faith from depositors and the need to deal with both insured and uninsured deposits.

In 2012, the FDIC stated that Eastern Shore depositors will receive full payment only for insured deposits up to $250,000 aside from certain entitlements and types of accounts that may be insured above this limit. Today, the administration is ensuring that all deposits in Silicon Valley Bank even those above $250,000 will be insured.

I appreciate the administration protecting taxpayers, instilling confidence in our banking system with these actions, and placing any cost associated with these actions on the banking community. The actions taken ensure confidence for the depositors and allow these companies to make payroll to their workers.

However, I would like to know the administration's view on what these actions mean for the future. Has Treasury considered how these actions will set a precedence for insuring deposits over $250,000 in future bank failures, including ones similar to the 2012 Maryland bank failures?

Answer. On March 12, 2023, the Secretary of the Treasury approved emergency systemic risk exceptions (SREs) with regard to Silicon Valley Bank and Signature Bank upon the unanimous written recommendations of both the Board of Directors of the Federal Deposit Insurance Corporation (FDIC) and the Board of Governors of the Federal Reserve System (Federal Reserve Board).[8] The Secretary also approved the establishment of the Bank Term Funding Program (BTFP) by the Federal Reserve Board and the use of the Exchange Stabilization Fund (ESF) as a backstop for the BTFP. Pursuant to these actions, all depositors of Silicon Valley Bank

[8] Under section 13(c) of the Federal Deposit Insurance Act, the FDIC generally must comply with the least-cost requirement when resolving a failed bank. Under the SRE authority in section 13(c)(4)(G) of the Federal Deposit Insurance Act, the FDIC is not required to comply with the least-cost requirement if, upon the written recommendation of the FDIC board and the Federal Reserve board (upon a vote of not less than two-thirds of the members of each board), the Secretary of the Treasury, in consultation with the President, determines that (1) the FDIC's compliance with the least-cost requirement with respect to an insured depository institution for which the FDIC has been appointed receiver would have serious adverse effects on economic conditions or financial stability; and (2) any action or assistance under the SRE would avoid or mitigate such adverse effects. After an SRE determination has been made, the FDIC "may take other action or provide assistance under [section 13 of the FDIA] for the purpose of winding up the insured depository institution for which the [FDIC] has been appointed receiver as necessary to avoid or mitigate such effects." 12 U.S.C. 1823(c)(4)(G)(i).

and Signature Bank have been made whole, with no losses borne by the taxpayer. Shareholders and certain unsecured debtholders were not, and will not be, protected.

The decisive actions that the Federal Government took in March 2023 to protect depositors and provide additional liquidity to the system mitigated the very serious risk of broader financial contagion in the banking system. These steps were not taken to aid specific institutions or classes of institutions. Rather, these actions were necessary to prevent the difficulties facing two specific banks from spilling over to other banks—including community banks across the country. We continue to closely monitor conditions and are prepared to take further actions if needed, including if smaller institutions suffer deposit runs that pose the risk of contagion.

Since our actions in March, the FDIC has issued a public report on Options for Deposit Insurance Reform,[9] which identifies a number of considerations with respect to options for reforming the deposit insurance system. Treasury is reviewing the FDIC's report, and consistent with our shared commitment to support the resilience of the broader financial system, we look forward to further collaboration with the FDIC, Federal Reserve, and other agencies and stakeholders to evaluate recent events and consider potential policy responses.

The economic progress that we have made over the past 2 years has been premised on the fact that communities are able to access the credit they need. Community banks have been at the forefront of this effort, as they have been for decades. The Treasury Department will continue to promote actions and policies that are supportive of a strong banking system and advance the economic well-being of the communities we serve.

QUESTIONS SUBMITTED BY HON. THOMAS R. CARPER

Question. One impactful way that the IRS can make life easier for everyday Americans is by expanding access to simplified and low-cost tax filing options.

How will recent investments in the IRS help facilitate more direct tax filing options?

Answer. It can take an average of 13 hours to file an individual income tax return and hundreds of dollars. We can and must do better. It is critical that IRS work on strategies and devote resources to make tax filing easier, simpler, and less burdensome for taxpayers. As required by the IRA, the IRS has established a Task Force to study the option of taxpayers filing their taxes directly with the IRS. The report examined the feasibility of the IRS providing a direct file service and the associated costs. It also included survey results to understand taxpayer opinion, expectations of and level of trust in an IRS direct file service, as well as user research into taxpayer interest in an IRS filing option and challenges to launching the program. Given the results of the study, Treasury directed the IRS to develop a limited scope pilot that would provide a Direct File option for some taxpayers for filing season 2024.

Question. In 2021, Congress passed the Corporate Transparency Act, which is aimed at cracking down on money laundering and terrorist financing by requiring entities to report beneficial ownership information to the Financial Crimes Enforcement Network (FinCEN). FinCEN recently promulgated regulations to implement these reporting requirements, which go into effect on January 1, 2024.

While I support FinCEN's efforts to establish a new beneficial ownership reporting regime, I am concerned States will serve as the "first line of defense" as individuals navigate this new process, fielding a significant number of questions, requests, and concerns. I believe it will be critical for FinCEN to closely coordinate with the States and provide resources to address concerns, field questions, and eliminate confusion when the regulations go into effect in January.

How does FinCEN intend to partner with the States to ensure they have the resources they need to assist with implementation?

Answer. Ensuring that all parties understand the new beneficial ownership rules is a top priority for FinCEN, and we are conducting broad outreach to a variety of stakeholder groups. With respect to States, we have had a number of discussions with Secretaries of State through the National Association of Secretaries of State

[9] Available at *https://www.fdic.gov/analysis/options-deposit-insurance-reforms/index.html.*

(NASS), including meetings with the NASS Business Services Committee and NASS corporate affiliates, and other stakeholders during the Annual Executive Strategic Planning Conference for registered agents, to share information on the new Reporting Rule and related guidance documents and to hear their questions and concerns. FinCEN has similarly engaged with the International Association of Commercial Administrators (IACA), a professional association for government administrators of business organization and secured transaction registries at the State, provincial, territorial, and national level.

FinCEN intends to continue these engagements as implementation progresses to clarify reporting requirements and educate the public. FinCEN is also planning to conduct outreach to a variety of other State and local government stakeholders that regularly interact with the public, including, for example Governors, Mayors, and State financial institution supervisors.

Question. Will FinCEN commit to providing the States with materials to help educate staff and direct individuals and small business owners to the appropriate resources?

Answer. Yes. FinCEN is working to issue guidance materials and establish a help line that will assist small business owners in filing beneficial ownership information (BOI) reports and minimize burden. Prior to the effective date of the Reporting Rule, FinCEN will publish guidance documents and materials, including a Small Entity Compliance Guide, in an effort to lessen the burden on small businesses and States by explaining in clear, plain language what small businesses need to report. FinCEN published the first of these guidance materials on March 24, 2023, which included (1) an initial set of frequently asked questions; (2) two infographics outlining the six key questions on BOI reporting and key filing dates; and (3) a video introduction to raise awareness of the BOI reporting requirement. We plan to provide further guidance materials in the form of additional frequently asked questions, infographics, and videos throughout implementation of the CTA, and to make key information available in multiple languages where possible. We also intend to conduct webinars and issue technical job aids to support reporting companies with filing their BOI reports. FinCEN is committed to assisting reporting companies through various mediums, including a contact center. The contact center will provide multiple channels of communication to support reporting companies through the beneficial ownership reporting process.

FinCEN's robust engagement strategy also includes public outreach through a number of other channels (including discussions with State agencies, professional organizations including, among others, the American Bar Association and American Institute of Certified Public Accountants, and small business organizations) as a complement to the issuance of comprehensive guidance.

Question. Will FinCEN commit to regular briefings with the States both before and after the regulations go into effect on January 1, 2024?

Answer. FinCEN will continue to have broad-based and active outreach to stakeholder groups, including relevant State agencies and associations. In addition, we would welcome any proactive outreach and ideas from our State partners to ensure the smoothest possible launch.

Question. What funding is needed from Congress to ensure States are properly equipped with the resources needed?

Answer. We appreciate the resources Congress has provided to FinCEN and are working intensively to ensure that States have comprehensive information to provide to their constituents on the beneficial ownership reporting requirements. We would defer to the States on their specific needs but look forward to continuing to work in a collaborative manner with Congress to address any additional resource needs.

Question. Over the years, Taiwan and the United States have forged close ties, with Taiwan as one of our top trading partners. Our relationship with Taiwan has never been stronger, yet our international tax policy fails to reflect the strength and importance of this relationship. With no formal income tax treaty between our two countries, Taiwanese and U.S. businesses are double-taxed, placing an undue burden on these businesses and hindering further investment opportunities.

In your view, how would an income tax agreement with Taiwan encourage economic growth and investments in both Taiwan and the United States and further deepen our ties with a trusted partner?

Answer. Taiwan is a vital trading partner with the United States. Cross-border investments between Taiwan and the United States are substantial in size. The administration is actively considering alternative approaches that could reduce tax-related barriers to cross-border investments between Taiwan and the United States.

QUESTIONS SUBMITTED BY HON. ROBERT P. CASEY, JR.

Question. The White House Task Force on Worker Organizing and Empowerment is a cross-agency body, headed by Vice President Harris, which has drawn valuable attention to the issues of workers' rights and the ways that the Federal Government can and should be working in a whole-of-government approach. In February 2022, the task force submitted over 70 recommendations to President Biden, which he approved. I fully support the work of this task force and look forward to seeing all its recommendations implemented. Implementing these recommendations so far has helped increase the number of Federal employees in a union by 20 percent, and has led to the development of economy-wide standards which will raise wages, working standards, and promote worker empowerment.

Now a year after the President approved these recommendations, the task force has released an "Update on Implementation of Approved Actions." Of the four recommendations submitted to the Department of the Treasury, one appears to be completed, one partially completed, one remains in progress, and the status of the fourth is unclear. The latter recommendation was for the Treasury to "identify and evaluate additional proposals to be included in next year's Green Book," such as "proposals to make union dues eligible for a tax credit or an above-the-line deduction" or "to deny deductions for expenses paid or incurred by employers or other taxpayers to further activities that impede or inhibit workers' efforts to organize." No proposals similar to these recommendations are included in this year's Green Book.

While I applaud Green Book recommendations to improve the Earned Income Tax Credit and the Work Opportunity Tax Credit, it is important that our tax code do more to support workers and worker organizing, especially in light of the expressed goals of this administration.

Can you provide an update on the Treasury Department's progress in implementing the Presidential recommendations from the Task Force on Worker Organizing and Empowerment?

Answer. The Treasury Department strongly supports the Worker Empowerment Task Force. The Office of Tax Policy continues to review proposals related to the Task Force's mission. In August, Treasury and the IRS issued proposed regulations detailing the prevailing wage and apprenticeship requirements of the Inflation Reduction Act.[10]

Question. Related to the previous question, how do you believe our tax code could better support worker rights, including "the right to a free and fair choice to join a union", which is the "guiding principle of the White House Task Force on Worker Organizing and Empowerment"? Can we expect proposals to this effect in the next Green Book?

Answer. The development of the revenue proposals for the next Green Book are ongoing. Treasury appreciates your leadership on this issue and will take this comment into consideration as we work to develop the next Green Book.

Question. Over the next 10 years, the Inflation Reduction Act is going to put America back at the forefront of clean energy technology and manufacturing. This once-in-a-generation investment in our climate future will create millions of well-paying jobs in manufacturing, boosting our domestic production of wind, solar, and clean vehicles. Across the Nation and around the Commonwealth, the IRA will help stimulate communities where manufacturing once thrived and support new jobs for electricians, technicians, mechanics, construction workers, steel and iron workers, and many others. This magnitude of job creation is only made possible by the domestic content credit enhancements that Congress included in this legislation. These credit enhancements will ensure that the full value of these investments are realized by an American supply chain with American workers. Companies are already beginning to plan and implement their investments in clean energy tech-

[10] Available at: *https://www.federalregister.gov/documents/2023/08/30/2023-18514/increased-credit-or-deduction-amounts-for-satisfying-certain-prevailing-wage-and-registered.*

nology, deployment, and manufacturing but require certainty around domestic content requirements.

What barriers stand in the way of Treasury issuing guidance on domestic content credit enhancements? And how can industry, Congress, and Treasury better work together to ensure swift rollout of guidance that builds the U.S. manufacturing base over the long term?

Answer. Treasury and the administration share your enthusiasm and support for the IRA's job incentives. The domestic content credit enhancements have been a top implementation priority. On May 12, 2023, the Department of the Treasury and Internal Revenue Service released initial guidance that describes rules Treasury and the IRS intend to propose relating to the domestic content bonus under the Inflation Reduction Act for clean energy projects and facilities that meet American manufacturing and sourcing requirements.

Question. Section 508 of the Rehabilitation Act of 1973 requires Federal departments and agencies to ensure that information and communication technology is accessible for people with disabilities. Over the last year, I have used my position as chairman of the Aging Committee to examine compliance with this law, and assess the accessibility of Federal technology, including Federal websites, for people with disabilities, older adults and veterans. In December 2022, I released *Unlocking the Virtual Front Door,* an investigation that found troubling examples of inaccessible technology across the Federal Government, and which issued 12 recommendations to improve accessibility. In February 2023, the Department of Justice (DOJ) responded to my calls for greater transparency of section 508 compliance, releasing data that confirmed the findings of my report.

I am concerned that people with disabilities are being locked out of government services and are not given a level playing field in Federal workplaces due to inaccessible technology at the Department of Treasury (Treasury). According to data Treasury submitted to DOJ, 82 percent of Treasury's 28,969 Internet webpages are compliant with section 508 accessibility requirements, while 74 percent of the 3,839 intranet webpages are compliant. Moreover, 25 years after section 508 was signed into law, Treasury reported that each of its program areas—acquisition, electronic information technology lifecycle activities, testing and validation, compliance process, and training—are not at the General Service Administration's (GSA) highest program maturity level. Given these concerns, please answer the following questions.

How does Treasury plan to improve section 508 compliance for its external websites, internal websites, and other electronic and information technology?

Answer. Treasury prioritizes updates to our information technology resources, balancing mission priorities with technical, operational and security requirements. As part of our normal IT investment governance practices, accessibility and 508 compliance are among the significant factors considered when prioritizing our IT investment portfolio. In addition to our ongoing governance reviews and prioritization efforts, Treasury procured a website accessibility tool (Monsido) to better manage 508 compliance for its public web presence. We are also leveraging the Social Security Administration's Open Source tool called ANDI to assist with identifying opportunities for improving the accessibility of our myTreasury intranet portal. We are presently pursuing budget proposals to further expand utilization of Monsido and considering comparable investments for our internal content management (intranet, collaboration sites, etc.)

What follows are some examples of recent enhancements to our public facing websites.

In 2021 and 2022, and on into 2023, Public Affairs staff partnered with the Office of the CIO (OCIO) in advocating for and promoting accessibility. OCIO's Digital team developed the following materials to assist policy offices in creating accessible documents: accessible document templates; accessible tables and images templates; full-length authoring documents guide; accessible document cheat-sheet/checklist; and training sessions as needed with policy office staff.

OCIO's Digital team incorporates section 508 compliance from the beginning of the public site development process and iteratively revisits 508 compliance throughout the migration of existing, and the creation of new, public facing websites. From 2020 through 2023, Digital developed several new, 508 compliant, high-profile public facing applications in support of multiple assistance programs established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, and the American Rescue Plan. In 2022 Digital also, in cooperation with the Bureau of Engraving and Printing, redesigned and migrated the *BEP.gov* website, and in cooperation with the Bureau of Fiscal Service, migrated the Treasury Financial Manual Website. In 2023, Digital, in cooperation with the Treasury Office of Terrorism and Financial Intelligence, created a new .org website for a multinational anti-terrorism task force. Digital incorporated 508 compliance into the redesign/design process for all of these aforementioned sites.

Finally, Treasury is continually pursuing efforts to consolidate management of its forward-facing web presence to optimize delivery, provide common experience and better leverage tools/products for content delivery, digital design, and 508 compliance. In the last 24 months, Treasury Departmental Offices OCIO has assumed management responsibility for *BEP.gov, SIGPR.gov,* and multiple Fiscal Service sites (Home|TFX: Treasury Financial Experience *https://tfx.treasury.gov/* and TFM Home|Treasury TFM *https://tfm.fiscal.treasury.gov/*) and is evaluating *TTB.gov* and *USMint.gov* for further consolidation. Treasury is intentionally centralizing the content delivery, content management and cloud hosting to reduce costs, secure environments and promote improved accessibility.

Question. When does Treasury expect to meet GSA's highest program maturity level for each of the five program levels?

Answer. While ensuring the accessibility of Treasury's services is of significant importance to Treasury, we must balance those requirements with ensuring those services are delivered securely and reliably. To that end, we do not have defined dates for achieving the highest program maturity level in each of the program areas, but instead ensure that it is one of the significant priorities evaluated as new investments arise. It should also be noted that some of Treasury's services are built on vendor supplied solutions. In those cases, we are very much dependent on the timeframes within which those vendors improve the 508 compliance of their platforms.

Question. Treasury reported evaluating 28,969 Internet webpages and 3,839 intranet webpages, respectively. What percentage of Treasury's total internet and intranet webpages were evaluated?

Answer. In compliance with GSA's section 508 compliance website *(www.Section508.gov)*, Treasury does not track total pages as part of our conformance metrics, but instead samples content across key Inter/intranet sites.

Question. Please describe the existing pathways for employees and the public to file section 508 complaints with Treasury at a departmental level, as well as the Internal Revenue Service? Please provide the number of section 508 complaints Treasury has received for each of the last 5 fiscal years?

Answer. Treasury's public website *(www.treasury.gov)* allows the public to file section 508 complaints via its "Accessibility" link on the site's top banner which initiates an email to accesstreas@treasury.gov. Likewise, the IRS offers guidance here Protecting Taxpayer Civil Rights|Internal Revenue Service *(https://www.irs.gov/about-irs/protecting-taxpayer-civil-rights)* and provides the public a 508 Accessibility user guide for *irs.gov* as well as its public-facing IRS applications. This approach is commonly deployed across the Treasury public facing portfolio with redirects to the *Treasury.gov* site where appropriate and supporting text for filing complaints. Accessibility hyperlinks are typically available at either the header or footer of the primary landing page with subpages offering supplemental detail regarding complaint filing instructions and relevant parties.

For internal Departmental Offices employees and contractors, there is no formal guidance posted on the intranet for 508 compliance complaints. Individual requests are addressed upon receipt with technical remediations applied when possible. Reasonable accommodations are considered as appropriate through the formal RA program. Within IRS, the IRM on section 508 details the complaint process in section 2.30.1.11 2.30.1 section 508 Compliance|Internal Revenue Service *(https://www.irs.gov/irm/part2/irm_02-030-001#idm139645857543856)*.

Departmental Offices does not track the annual quantity of 508 compliance complaints submitted however the occurrences are infrequent and typically are single digit in sum. Note that all IRS and Treasury 508 complaints are included with the total Treasury EDI complaints in the FY 2021 Management Directive 715 report. FY 2021 Management Directive 715 (MD–715) Report (*https://home.treasury.gov/system/files/306/FY-2021-MD-715-Report.pdf)*.

QUESTIONS SUBMITTED BY HON. BILL CASSIDY

Question. The administration's stated goal when placing a cap on the price of Russian crude oil was to avoid market disruption. While I support the use of a price cap, I have concerns about cap implementation and the administration's goals in helping Ukraine win in the fight against Russia. I believe the administration could take additional steps towards helping Ukraine succeed.

There have been various reports regarding the significance of the impact of the G7 price cap on Russia's economy, given that China and India have become Russia's two major export markets.

Which specific economic impacts to Russia's economy have the administration and G7 seen since the price cap was implemented?

Answer. The price cap policy has dual goals: reducing Russian revenues and stabilizing global energy markets. There is consistent evidence from data, statements, and policy changes coming out of Russia that the price cap and other sanctions policies have dented the Kremlin's revenues. According to the Russian Ministry of Finance, Federal Government oil revenues from January through March of 2023 were 45 percent lower than a year prior. Further, Russian Deputy Prime Minister Alexander Novak and the Russian Central Bank have also openly acknowledged that the price cap policy is hindering Russia's ability to fund its war. Lastly, Russian oil now trades at a significant discount to other global oil—a discount which expanded significantly when the price cap was implemented. As the price for Russian oil has plummeted, the Kremlin has repeatedly reengineered Russia's tax code to squeeze more revenue out of a shrinking tax base.

Question. Is the G7 considering lowering the price cap from $65 to a number that may be closer to Russia's per-barrel marginal cost of production, which we are told may be in the range of $35?

Answer. The crude oil price cap of $60 per barrel has made significant progress toward our dual goals. The price cap on Russian crude oil has helped stabilize global energy supplies while simultaneously reducing Russia's revenues. According to the Russian Ministry of Finance, Federal Government oil revenues from January through March of 2023 were 45 percent lower than a year prior. Russian export levels have been steady and Russian oil has traded at a meaningful discount.

The price cap policy is only beginning to fully come into effect in recent months. While we are encouraged at the initial trade data we are observing, we are mindful that energy prices and supply can fluctuate due to the many shocks permeating global markets. We will continue to monitor global energy market conditions before making any changes to the price cap policy.

QUESTION SUBMITTED BY HON. JOHN CORNYN

Question. I wish to follow up on an issue that I have previously raised with you. Revenue Procedure 2005–62 allows utilities to finance certain costs that can be recovered from ratepayers over time through a special purpose financing entity owned by a utility but not by a State.

When a major storm or natural disaster hits, whether it is a hurricane, wildfire, or devastating winter storm, utilities are required to take prompt action to remediate damage as quickly as possible. Typically, utilities will recover the costs of the repairs from ratepayers over time through regulator-approved surcharges. Recent laws enacted in Texas and other States allow these storm remediation costs to be securitized through an instrumentality owned by the State. This will mean lower borrowing costs and a lower utility bill for individuals and small businesses across Texas.

For over 15 years, guidance from the IRS has facilitated the ability of utilities to finance these costs over time through a special purpose financing entity owned by the utility. However, such guidance would not apply to a special purpose vehicle owned by the State of Texas.

Will you commit that you and your team will examine broadening Revenue Procedure 2005–62 guidance to cover State owned special purpose vehicles and follow up with my office within 60 days with an analysis?

Answer. Staff from the Office of Tax Policy and the IRS Office of Chief Counsel have been studying the issue of how to update Revenue Procedure 2005–62 for recent laws enacted in Texas and other States. The Office of Tax Policy would welcome a conversation with your office to discuss this issue.

QUESTIONS SUBMITTED BY HON. CATHERINE CORTEZ MASTO

Question. A group of House Republicans recently released a list of demands that would be required for them to vote to avoid a catastrophic default on our debt. Among other things, it called for Congress to immediately pass legislation to return non-defense discretionary funding to fiscal year 2019 levels. That would mean an immediate drastic reduction in funding for your Department, but it would also include things like veteran's benefits, border security, Pell Grants, infrastructure, and more.

How would a plan to immediately return to FY 2019 non-defense discretionary levels impact both your Department and the broader economy?

Answer. Spending reductions like these would undermine critical services provided by the Treasury Department that the American people rely on in their everyday lives. Treasury and its bureaus conduct essential financial functions such as payments, providing tax refunds, and taxpayer assistance. Any proposal to return appropriations to lower funding levels—such as FY 2019—would be devastating to American families, small businesses, and taxpayers.

Treasury is also responsible for revenue collection, financial management, borrowing, and debt collection for the entire government. It promotes international economic stability, protects the integrity of the financial system, and combats global financial crime and corruption. In March, for example, the government took decisive and forceful actions to strengthen public confidence in our banking system. Reductions to Treasury funding would significantly impair our ability to monitor such risks and ensure an effective and unified approach to promoting financial stability and growth. Reduced investments in initiatives by Treasury's Office of Terrorism and Financial Intelligence (TFI) would jeopardize our national security by impacting Treasury's ability to craft, implement, and enforce sanctions, including the historic sanctions program targeting Russia's illegal war in Ukraine. Reductions at FinCEN would reduce the Department's ability to enforce anti-money laundering and corporate transparency laws, and disrupt development and implementation of the beneficial ownership database system. Further, any cuts to Treasury's programs would also mean significantly fewer resources for Community Development Financial Institutions (CDFI) grants and assistance, thus harming the economic vitality of America's most economically disadvantaged communities by reducing small business lending, affordable housing, and the provision of consumer products and services.

Additionally, across-the-board reductions to all programs would force the Internal Revenue Service (IRS) to divert funding provided in the Inflation Reduction Act (IRA) to cover steady-state operations, significantly undermining the improvements taxpayers have seen, including an exponential increase in service. In this scenario, IRS would not have the resources it needs to achieve the congressional objective of modernizing its technology, dramatically improving customer service, and building up enforcement capacity to pursue high-end tax evaders.

Question. Post-pandemic, a higher number of workers report that lack of child care is causing them not to join the workforce. Many of our peer nations have more generous child benefits than the U.S. and also have higher labor force participation rates. Do you agree that providing more generous child benefits, such as the enhanced Child Tax Credit, can help boost labor force participation in the U.S.?

Answer. A number of academic researchers and third-party studies have found that the expanded Child Tax Credit and introduction of monthly payments reduced financial instability and poverty but did not discourage work. Data featuring the voices of families themselves has even found that some families saw parents identify the payments as a source of support to enable work. For example, the Child Tax Credit could be used to balance paid work and caregiving by covering child-care costs or helping hard-pressed families cover the costs of transportation to and from work.

Question. Breaching, or even coming close to breaching, the debt limit later this year could raise borrowing costs for the Federal Government by causing interest rates to rise.

Does the Department of Treasury believe such a scenario would increase our Nation's Federal debt and if so, does it have any estimates of how much long term borrowing costs could increase?

Answer. The Treasury Department is pleased that Congress passed bipartisan legislation to suspend the debt limit and prevent a first-ever default by the United States. This legislation protects the full faith and credit of the United States and preserves our financial leadership, which is critical to our economic growth and stability. Had Congress not acted to suspend the debt limit, a default would have caused severe hardship for American families, potentially leading to the loss of millions of jobs and trillions in household wealth, and higher financing costs for American taxpayers for years to come. Congress has a duty to ensure that the United States can pay its bills on time, and the full faith and credit of the United States must never be used as a bargaining chip.

QUESTIONS SUBMITTED BY HON. STEVE DAINES

Question. Under Pillar 2, foreign companies are able to exclude some income from taxation based on the number of workers they employ in their country. Such an exclusion does not currently exist under the GILTI regime in the U.S. tax code. The administration has proposed a number of changes to GILTI in its budget, but it did not include this exclusion for employing American workers among them.

Do you believe the absence of parity on such an exclusion creates an incentive for companies to ship jobs overseas?

Answer. U.S. companies are currently subject to a minimum tax regime that their foreign competitors are not, and despite that difference, the United States remains a desirable jurisdiction in which to operate, and U.S. businesses thrive. We have confidence that under the proposals in the administration's Green Book, when combined with the worldwide adoption of the OECD framework, U.S. businesses will be better off than they are currently.

Question. Understanding that we differ on the merits of the spending proposed in the President's budget, do you believe the President's $4.7 trillion in proposed tax hikes will have a positive impact on growth in the next 5 years?

Answer. The President's proposed budget builds on our economic progress by making smart, fiscally responsible investments. These investments would be more than fully paid for by requiring corporations and the wealthiest to pay their fair share. Fiscal discipline remains a central priority in the budget. The budget proposes a minimum income tax of 25 percent on taxpayers with wealth in excess of $100 million. It also proposes an increase of the corporate tax rate to 28 percent from the current 21 percent. And it will come as no surprise that I hope Congress will implement the United States' part of the global minimum tax deal.

On the spending side, the budget proposes additional investments to boost our long-term growth potential. This includes improving the availability of high-quality child care, providing free and universal preschool, and boosting the supply of affordable housing. We also propose restoring the Child Tax Credit and Earned Income Tax Credit expansions that were enacted in 2021 but have since expired.

QUESTIONS SUBMITTED BY HON. CHUCK GRASSLEY

Question. During your nomination hearing, I asked you to commit to provide a prompt response in writing to any questions addressed to you by any Senator of the committee, and you agreed to that.

On Friday, February 10, 2023, you finally responded to written questions sent to you after a June 7, 2022, hearing on the President's Fiscal Year 2023 budget request. Aside from not being prompt, the response included the disclaimer that "Secretary Yellen's responses to these questions for the record reflect information available as of the date of receipt of these questions, June 16, 2022." Considering the responses were received nearly 8 months after the questions were asked, I do not think this disclaimer is appropriate.

Do you pledge to respond to all questions, including these questions, and letters promptly and with information that is as current as reasonably available?

Should you have any difficulty in fully responding to any of my requests or questions, will you work with my staff to reach an acceptable accommodation rather than providing a woefully outdated or incomplete response?

Answer. The Department of the Treasury is committed to responding to congressional inquiries and to providing informative answers to questions for the record in a timely manner. As always, my staff is available and willing to work with your staff to provide helpful information.

Question. At the hearing, I asked you whether any aspects of the OECD Pillar 2 agreement violated our bilateral tax treaty obligations. You answered my question by blankly asserting, "No, there is no violation in anything we proposed." Your response is yet another example of Treasury failing to provide a well-reasoned substantive response to legitimate questions and concerns raised by members of the Finance Committee. I understand Treasury has asserted that Pillar 2 is compliant with tax treaties, but it has failed to provide any legal analysis to justify that assertion. This is unacceptable. As I, and other congressional Republicans, indicated in a joint letter to you on December 14, 2022, "there is growing consensus among tax experts, including former Treasury officials, that the Pillar 2 Under-Taxed Profits Rule (UTPR) is inconsistent with our bilateral tax treaties." Congress has sole tax-writing authority. Treasury must engage in a two-way conversation with Congress on how Pillar 2 comports with our tax treaties. Treasury is not the sole arbiter of whether or not Pillar 2 is consistent with our international commitments approved by Congress through treaty.

Treasury has justified its position that Pillar 2 is consistent with tax treaties by merely pointing to "a consensus statement by all Inclusive Framework members that Pillar 2 was intentionally designed so that top-up tax imposed in accordance with those rules will be compatible with common tax treaty provisions." Please provide the analysis on which this statement is based. If no substantive analysis has been performed, how can Treasury be certain that Pillar 2 is in fact consistent with framework members "intent" to be compliant with common tax treaty provisions?

When can Congress expect Treasury to engage in substantive discussions with Congress at both the staff and member level on Pillar 2 and how it comports with our tax treaties?

Answer. When developing legislative proposals that would affect the international provisions of the Internal Revenue Code, the Treasury Department takes care to closely evaluate the question of the compatibility of the proposals with the obligations of the United States under its bilateral income tax treaties. The Treasury Department has taken the same approach with the development of Pillar 2 and believes that the Pillar 2 rules are compatible with U.S. tax treaties. The existing statements speak to intent because no analysis can be done with respect to a specific country's treaty obligations until that country enacts Pillar 2 legislation. Members of the Office of Tax Policy are willing to discuss with you and your staff the analysis of the compatibility of the Pillar 2 model rules with our treaty obligations.

Question. The last time you appeared before the Finance Committee, I asked you two questions for the record pertaining to the treatment of business credits under the 15-percent global minimum tax you negotiated as part of Pillar 2. As I mentioned, and your response did not dispute, ordinary non-refundable business credits are treated less favorably under the agreement than refundable credits or direct cash grants. Given that the majority of business tax credits in the U.S. are non-refundable this put the U.S. at a disadvantage with many other members of the OECD, including China, that generally provide more refundable credit or cash subsidies to businesses.

My first question asked why you negotiated an agreement that puts the U.S. at a disadvantage with many of our major trading partners. Your response blamed the Trump administration. This is unacceptable; President Biden and his administration were in charge during the bulk of substantive negotiations on Pillar 2. Did you, or any of your representatives that negotiated Pillar 2, ever raise this disparity as a concern with other Framework members? If not, why not?

Answer. The Pillar 2 rules must take into account credits and other tax incentives to be meaningful. At the same time, Pillar 2 was not meant to, and does not, address all forms of government spending. The Pillar 2 rules therefore require a rule to distinguish tax incentives from other forms of government subsidies, and that rule follows the financial accounting treatment of credits: nonrefundable credits reduce tax expense and refundable credits are like government grants and are therefore treated as income.

The decision to follow the financial accounting distinction between refundable and non-refundable tax credits in determining the effective tax rate for Pillar 2 purposes was made in the Pillar 2 blueprint, which was agreed and published in 2020 during the prior administration. Since that decision was made, the Biden administration has worked within that framework to protect key U.S. tax incentives. Treasury has secured agreement protecting U.S. credits in a number of cases, including (i) carryforward of the full benefit of existing stocks of credit carryforwards due to the transition rules (ii) protection of low-income housing tax credits and green incentives through tax equity investments, and (iii) protection of transferable credits and direct pay credits in the commentary to the Pillar 2 rules.

The U.S. Treasury continues to engage multilaterally on this issue through the ongoing discussions at the OECD.

Question. My second question asked for your views on whether direct cash subsidies and refundable credits are more desirable than overall lower tax rates or non-refundable credits. Instead of addressing my question, your response discusses financial accounting rules. Please address my question. In your view as an economist, "are direct cash subsidies or refundable credits more desirable than overall lower tax rates or non-refundable tax credits? Please explain.

Answer. There are tradeoffs both in determining whether a credit should be provided for an activity and whether that credit should be refundable (or take the form of a direct cash subsidy) or non-refundable. The correct policy solution is therefore context-specific. Taken as a whole, the historic international agreement to implement a global minimum tax will help end the race to the bottom in corporate tax rates and level the playing field for U.S. businesses while protecting U.S. workers.

Question. The IRS budget was supersized by nearly $80 billion in the partisan Inflation Reduction Act. The President's FY 2024 budget seeks to continue a mandatory stream of funding for the IRS through 2032 and 2033 with a request for a total of more than $29 billion in additional mandatory spending. According to supporting documents of the budget request, zero dollars of this new funding would be allocated to Taxpayer Services.

Why isn't any of this new mandatory spending allocated to taxpayer services?

Answer. The funding provided by the IRA will bring the IRS into the 21st century over the next several years, and it will allow the IRS to dramatically improve customer service, modernize decades-old computer systems, and improve enforcement with respect to complex partnerships, large corporations, and wealthy individuals. Together, this transformation will ensure taxpayers receive world class service and reduce our deficits by hundreds of billions of dollars.

However, without further legislative action, the agency will be confronted with a fiscal cliff in Fiscal Year 2032. This decline would force the IRS to cut back on audits of large corporations and complex partnerships and would increase the deficit. The budget provides additional funding in Fiscal Years 2032 and 2033 to continue IRA-funded enforcement and compliance initiatives and investments. (There is no IRA funding in these years.) We also look forward to working with Congress to ensure IRS has sufficient funding to provide the world-class service taxpayers deserve. The FY 2024 discretionary proposes an investment that, along with planned IRA spending, will allow the IRS to provide an 85 percent LOS in the 2024 filing season.

Question. The proposed budget requests roughly $29 billion in additional mandatory spending for the IRS in FY 2032 and FY 2033. The budget allocates that funding mostly to enforcement with some going to operations support.

How many direct civilian full-time equivalent employees and reimbursable full-time civilian employees does Treasury project would be funded by the additional mandatory request, per budget account, and job function?

How many additional auditors does Treasury project would be hired with the additional requested mandatory budget authority?

Answer. IRS faces an urgent need to replace retiring staff and train the next generation of IRS employees. Over the FY 2023 to FY 2025 time period alone, around 26,000 IRS employees are expected to retire or leave the agency. About half those departures (14,500) are expected in the taxpayer service area and about 30 percent (8,000) are in the enforcement area. These losses equate to roughly 30 percent of the employees working at IRS at the end of FY 2022. IRS will need to hire to both backfill for these losses and bring on additional staff in priority areas where it has historically lacked sufficient resources like taxpayer service and enforcement staff focused on wealthy and corporate tax evaders. From FY 2022–FY 2025, IRS expects to achieve a net increase of about 32,000 new employees, with more than 60 percent of that staffing focused on taxpayer services, energy security implementation, operations, and IT. (Note: these figures are net of expected attrition.) FY 2025 will see IRS ramp up hiring of accountants, data scientists, attorneys, and other staff focused on high-income individuals, large partnerships, and large corporations.

Question. The President's budget attributes more than $105 billion in deficit reduction stemming from the additional mandatory funding requested for the IRS of $14.3 billion in FY 2032 and $14.8 billion in FY 2033. Please describe how the increase in revenues was calculated and provide the specific calculations and academic research justifying them that underlie these assumptions.

Answer. Estimates for the effect of IRS resource changes on enforcement revenue (revenues associated directly with increased audit or collection activity) are based on IRS estimates of the return on investment (ROI) of enforcement activity. The IRS estimates the ROI for most of its enforcement activity based on historical enforcement data. The IRS collects this information on an ongoing basis. These conventional revenue estimates do not include any deterrent effect of increased IRS resources, notwithstanding the evidence that such effects exist.

Question. The IRS was provided nearly $80 billion in mandatory spending mostly allocated to enforcement in the Inflation Reduction Act. Recently, the IRS missed a deadline set by yourself to provide a plan for spending the extra money. However, supporting documents of the budget request provides estimates of how the $80 billion in mandatory funding will be spent by year throughout the budget window and also show outlays in FY 2022 and projected outlays in 2023.

How have spending decisions up to the present been made and by what individuals? Please describe in detail how any of the $80 billion in mandatory budget authority has already been spent, and is projected to be spent throughout FY 2023.

Has the administration already decided how the $80 billion in new funding will be spent regardless of whatever plan the IRS comes up with?

Will the IRS be able to decide how to spend the $80 billion the IRS was provided or will the Treasury Department, the Office of Management and Budget, or the Biden administration decide and dictate to the IRS how the money will be spent?

Answer. Shortly after enactment of the Inflation Reduction Act, Treasury and the IRS initiated an effort to develop the Strategic Operating Plan. The planning process leveraged prior IRS planning efforts, including the Taxpayer First Act Report to Congress and new thinking around best practices and available technology capabilities. Treasury and the IRS also sought input from a wide range of stakeholders in tax administration, including IRS employees and their representatives, technology experts, small business groups, tax professionals, and more. The IRS Strategic Operating Plan *(https://www.irs.gov/pub/irs-pdf/p3744.pdf)* was released on April 6, 2023, showing how the IRS will use IRA resources to provide taxpayers with world-class customer service and reduce deficits by hundreds of billions by pursuing high-income and high-wealth individuals, complex partnerships, and large corporations that are not paying the taxes they owe.

In conducting the financial analysis to support this plan, we recognized that planning over a 10-year horizon involves considerable uncertainty stemming from a rapidly changing labor market, impact of productivity gains from overdue technological investments, and business process improvements. The ultimate cost of the initiatives outlined in this plan will be refined, and the specific estimates of the funding required to achieve our vision may change over time. Despite this uncertainty over the exact impact of future productivity enhancements on the workforce or modernized operations, we have included our full aspirations in this plan while we continue to refine specific labor and cost projections over the life of the plan.

Question. As noted, last August you directed the IRS to develop a spending plan for the $80 billion in new mandatory budget authority. This report has not been delivered and it isn't clear when it will be completed.

When will this report be completed and how are you holding the IRS accountable to produce it? Do you pledge to release this report to Congress as soon as it is completed?

Answer. The IRS Strategic Operating Plan was released publicly on April 6th. It is available here on IRS's website: IRS Inflation Reduction Act Strategic Operating Plan|Internal Revenue Service *(https://www.irs.gov/pub/irs-pdf/p3744.pdf)*.

Question. In a letter of August 10, 2022, to then IRS Commissioner Rettig regarding the additional $80 billion in mandatory funding provided by the Inflation Reduction Act, you wrote, "I direct that any additional resources—including any new personnel or auditors that are hired—shall not be used to increase the share of small business or households below the $400,000 threshold that are audited relative to historical levels."

However, a number of open questions remain as to how the IRS will implement this directive, including what measure of income will be used (*i.e.,* AGI, MAGI, taxable income, etc.) and what metrics will be used to determine past and present audit rates.

Please provide a detailed explanation of how you intend for this directive to be implemented, including identifying what measure of income and audit metrics will be used to comply.

Please also describe how you define a "small business."

Would this or any similar directive apply to the additional mandatory budget authority requested in the FY 2024 budget request?

Answer. In August 2022, I requested that then-Commissioner Rettig prepare an operational plan for the use of these funds. On April 6, 2023, Treasury and the IRS released the Strategic Operating Plan, a comprehensive roadmap to transform the IRS using Inflation Reduction Act resources. The Strategic Operating Plan shows how the IRS will use these long-term resources to provide taxpayers with world-class customer service and reduce the deficit by hundreds of billions by improving enforcement among high-income and high-wealth individuals, complex partnerships, and large corporations that are not paying the taxes they owe.

As you note, my letter of August 10, 2022 to then-Commissioner Rettig directs the IRS not to raise audit rates above historical levels for households making less than $400,000. The Strategic Operating Plan complies with that directive. Moreover, the IRS has no plans to increase the audit rate for households making less than $400,000. As Commissioner Werfel stated when the plan was released: "We have years of work ahead of us where we will be 100-percent focused on building capacity for higher-income individuals and corporations. During this time, the audit rate for average taxpayers will not be increasing and, as a result, we will not come close to hitting or exceeding any historic average rate."

Question. The IRS Funding Accountability Act authored by Senator Thune and me would require the IRS to regularly update Congress on audit rates and other enforcement actions by income group.

Will you direct the IRS to provide quarterly reports to Congress on audit rates and enforcement actions? Also please indicate if you would be willing to include the following in such reports:

An analysis identifying historic and current audit rates by income group, including a group reflecting the IRS calculation of taxpayers earning less than $400,000, beginning in 2018 through the current fiscal year.

A detailed description of what constitutes an "audit" to the IRS, and whether and how that definition differs from how the National Taxpayer Advocate, the Comptroller General of the United States, or the Treasury Inspector General for Tax Administration defines an audit.

A categorization of the number of audits for each income group which were, correspondence audits, office audits, field audits, audits under the Tax Compliance Measurement Program, and any other audits.

A description of all taxpayer compliance actions or initiatives expected to be undertaken using funding provided by the Inflation Reduction Act that do not rise to the level of an audit.

Answer. The IRS annually issues a Data Book that reports audit rates by Total Positive Income (TPI) levels. The Data Book has historically included audit rate information on taxpayers with TPI of $400,000 as part of the $200,000 to $500,000 population segment range. The IRS published final audit rates for tax year 2018 in the IRS Data Book using this historical format. The IRS is exploring how to provide additional information as appropriate in light of my directive on audit rates.

The IRS Data Book also reports the number of examinations conducted by correspondence and by field examination type. It does not separately report office audits as they are face-to-face audits just like field examinations. Similarly, it does not separately report Tax Compliance Measurement Program (now called the National Review Program) audits as they are field examinations.

IRS currently conducts education and outreach, and other activities to improve voluntary compliance. Using funding provided by the IRA, the IRS will build on this existing work to help taxpayers file accurate returns and claim the credits and deductions they may be eligible for. For example, for the first time, IRS will help taxpayers identify potential mistakes before filing and quick fix errors that delay taxpayer refunds. By minimizing and quickly correcting errors, improved customer service will reduce the burden on working families

The IRS is committed to an ongoing dialogue with Congress, the tax community, and the public on the implementation of the IRS's Strategic Operating Plan (Plan). The IRS will prepare an annual update of the Plan based on lessons learned, progress made, and any changes needed. The IRS will also provide updates at least annually to external stakeholders—including Congress and the public—through existing reporting and review processes like the Annual Performance Plan and Report, the President's budget and related materials, and the IRS Data Book. The IRS welcomes the opportunity to discuss progress more regularly with Congress and other stakeholders.

Question. Even though a multiyear reauthorization of surface transportation programs was enacted last Congress, the highway trust fund is still on a path to insolvency. Based on the most recent information provided by CBO, payments from the trust fund will need to be delayed during FY 2027. In the avalanche of paper released over the past 2 weeks by the administration, I have not found any proposal to make the highway trust fund solvent.

What proposal is the administration considering to either increase revenues to or decrease spending from the highway trust fund?

Answer. The Bipartisan Infrastructure Law (BIL) (enacted as the Infrastructure Investment and Jobs Act) ensured the highway trust fund (HTF) is sufficiently resourced to fund the authorized programs through Fiscal Year (FY) 2026. However, a long-term solution to the insufficiency of HTF revenues to meet the needed level of investment in surface transportation infrastructure was not enacted. The administration is committed to working with Congress on a bipartisan basis to find a responsible way of funding surface transportation programs supported by the HTF in the next authorization, which would begin in FY 2027.

The BIL does include pilot programs and studies designed to inform future solutions to HTF solvency. For example, BIL includes $75,000,000 in funding over 5 years for the Strategic Innovation for Revenue Collection program, which requires the Department of Transportation to establish a program to test the feasibility of a road usage fee and other user-based alternative revenue mechanisms through pilot projects at the State, local, and regional level. BIL also requires the establishment of a Federal System Funding Alternative Advisory Board, which will provide recommendations regarding a National Motor Vehicle Per Mile User Fee Pilot. These efforts will provide information on new types of revenue collection and could inform future legislation regarding how to support the long-term solvency of the HTF.

Question. In the Public Financial Disclosure Report you completed and filed as part of your nomination to be Secretary of the Treasury, you noted several million dollars in speaking fees from large financial institutions, such as Citi, Barclays, and Credit Suisse. Recently Credit Suisse, which paid you $360,000 in speaking fees, was acquired by UBS in a deal reportedly brokered by the Swiss Government.

In your ethics agreement dated December 29, 2020, you acknowledged that you would have a "covered relationship," under impartiality regulations, for a 1-year period, with the entities that you received honoraria from.

Despite the passage of the 1-year period, will you pledge to seek written authorization from ethics authorities should you at some point seek to make any decision pertaining to those entities, similar to your decision to guarantee Silicon Valley Bank depositors their full deposits?

Answer. I have no financial interests in any of my former clients (including firms from which I received one-time honoraria for speaking engagements). When I was confirmed, I complied with the requirements set forth in my ethics agreement to terminate certain outside positions and divest certain financial interests. I have dedicated my career to serving and protecting our country. I will always seek to serve the good of our country and the good of the American people. I have made extensive ethics commitments as requested by the Office of Government Ethics and documented in a written agreement, which I have signed. My ethics agreement and the

President's ethics pledge required me to recuse myself for a period of 2 years from participating personally and substantially in any particular matter involving specific parties in which I knew that a former employer or client identified in my ethics agreement was a party or represented a party, unless I was first authorized to participate by the appropriate ethics official. I ensured, and will continue to ensure, that I have a robust screening process in place to help implement my recusal obligations. I am mindful of not only the legal requirements that govern my conduct but also of appearances to ensure that the public has no reason to question my impartiality. I believe that these existing rules are appropriate and sufficient to protect the public interest.

I will continue to consult with career Department ethics officials on these issues and require everyone who serves with me to ensure public service is and will remain a public trust.

Question. Did you or the Treasury Department have any involvement in the deal by which UBS has agreed to acquire Credit Suisse?

Answer. Treasury maintains regular contact with our international counterparts on a variety of issues. Treasury coordinated with the U.S. regulatory agencies and its international counterparts, including Swiss authorities, to monitor the Credit Suisse situation closely. This is the regular course of action in the event of stress at an international bank of this size, which can impact both U.S. and global markets. We continue to follow the situation closely and support Swiss authorities in their efforts to maintain financial stability.

Question. Given your experience at both Treasury and the Fed, you are uniquely positioned to answer why Silicon Valley Bank's failures were not caught by regulators. The bank's failures should not have been a surprise, and the Fed has been making its aim of raising rates crystal clear. Multiple private-sector analysts even raised concerns about SVB's practices. But instead of keeping a closer eye up front, the San Francisco Fed oversaw a bank run after it was already too late. Why weren't Silicon Valley Bank's risks caught beforehand?

Answer. The Board of Governors of the Federal Reserve System (Federal Reserve Board) has issued a detailed report,[11] to which I would refer you, regarding factors that contributed to the failure of Silicon Valley Bank in March 2023 and the role of the Federal Reserve, which was the primary Federal supervisor for the bank and its holding company, Silicon Valley Bank Financial Group.

Question. After a bank run, the typical answer is for another bank to purchase the struggling institution. However, it has been reported, and even stated directly on a call between members of the Senate and Treasury, that there were offers to buy SVB. SVB was obviously not purchased, leading to a whole host of problems we continue to deal with today. Were there offers to buy Silicon Valley Bank and, if so, why wasn't an offer to buy SVB accepted?

Answer. On March 12, 2023, the Department of the Treasury, the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Board took decisive actions to protect the U.S. economy by strengthening public confidence in our banking system. After receiving a recommendation from the boards of the FDIC and the Federal Reserve, and consulting with the President, Secretary Yellen approved actions enabling the FDIC to complete its resolution of Silicon Valley Bank (SVB) in a manner that fully protects all depositors through invocation of the systemic risk exception (SRE) in section 13 of the Federal Deposit Insurance Act.[12] This action, as well as the other actions taken on March 12th, have ensured that the U.S. banking system continues to perform its vital roles of protecting deposits and providing access to credit to households and businesses in a manner that promotes strong and sustainable economic growth. Through our actions, all depositors of SVB were made whole, and shareholders and certain unsecured debtholders were not, and will not be, protected. No losses will be borne by the taxpayer.

Since our actions in March, the FDIC has announced an acquirer for a significant portion of SVB's assets and liabilities, including deposits.[13] As receiver for SVB, the FDIC is responsible for transactions involving failed bank assets and liabilities, in-

[11] *https://www.federalreserve.gov/publications/review-of-the-federal-reserves-supervision-and-regulation-of-silicon-valley-bank.htm.*
[12] 12 U.S.C. 1823(c)(4)(G).
[13] *https://www.fdic.gov/news/press-releases/2023/pr23023.html.*

cluding the bidding process. Consistent with the FDIC's statutory responsibilities, I would refer you to the FDIC for any questions on those matters.

Question. Some have attempted to argue that a bailout of depositors at SVB will not be borne by the taxpayer. However, it is clear that if there are not enough assets in SVB to make wealthy depositors whole, regulators will tax banks that have acted more responsibly to make up the difference. The argument is that this money will not come from taxpayers, because there will be a new "special assessment" on banks instead. You are a serious economist, and you know as well as I do that a tax on banks will be passed to bank customers. Iowa banks, and Iowa bank customers, should not be paying for the bad decisions of SVB and their customers with over $250,000 in the bank.

Is it correct that while tax revenue may not be involved, a bailout of Silicon Valley Bank depositors will ultimately be paid for by all Americans who are customers of a bank?

Answer. Under section 13 of the Federal Deposit Insurance Act, the FDIC must recover the loss to the Deposit Insurance Fund arising from any action taken or assistance provided using the SRE authority from one or more special assessments on insured depository institutions, depository institution holding companies, or both, as the FDIC determines to be appropriate.[14] On May 11, 2023, the FDIC issued a notice of proposed rulemaking that would implement a special assessment to recover the cost associated with protecting uninsured depositors following the closures of Silicon Valley Bank and Signature Bank.[15] Under the FDIC's proposal, banking organizations with total assets over $50 billion would pay more than 95 percent of the special assessment, and no banking organizations with total assets under $5 billion would be subject to the special assessment.[16] The comment period on the FDIC's proposed rule ended on July 21, 2023. For more information on the proposed special assessment, please refer to the FDIC.

Question. I have heard from wholesale businesses in Iowa concerned about whether laws prohibiting manufacturers of alcohol products from providing inducements to retailers are being enforced, particularly in light of new entrants into the alcohol market who already produce non-alcoholic products. I have also heard concerns that alcoholic products seen as similar to non-alcoholic products from the same manufacturer are being displayed together.

Is the Alcohol and Tobacco Tax and Trade Bureau ensuring that all manufacturers of alcohol products are complying with all applicable laws and regulations, including those applying to inducements, as manufacturers new to the alcohol space bring new products into the market?

Answer. TTB has had numerous conversations with various stakeholders regarding their concerns about this issue and has repeatedly made clear that the trade practice provisions of the Federal Alcohol Administration Act (FAA Act) (27 U.S.C. § 205) apply to all industry members, irrespective of their tenure in the industry. I understand that TTB has invited specific information from concerned stakeholders that may lead to investigatory findings. As part of its voluntary compliance efforts, TTB has engaged in outreach efforts with new members and, in that context, emphasized the proscriptions and obligations under the Act, including potential areas for compliance concerns. TTB continues to monitor the market to ensure that all industry members comply with the trade practice provisions of the Act.

I would be happy to have TTB discuss the issue in greater depth with your staff.

Question. There are substantial differences in the Congressional Budget Office/Joint Committee on Taxation (JCT) estimate of the on-budget effects of last year's reconciliation act (Pub. L. 117–169) and the administration's cost estimate of the law entered on the Statutory PAY-As-You-Go Act scorecard. The Office of Management and Budget informs me that this is largely due to differences between JCT's score of the act's revenue provisions and Treasury's estimate of those provisions.

Please provide Treasury's provision-by-provision cost estimate of the act's revenue provisions and a crosswalk to JCT's estimate so that we can better understand difference in estimates.

Answer. Treasury is currently focused on implementing the Inflation Reduction Act. We expect to release updated tax expenditure estimates later this year, as we

[14] 12 U.S.C. 1823(c)(4)(G)(ii).
[15] *https://www.fdic.gov/news/financial-institution-letters/2023/fil23024.html.*
[16] *https://www.fdic.gov/news/fact-sheets/systemic-risk-determination-5-11-23.html.*

do every year, that will provide updated information on all tax expenditures, including clean energy tax incentives.

Question. As you know, the Social Security Trustees estimate the Old-Age and Survivors Insurance trust fund will exhaust in 2034, at which point millions of beneficiaries will see their benefits cut unless action is taken. Despite claims that the President's budget "protects and strengthens" Social Security, the budget includes no proposals to extend the solvency of the Social Security trust fund and prevent these cuts. In fact, your budget includes a $22 billion reduction in Social Security payroll tax revenues relative to baseline projections over the 2024–2033 window.

What policies in the budget are responsible for the decrease in Social Security revenues? By how many days does the budget's reduction in dedicated Social Security taxes hasten the insolvency of the Social Security trust fund and the resulting cuts to benefits?

Answer. The budget relies on the Social Security Trustees Report for characterizing the trust funds' financial outlook, including projections of program revenues and costs, including payroll tax revenue. The President has made clear he will not support proposals from Congress that cut benefits for Social Security.

Question. The budget proposes redirecting revenue from the net investment income tax (NIIT) from the general fund to the Hospital Insurance trust fund. How much revenue is shifted from the general fund to the Medicare trust fund under the budget?

Answer. The budget would extend the solvency of the Medicare trust fund by more than 25 years. The increase in the Medicare tax rate for taxpayers with income above $400,000 raises about $350 billion. Closing Medicare tax loopholes saves nearly $400 billion. The prescription drug reforms save about $200 billion over the first decade.

Question. In June of 2021, you defended concerns about the President's spending proposals fueling inflation and interest rate hikes saying, "If we ended up with a slightly higher interest rate environment, it would actually be a plus for society's point of view and the Fed's point of view." When you made this comment, inflation was 5.4 percent and the Federal funds rate was effectively zero. Since that time, inflation hit a 40-year high and the Fed has responded by aggressively hiking interest rates. As a result, families and small businesses are paying the price by way of higher interest costs on home loans and business lines of credit. Moreover, recent bank failures highlight how fragile our economy is given rising interest rates and decades-high inflation. At the time of your June statement, you were advocating in favor of President Biden's multi-trillion-dollar Build Back Better plan. Most of the proposals from that failed plan have reappeared in the President's budget, despite the fact they were rejected by members of his own party as "too extreme." This includes $2.5 trillion in new mandatory social welfare spending that would inevitably fuel consumer demand and increase inflation pressures. The Fed is currently walking a tight-rope in its attempt to increase interest rates enough to cool inflation while not causing a recession.

Do you have any concerns that spending trillions more on social programs could cause the Fed to hike interest rates even more, potentially tipping us into recession?

Answer. At the outset of the Biden administration, we faced enormous economic challenges, and a generation of workers were looking at potential deep economic scarring. We acted swiftly and our economic plans allowed us to achieve the strongest economic recovery in modern history.

Today, the administration's budget represents long-term investments, like infrastructure, universal pre-K, and affordable housing, spent at a gradual pace over the coming decade. The President has proposed revenue increases to accompany the planned investments.

These long-term investments will help expand the supply side of the economy, spurring stronger economic growth while reducing price pressures.

That said, the Federal Reserve has primary responsibility for price stability. I have a deep appreciation for the Fed's independence and will not comment on Fed policy.

Question. In looking through the President's budget I see a lot of proposals that even Democrats rejected when they controlled Congress.

How much of this budget's proposed $4.7 trillion tax hike is from proposals in the failed Build Back Better bill?

If these tax hikes couldn't pass muster in a Democrat-controlled Congress, why does the President expect them to fare any better now that there's a Republican-controlled House?

Answer. The revenue proposals in the President's budget would reduce the deficit, expand support for working families, and ensure the wealthy and large corporations pay their fair share. More broadly, the President's budget lays out a vision for how to grow the economy from the bottom up and the middle out and to give families some breathing room, all while reducing the deficit by $2.6 trillion over the next 10 years. We welcome a conversation with members of Congress about these proposals or alternative proposals that members of Congress put forward.

Question. Revenues in this budget climb to 20.1 percent of gross domestic product by 2033. That exceeds the post-World War II record of 20 percent set at the height of the dot-com bubble in 2000. For the past 50 years revenues have averaged 17.4 of GDP and never exceeded 19 percent for more than 3 years in a row. Under the President's budget, revenues exceed 19 percent from every year after 2024.

In your view, are there any negative economic effects from the government taking such an exceptionally large bite out of our economy?

Answer. The administration's agenda represents long-term investments, from infrastructure to universal pre-K to affordable housing, spent at a gradual pace over the coming decade. The President has proposed revenue increases to accompany the planned investments. Revenues as a share of GDP are low in the United States relative to other advanced economies and it is prudent for Congress to consider spending policies that will promote growth and productivity for the U.S. economy. The administration has proposed sound tax policy measures to pay for programs, including improvements to our country's corporate tax code, taxes on wealthy individuals, and enhanced enforcement to make sure that people pay the taxes they owe.

Question. According to a report published by your own Treasury Department: "A progressive tax system is one in which average tax rates rise with income. Total Federal taxes are progressive, ranging from a combined average rate of less than 1 percent for the bottom decile of families to 26 percent for the top decile of families and 32 percent for the top 0.1 percent in 2022."

If Treasury already agrees our tax code is very progressive, with the rich paying far more than those at the bottom, how much higher will taxes on high-earners have to be before you think they're paying their fair share?

Answer. As you note, Federal taxes are progressive overall. However, more must be done to ensure that the wealthy and large corporations pay their fair share. The President's budget would impose a 25-percent minimum tax on billionaires, reform the taxation of capital income, increase the tax rate on buybacks from 1 to 4 percent, and strengthen taxation of corporations' foreign profits. Proposals like these would address shortcomings of our tax system that allow high-income and high-wealth taxpayers to pay less than they should.

Question. Since your appearance before the Finance Committee to discuss the FY 2023 budget proposal, Congress, with this administration's support, enacted several "direct pay" tax credits that operate through the tax code, but are essentially cash grants. This includes an Investment Tax Credit for the semiconductor industry as part of the CHIPS Act and several credits included in the partisan Inflation Reduction Act.

Given this, is the administration considering providing "direct pay" for other business credits? If so, which credits would this administration support making "direct pay."

Answer. As you note, the CHIPS Act and the Inflation Reduction Act provided legal authority for "elective payment" of certain general business credits in sections 48D(d) and 6417 of the Internal Revenue Code. The Department does not have authority for "direct pay" outside of these enumerated provisions.

Question. The President has often voiced concerns about corporations paying zero tax. Won't "direct pay" tax credits make it easier for profitable companies to pay zero tax, or even receive a tax refund in excess of any taxes paid?

Answer. The Department is implementing the "elective payment" provisions enacted in the CHIPS Act and the Inflation Reduction Act, as provided for by the legislation. We cannot speculate at this time as to which taxpayers will make an election for such a payment or how that will impact their tax liability.

Question. In addition to expanding "direct pay" for several tax credits, the IRA broadly made green energy credits "transferrable." This means companies that have no tax liability to claim the credit against can sell the credit to others, including banks, private equity firms, and wealthy investors. Moreover, these credits can be used to reduce the Corporate Minimum Book Tax included in the IRA. Do you have any concerns that "transferability" will result in even more profitable corporations and wealthy individuals reducing their tax liability to, or near, zero?

Answer. The Department is implementing the transferability provision (section 6418 of the Internal Revenue Code) enacted in the Inflation Reduction Act, as provided for by the legislation. We cannot speculate at this time as to which taxpayers will purchase the specified tax credits or how that will impact their tax liability.

QUESTIONS SUBMITTED BY HON. JAMES LANKFORD

Question. The FDIC is required to conduct a rulemaking to recover losses to the Deposit Insurance Fund and to establish rates to insured depository institutions. Under the process, the FDIC is required to consider "the types of entities that benefit from any action taken or assistance provided under this subparagraph; economic conditions, the effects on the industry, and such other factors as the Corporation deems appropriate and relevant to the action taken or the assistance provided."

What is your best projected loss of assets for Silicon Valley Bank and subsequent loss to the Deposit Insurance Fund?

What is your best projected loss of assets for Signature Bank and subsequent loss to the Deposit Insurance Fund?

Using authority under 12 U.S.C. 1823, do you support an exemption for institutions under $10 billion from being assessed a rate in recovering losses from Signature Bank and Silicon Valley Bank?

Following your emergency determination on systemic risk, how do you intend to factor repayment of loss to the Deposit Insurance Fund for depositors from the People's Republic of China and deposits with backing from the Shanghai Pudon Development Bank?

Answer. On March 12, 2023, the Department of the Treasury, the Federal Deposit Insurance Corporation (FDIC), and the Board of Governors of the Federal Reserve System took decisive actions to protect the U.S. economy by strengthening public confidence in our banking system. After receiving a recommendation from the boards of the FDIC and the Federal Reserve, and consulting with the President, Secretary Yellen approved actions enabling the FDIC to complete its resolution of Silicon Valley Bank (SVB) and Signature Bank (Signature) in a manner that fully protects all depositors of those institutions through invocation of the systemic risk exception (SRE) in section 13 of the Federal Deposit Insurance Act.[17]

Under section 13 of the Federal Deposit Insurance Act, the FDIC must recover the loss to the Deposit Insurance Fund arising from any action taken or assistance provided using the SRE authority from one or more special assessments on insured depository institutions, depository institution holding companies, or both, as the FDIC determines to be appropriate.[18] On May 11, 2023, the FDIC issued a notice of proposed rulemaking that would implement a special assessment to recover the cost associated with protecting uninsured depositors following the closures of SVB and Signature.[19] In the FDIC's proposed rule, it estimates that at SVB, for which 88 percent of deposits were uninsured at the point of failure, the portion of the total estimated loss of $16.1 billion that is attributable to the protection of uninsured depositors is $14.2 billion.[20] The FDIC estimates that at Signature, for which 67 percent of deposits were uninsured at the point of failure, the portion of the total estimated loss of $2.4 billion that is attributable to the protection of uninsured depositors is $1.6 billion.[21] Under the FDIC's proposal, banking organizations with total

[17] 12 U.S.C. 1823(c)(4)(G).
[18] 12 U.S.C. 1823(c)(4)(G)(ii).
[19] *https://www.fdic.gov/news/financial-institution-letters/2023/fil23024.html.*
[20] Special Assessments Pursuant to Systemic Risk Determination, 88 Fed. Reg. 32694, 32696 (May 22, 2023), *https://www.fdic.gov/news/board-matters/2023/2023-05-11-notice-dis-a-fr.pdf.*
[21] Id.

assets over $50 billion would pay more than 95 percent of the special assessment, and no banking organizations with total assets under $5 billion would be subject to the special assessment.[22] The comment period on the FDIC's proposed rule ends on July 21, 2023. For more information on the proposed special assessment, please refer to the FDIC.

Since our actions on March 12, 2023, the FDIC also has announced acquirers for a significant portion of SVB's and Signature's assets and liabilities, including deposits.[23] As receiver for both institutions, the FDIC is responsible for transactions involving failed bank assets and liabilities. Consistent with the FDIC's statutory responsibilities, please refer to the FDIC for any questions on those matters or regarding depositors of SVB and Signature.

Question. On March 12th, Iran's foreign minister said that the United States and Iran were on the cusp of a "prisoner swap," with media reports adding that the exchange could include a U.S. ransom payment to Tehran. The administration denied the claim, but the White House also released a statement saying that Special Presidential Envoy for Hostage Affairs Roger Carstens would travel to Qatar on March 13th–16th to discuss "wrongful detention and hostage cases worldwide." We must work diligently to secure the release of all Americans who are wrongly detained, but I am concerned that Iran is using these Americans as bargaining chips to secure sanctions relief from the Biden administration and that you all are prepared to provide that. Sanctions relief will have a devastating effect on the terrorism situation in the Middle East and provide new liquidity to Iran to sponsor regional terrorism and support Russia in its assault on Ukraine.

Is sanctions relief on the table for any negotiation to secure the release of American hostages?

Answer. We defer to the State Department on questions related to consular matters.

Question. Has your Department drafted or are you actively drafting the necessary licenses, authorizations, and other materials to permit and facilitate any transaction with Iran regarding blocked funds held in the U.S. or other jurisdictions?

Answer. In general, OFAC does not comment on, or make public, license applications or requests for authorizations.

Question. The GAO reported that 33 percent of the applications and 23 percent of the software instances in use at the IRS are legacy systems. I asked now-Commissioner Werfel during his confirmation process about his systems modernization priorities.

What are your top priorities for systems modernization at the IRS?

Answer. One of the keys to unlocking the IRS Americans deserve is delivering secure, accurate, and real-time data to taxpayers about the status of their returns and correspondence. The IRS Strategic Plan lays out the roadmap to get there. The plan discusses how IRS will use IRA funding, along with its annual discretionary budget, to deliver cutting-edge technology, data, and analytics to operate more effectively. This includes priorities like: adopting modern systems to support real-time tax process; modernizing IT infrastructure; improving access to and use of data, while ensuring continued security and privacy of taxpayer data; and harnessing data and analytics to drive operations and decision-making.

Question. How do you think the $80 billion for the IRS in the Inflation Reduction Act should be used for systems modernization?

Answer. IRA funding—along with sufficient IRS discretionary funding for IT modernization—will enable IRS to make dramatic improvements to our IT infrastructure. The multiyear nature of the funding will allow us to successfully plan and deliver. We will design and deliver modern technology platforms that center around data and applications, with natively integrated protective and detective security controls. For example, in the first 5 years of the 10-year plan, the IRS will eliminate the possibility of future paper backlogs that have delayed taxpayer refunds by digitizing forms and returns when they are received and transitioning to fully digital correspondence processes. This was an acute issue during the pandemic and we are committed to changing the technology to ensure it doesn't happen again. IRS

[22] *https://www.fdic.gov/news/fact-sheets/systemic-risk-determination-5-11-23.html.*
[23] *https://www.fdic.gov/news/press-releases/2023/pr23021.html; https://www.fdic.gov/news/press-releases/2023/pr23023.html.*

will also retire outdated components of our core tax processing systems, replacing them with modern platforms that will enable transactions to be processed quickly and securely. More broadly, on cybersecurity the IRS will continue to follow all cybersecurity standards issued by the National Institute of Standards and Technology, the Cybersecurity Infrastructure and Security Agency (CISA), and the Office of Management and Budget (OMB). The IRS continuously validates its security posture through third party assessments, including threat hunts and red teams conducted by CISA and NSA. The certainty provided by these resources will permit the holistic, system-wide upgrades IRS has been unable to do. For too long, IRS technology has been beholden to a funding cycle that has limited the agency's ability to capitalize technology investments. Resources for upgrades have also been diverted time and again to cover basic operations, limiting the IRS's ability to manage and modernize its technology.

QUESTIONS SUBMITTED BY HON. ROBERT MENENDEZ

Question. You and I have spoken before about the need to increase Hispanic representation at the Treasury Department, and that starts with targeted recruitment efforts, which have been sorely lacking. Treasury did not allocate a single dollar for recruitment and hiring during fiscal years 2018 through 2020.

What changes have you made to Treasury's hiring and recruitment plans since taking over at Treasury?

Answer. In light of quantitative data and empirical evidence illustrating opportunities for improvement in Treasury's recruitment and hiring endeavors, the Department has taken immediate and strategic actions to improve our recruitment and retention outcomes. In Objective 5.1 of our FY 2022–2026 strategic plan, we have committed to the modernization of our operations to enable Treasury to enhance our ability to hire and retain a workforce that reflects the diversity of citizens in the communities we serve.

We have established the Treasury Recruitment Service through a combined $1.1 million investment in recruitment and hiring this fiscal year, supported by financial contributions from each Treasury bureau. The Treasury Recruitment Service will enable the Department to connect and engage with top-tier talent under a unified Treasury brand, representing each bureau and using data-driven, innovative outreach strategies emphasizing improving applicants' knowledge of the Federal hiring process.

Our immediate priorities this fiscal year under our Treasury Recruitment Service initiative include the following:

1. Establishing a unified Treasury brand and marketing cadence to foster awareness, build interest, and create creative marketing campaigns. We will highlight the benefits of working at Treasury, inform applicants of how to apply, and ultimately encourage a diversified array of individuals to apply to vacancies at the Department of the Treasury;
2. Improving accessibility and awareness of Treasury job opportunities by establishing a dedicated careers page *(www.treasury.gov/jobs)*;
3. Establishing a full-time Treasury presence on leading business and employment-focused social media platforms;
4. Closely collaborating and aligning recruitment efforts with Treasury's recently established Office of Diversity, Equity, Inclusion, and Accessibility;
5. The solicitation and cross-functional analysis of our bureaus' FY24 staffing plans to ensure their strategic hiring actions align with overall mission needs, suggested actions from our Office of Diversity, Equity, Inclusion, and Accessibility, and optimized use of hiring flexibilities and recruitment/talent outreach strategies;
6. Establishing a Treasury Recruitment Council, consisting of recruitment personnel across bureaus to identify best practices, common challenges and opportunities to collaborate within the Department;
7. Developing an active live outreach program to effectively target underrepresented communities by creating awareness, interest, educating applicants on the application process, and development of centers of influence who can partner with Treasury and refer applicants;
8. Training for bureau recruitment teams to develop and enhance current skillsets; and

9. Establishing a departmental ambassador program to ensure recruitment is conducted with a common message and brand. The program will also allow for more diversity among those that are representing the bureaus and when conducting recruiting activities.

Question. What impact have these changes had on the representation of Hispanics at Treasury?

Answer. Treasury does not establish hiring goals or quotas based on race, ethnicity, or sex. However, Treasury utilizes benchmarks for comparison of demographic representation, *i.e.,* Hispanic representation within the Federal Government workforce (9.8 percent), within the civilian labor force (13 percent), and within the relevant civilian labor force (10 percent). In FY 2022, the representation of Hispanic employees across the entire Treasury Department (including headquarters and bureaus) was 14 percent, which is above all three benchmarks.

It is also noteworthy that the representation of people of color among the senior executive ranks in Treasury Headquarters (Departmental Offices) has increased substantially to 20 percent of all executives, largely attributable to political non-career appointments made under the current administration. One third (33 percent) of the political non-career executives are people of color, including 11 percent who are Hispanic.

QUESTIONS SUBMITTED BY HON. TIM SCOTT

Question. In the *Boechler v. Commissioner* case, the IRS fought all the way to the Supreme Court—and lost 9 to 0—to argue that a taxpayer loses if they file their petition with tax court even 1 day late. But by my count, the IRS's report to you on how they will spend the $80 billion is 5 weeks late and counting.

When will this report be publicly available, and will the IRS stop fighting taxpayers on deadlines until they start meeting theirs?

Answer. The Strategic Operating Plan was released publicly on April 6th, and is available on IRS's website at: IRS Inflation Reduction Act Strategic Operating Plan|Internal Revenue Service (*https://www.irs.gov/about-irs/irs-inflation-reduction-act-strategic-operating-plan)*.

Question. The new IRS Commissioner reports to you. Have you discussed with him any of the longstanding unimplemented recommendations from the National Taxpayer Advocate that you want to see him move forward on? If so, which ones?

Answer. The National Taxpayer Advocate has long recommended service improvements to improve the taxpayer experience. The IRS agreed with many recommendations but lacked the resources to implement. Now, with IRA funding, the IRS will move forward with many high-priority taxpayer service improvements. For example:

- For several years, the NTA has recommended the IRS improve service levels and decrease wait times for taxpayers calling into the phone lines. Due to IRA funding, the IRS was able to hire 5,000 customer service representatives for filing season 2023. During filing season, these assistors consistently provided a high level of service, answering between 80–90 percent of calls with average wait times of less than 5 minutes. Due to sustained IRA funding and assumed IRS receives sufficient annual discretionary funding, the IRS will continue to maintain high levels of service and short wait times to ensure taxpayers get the help they need when they need it.
- In 2021 and 2022, the NTA recommended that the IRS improve status tracking tools like Where's My Refund? to improve transparency. The IRS previously agreed to implement if budget and resources allowed. Now, with IRA resources, the IRA will improve status tracking tools for filing season 2024 with continued improvements over the next 5 years to include personalized information about the status of refunds, return processing, audits, and more.
- Each year since 2016, the NTA has urged improvements to taxpayer online accounts, including recommendations that the IRS make payment histories available, launch business online accounts, make more notices available online, incorporate taxpayer alerts, enable secure two-way communications, and more. The IRS agreed with many of the recommendations but lacked the resources to implement. Due to IRA funding, the IRS will significantly enhance online accounts to deliver these and other long-sought capabilities to individuals, business, and tax professionals.

- In 2020, the NTA recommended the IRS enable e-filing of all forms. The IRS agreed to study this recommendation and adopt increased e-filing capabilities depending on resources. Now, with IRA resources, the IRS will move forward with making all forms available for e-filing.

Question. The Treasury Inspector General has a report estimating that getting every tax form able to be electronically filed would save the IRS $200 million a year in data entry costs and avoid keypunch errors. Save $200 million, not cost. Is 100 percent of tax forms online a top 3 priority, a top 10 priority, or not even in the top 10?

Answer. Our goal is to make Modernized e-File available whenever possible and encourage taxpayers to file electronically whenever possible to minimize errors and reduce processing time. This will save taxpayers and the IRS time and money and allow us to process returns and refunds more quickly for taxpayers. Specifically, it is now our goal that by the 2025 filing season, the IRS will achieve paperless processing, which means digitizing all paper-filed returns as soon as they are received. Achieving this milestone will enable up to 76 million paper documents to be processed digitally every year. For the 2024 filing season, we are giving taxpayers new tools that will help them go paperless should they choose. Being able to digitally submit their correspondence and responses and other paper means taxpayers will have the potential to digitally submit up to 125 million paper documents each year.

Question. As a member of both this committee and the Foreign Relations Committee—which is responsible for reviewing international treaties—I am concerned with the continued lack of transparency around the OECD tax agreement.

Despite repeated requests, you have provided no detailed information to this committee on how the OECD agreement would be implemented. Two years ago, you suggested the agreement could be implemented through a tax treaty, domestic legislation, or congressional executive agreement.

While it has always been clear that Pillar 1 requires changes to every one of our existing bilateral tax treaties, in our December letter, we highlighted treaty concerns with Pillar 2. Treasury ignored that letter and never provided a response. However, the latest OECD guidance makes the assertion that Pillar 2 is consistent with our tax treaties, with no additional analysis.

Will you commit to providing this committee with your analysis? Will you further commit to provide a detailed implementation plan for both Pillar 1 and 2, including the legislative changes and treaty changes that would be required?

Answer. When developing legislative proposals that would affect the international provisions of the Internal Revenue Code, the Treasury Department takes care to closely evaluate the question of the compatibility of the proposals with the obligations of the United States under its bilateral income tax treaties. The Treasury Department has taken the same approach with the development of Pillar 2 and believes that the Pillar 2 rules are compatible with U.S. tax treaties.

Members of the Office of Tax Policy are willing to discuss with you and your staff the analysis of the compatibility of the Pillar 2 Model Rules with our treaty obligations.

The administration's Fiscal Year 2024 budget, released on March 9, 2023, includes proposals that would align U.S. tax rules with the OECD Pillar 2 agreement. Negotiations regarding Pillar 1 are ongoing but are expected to result in an agreement to draft a multilateral convention that would, if signed and ratified, make the necessary changes to our treaties necessary to comply with any Pillar 1 agreement. Any Pillar 1 agreement and related multilateral convention would be made available to Congress for consultation.

Question. The bipartisan objective that justified entering the OECD negotiations was the elimination of discriminatory unilateral measures that unfairly target U.S. companies. The U.S. Trade Representative determined that digital services taxes (DSTs) discriminate against U.S. companies and are inconsistent with international tax principles as well as our current bilateral tax treaties. However, rather than use the tools at our disposal, the administration's agreement allows foreign countries who moved early on to enact DSTs (essentially, rewarding first movers on bad behavior) to continue to collect DSTs with no threat of section 301 measures, and U.S. companies will only receive a credit for taxes paid if Pillar 1 is implemented by the end of 2023. The U.S. Senate is not going to agree to a multilateral convention by the end of this year—particularly given the lack of meaningful, congressional consultation by this administration. Further, even the OECD recently acknowledged that this timeline is unrealistic given the amount of work that remains to be done under Pillar 1, and the deadline has already shifted to 2024 at the earliest.

What happens to DSTs given that Pillar 1 will not be implemented by the end of 2023? Don't the terms of the agreement you've reached allow foreign countries to collect discriminatory DSTs from U.S. companies with impunity?

Answer. The administration views the Pillar 1 negotiations as the best path forward on resolving the issues, as any agreed upon solution under the Pillar 1 framework will prohibit discriminatory DSTs. We are working to bring those negotiations to conclusion as soon as possible and to ensure protections for American business against discriminatory DSTs for any interim period before the Pillar 1 provisions can be approved by Congress.

Question. Financial services entities, including the insurance companies, are awaiting additional guidance with regards to calculating the Corporate Alternative Minimum Tax (CAMT) as enacted by the Inflation Reduction Act of 2022. As Treasury continues the development of implementation regulations in calculating the CAMT, I would like to call your attention to the need for additional guidance to address issues related to the treatment under the CAMT of items that are marked to market for financial statement purposes. Under generally accepted accounting principles (GAAP), corporations, including insurance companies, are required to include the change in unrealized gains and losses for certain securities in net income. This effectively requires the unrealized gains and losses from publicly traded equities and financial instruments to be included within net income on insurers' GAAP financial statements.

What is the expected timeline for regulatory guidance from Treasury regarding the application of section 56A(c)(2)(C) to explicitly exclude unrealized gains and losses from AFSI?

Answer. On February 17, 2023, Treasury and the IRS released Notice 2023–20, which provided interim guidance on the treatment of certain unrealized gains and losses for CAMT purposes to help avoid substantial unintended adverse consequences to the insurance industry. On September 12, 2023, Treasury and the IRS released Notice 2023–64, which among other things clarified that unrealized gains and losses reflected in Other Comprehensive Income are excluded from adjusted financial statement income. Treasury and the IRS are actively studying the extent to which other unrealized gains and losses from publicly traded equities and financial instruments are excluded from adjusted financial statement income under section 56A(c)(2)(C) or other provisions under section 56A and expect to issue guidance on this issue in proposed regulations or other guidance as part of Treasury's efforts to implement the CAMT.

QUESTIONS SUBMITTED BY HON. ELIZABETH WARREN

Question. House Republicans are holding the U.S. economy and millions of workers hostage by threatening not to raise the debt limit unless Democrats agree to massive cuts to critical government programs. Certainly, default would be catastrophic: according to a recent analysis, even a days-long debt ceiling breach would trigger a recession and cost nearly 1 million Americans their jobs—or, if it dragged on for months, cost roughly 7 million jobs and push unemployment beyond 8 percent.[24] But caving into Republican demands for massive cuts would be no less disastrous: austerity would trigger a year-long recession and put 2.6 million people out of work.[25] It would also diminish gross domestic product (GDP) by almost 3 percent over the next decade, the equivalent of putting the entire U.S. economy on pause for a full year.[26] As part of a recent congressional inquiry, Federal agencies revealed that even in the short term, capping fiscal year (FY) 2024 spending at FY 2022 levels would cut roughly a quarter of Federal childcare slots, push nearly 30,000 people out of opioid use disorder treatment (including veterans), eliminate hundreds of thousands of public housing vouchers, and cut the Social Security Administration

[24] Moody's Analytics, "Going Down the Debt Limit Rabbit Hole," Mark Zandi, Cristian deRitis, and Bernard Yaros, March 2023, *https://www.moodysanalytics.com/-/media/article/2023/going-down-the-debt-limit-rabbit-hole.pdf.*

[25] *Id.*

[26] *Id.*

(SSA) workforce by 6,000, adding months to wait times for retirees and people with disabilities.[27]

Both of these options are non-starters. Congress must reject House Republicans' hostage tactics and vote to raise the debt ceiling cleanly—just as Republicans did three times for President Trump.[28]

Do you agree that the two options Republicans are presenting—default and massive spending cuts—are economically dangerous?

Answer. Yes. Both options are bad for economic growth and will raise unemployment. Had Congress not acted to suspend the debt limit, a default would have caused severe hardship for American families, potentially leading to the loss of millions of jobs and trillions in household wealth, and higher financing costs for American taxpayers for years to come. Congress has a duty to ensure that the United States can pay its bills on time, and the full faith and credit of the United States must not be used as a bargaining chip.

Question. Why would a default risk a recession and cost millions of Americans their jobs?

Answer. Even approaching a default could cause an increase in borrowing costs and other financial stress, while an actual default would spark a financial crisis and global downturn of unknown but substantial severity. We have learned from past debt limit impasses that waiting until the last minute to suspend or increase the debt limit can cause serious harm to business and consumer confidence, raise short-term borrowing costs for taxpayers, and negatively impact the credit rating of the United States.

Question. Why would slashing government spending also risk a recession and cost millions of Americans their jobs?

Answer. According to analysis by Moody's Analytics,[29] government spending reductions would cut essential government services that tend to go to lower-income households that have high marginal propensities to consume, meaning that they are more likely to quickly spend the benefits they receive. Cutting this vital spending means not only harm to the households who need this support, but it also means less spending in the economy more generally, which means fewer jobs.

Question. Who are the types of workers that would lose their jobs in the event of massive spending cuts? Would it be the wealthy?

Answer. According to academic research,[30] job losses in recessions tend to particularly affect Black and Hispanic workers, youth, and those with less education. These groups tend to have lower incomes and wealth and are thus particularly negatively impacted by job loss.

Question. Any serious conversation about reducing the national debt must start with rebalancing our tax system, and not with how to inflict economic pain on working people. Republicans conveniently ignore their role in growing our national debt through shoveling massive tax breaks to the richest Americans and the biggest corporations. Thanks to corporate handouts like the Trump-era Tax Cuts and Jobs Act of 2017, which increased the deficit by more than $1.5 trillion,[31] billionaires today pay just 3 percent of their wealth each year in Federal income taxes[32]—less than half the rate that 99 percent of America pays. Giant corporations have lobbied their way from paying 6 percent of the cost of running our country to paying about 1 per-

[27] Office of Congresswoman Rosa DeLauro, "DeLauro Receives Biden Administration Responses Highlighting Impacts of Proposed House Republican Cuts," press release, March 20, 2023, *https://democrats-appropriations.house.gov/news/press-releases/delauro-receives-biden-administration-responses-highlighting-impacts-of-proposed.*

[28] *The Washington Post,* "How GOP debt ceiling votes decline under Democratic presidents," Aaron Blake, January 20, 2023, *https://www.washingtonpost.com/politics/2023/01/20/debt-ceiling-votes-white-house/.*

[29] Moody's Analytics, "The Debt Limit Drama Heats Up," Mark Zndi and Bernard Yaros, April 2023, debt-limit-drama.pdf (*https://www.moodysanalytics.com/-/media/article/2023/debt-limit-drama.pdf).*

[30] NBER working paper "Who Suffers During Recessions?", Hilary W. Hoynes, Douglas L. Miller, and Jessamyn Schaller, March 2012, *https://www.nber.org/papers/w17951.*

[31] Tax Policy Center, "How did the TCJA affect the federal budget outlook?", *https://www.taxpolicycenter.org/briefing-book/how-did-tcja-affect-federal-budget-outlook.*

[32] ProPublica, "America's Highest Earners and Their Taxes Revealed," Paul Kiel, Ash Ngu, Jesse Eisinger, and Jeff Ernsthausen, April 13, 2022, *https://projects.propublica.org/americas-highest-incomes-and-taxes-revealed/.*

cent of the cost of running our country.[33] And Republicans don't want to stop there—their latest proposals would add another $3 trillion to the national debt, while raising costs for working families in the process.[34] In contrast, President Biden's budget for FY 2024 would reduce the deficit by nearly $3 trillion by imposing a new minimum tax on billionaires; raising the domestic corporate tax rate and doubling the tax on corporations' foreign earning; quadrupling the stock buyback tax rate; and rolling back the 2017 income and capital gains tax breaks for the wealthy.[35] And it would accomplish all of this without raising taxes on a single American making less than $400,000 per year; in fact, the proposed budget would *lower* the tax burden on working families by restoring the Child Tax Credit and Earned Income Tax Credit expansion.[36]

Moreover, Moody's Analytics Chief Economist Dr. Mark Zandi testified earlier this month before the Senate Banking, Housing, and Urban Affairs Committee that these sorts of tax increases on the wealthiest individuals and corporations would have marginal economic impacts, and certainly not the significant hits to growth and employment that Republicans' proposed spending cuts would have.[37] And in a 2021 analysis of President Biden's Build Back Better plan—which contained similar tax provisions to those in the President's FY 2024 budget—Dr. Zandi found that the investments President Biden has proposed would grow our economy, and that "the financial benefits of that added growth largely accrue to hard-pressed lower-income and less-wealthy Americans."[38]

Can you explain why the President's proposals to raise taxes on the wealthiest individuals and largest corporations would not have the same negative impact on the economy as Republicans' proposals for massive spending cuts would?

Answer. Legislation enacted in recent years has laid a foundation for long-term economic growth through an approach that I call modern supply-side economics. This approach seeks to boost the economy's productive capacity by expanding the workforce and increasing productivity. In just the past 2 years alone, Congress passed three transformational laws consistent with this approach: a generational investment in infrastructure; a historic expansion of American semiconductor manufacturing; and the largest investment in clean energy in our Nation's history.

The President's budget would further build on our economic progress by making smart, fiscally responsible investments. These investments would be more than fully paid for by requiring corporations and the wealthiest to pay their fair share. Fiscal discipline remains a central priority in our budget. We've proposed a minimum income tax of 25 percent on taxpayers with wealth in excess of $100 million. We've also proposed an increase of the corporate tax rate to 28 percent from the current 21 percent. Finally, we've proposed reforms that would implement the global minimum tax deal. This new regime will end a race to the bottom in corporate taxation—and raise crucial revenue for essential investments like those proposed in the President's budget.

On the spending side, we suggest additional investments to boost our long-term growth potential. This includes improving the availability of high-quality child care, providing free and universal pre-school, and boosting the supply of affordable housing. We also propose restoring the Child Tax Credit and Earned Income Tax Credit expansions that were enacted in 2021 but have since expired.

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[33] Testimony of Gabriel Zucman to the U.S. Senate Committee on the Budget, March 25, 2021, *https://www.budget.senate.gov/imo/media/doc/Gabriel%20Zucman%20-%20Testimony%20-%20US%20Senate%20Budget%20Committee%20Hearing.pdf#page=9.*

[34] CBS News, "White House claims GOP plans would add $3 trillion to national debt," February 15, 2023, *https://www.cbsnews.com/news/biden-national-debt-republican-plans-white-house/.*

[35] The White House, "Fact Sheet: The President's Budget for Fiscal Year 2024," press release, March 9, 2023, *https://www.whitehouse.gov/omb/briefing-room/2023/03/09/fact-sheet-the-presidents-budget-for-fiscal-year-2024/.*

[36] *Id.*

[37] Office of U.S. Senator Elizabeth Warren, "ICYMI: At Hearing, Warren Warns Republicans' Debt Ceiling Hostage Demands Would Cut 2.6 Million Jobs and Trigger Recession," press release, March 8, 2023, *https://www.warren.senate.gov/newsroom/press-releases/icymi-at-hearing-warren-warns-republicans-debt-ceiling-hostage-demands-would-cut-26-million-jobs-and-trigger-recession.*

[38] Moody's Analytics, "The Macroeconomic Consequences of the American Families Plan and the Build Back Better Agenda," Mark Zandi and Bernard Yaros, May 2021, *https://www.moodysanalytics.com/-/media/article/2021/American-Families-Plan-Build-Back-Better-Agenda.pdf.*

Modern supply-side economics is far more promising than the old supply-side economics, which I see as having been a failed strategy for increasing growth. Significant tax cuts on capital have not achieved their promised gains. In contrast, modern supply-side economics prioritizes labor supply, human capital, public infrastructure, R&D, and investments in a sustainable environment. These focus areas are all aimed at increasing economic growth and addressing longer-term structural problems, particularly inequality.

Question. Congress passed the Corporate Transparency Act (CTA) in 2021 to end the abuse of anonymous U.S. shell companies by requiring entities to name their true, "beneficial" owner to a directory administered by the Financial Crimes Enforcement Network (FinCEN), housed within your department. However, FinCEN's proposed second and third rules, regarding access to the database and the beneficial ownership information (BOI) disclosure form, respectively, impose serious roadblocks to key potential users of the database and provide an "escape hatch" for businesses to simply choose not to comply with the law.

The proposed access rule veers away from the goal of the CTA by requiring State, local, and Tribal law enforcement agencies to obtain a court order before they can access the database (as opposed to simply receiving "authorization" from a "court officer"). In addition, the rule does not clarify whether FinCEN will include mechanisms to verify the data that is submitted by covered persons and entities. Finally, the proposed rule that contains the form for collecting and reporting BOI gives businesses subject to the CTA the option to state that they are essentially "unable to obtain" the BOI—providing the millions of individuals and businesses subject to the CTA's BOI disclosure requirements with a clear path for evading its core requirements.

These rules, as they are currently written, deviate from both congressional intent and the letter of the CTA. They will make it more difficult for companies to disclose the information required by the law and will hamper the database's intended users—law enforcement, financial institutions, and more—from accessing and utilizing this information efficiently and effectively.

On what grounds (statutory, regulatory, or any other) did FinCEN include a requirement that law enforcement agencies obtain a "court order" to access the BOI database?

Answer. The CTA provides that a State, local, or Tribal law enforcement agency may receive beneficial ownership information (BOI) from FinCEN if a court of competent jurisdiction has authorized the agency to seek that information in a criminal or civil investigation. The proposed requirement that a State, local, or Tribal law enforcement agency submit a copy of a court order as evidence of the agency's court authorization was intended to facilitate FinCEN's audit and oversight of requests for BOI, consistent with the requirements of the CTA, and FinCEN specifically sought comments on the scope of this provision as part of its Notice of Proposed Rulemaking. FinCEN is carefully considering the public comments as part of an active rulemaking process. Because we are in an active rulemaking process, we are unable to comment on any particular policy decision at this time.

Question. Is FinCEN planning to include measures to verify the data that companies submit?

Answer. Commenters to the beneficial ownership rulemakings have highlighted the importance validating beneficial ownership information (BOI) to ensure that the BOI database is accurate, complete, and highly useful. FinCEN has engaged in substantial consultations regarding validation of BOI. FinCEN's validation of BOI presents several complex challenges, including information availability, technical requirements, resource constraints, and legal considerations. FinCEN continues to review the options available for it to validate BOI within the legal constraints of the CTA.

Question. For what reason did FinCEN include an option in the BOI form proposed rule for companies not to comply with the CTA?

Answer. The "unknown" checkbox was not intended to provide any exception to the reporting obligation. To be clear, reporting companies have a regulatory obligation to submit accurate and complete beneficial ownership and company applicant information to FinCEN. The proposal to include an "unknown" checkbox was intended to facilitate compliance and enforcement by creating a mechanism for FinCEN to track incomplete reports and to follow up regarding missing information.

As part of its obligations under the Paperwork Reduction Act (PRA), FinCEN issued a notice and request for comment on the BOI reporting form. At the conclusion of the comment period, FinCEN received valuable feedback on the form from a variety of stakeholders. FinCEN is working to issue an updated BOI reporting form as soon as possible. As part of that process, FinCEN is reviewing all comments received in response to the notice and is focused on the concerns raised about the unknown checkbox. We are considering all options, including removal of the check box, to ensure that it is clear that reporting companies have an obligation to submit all BOI and to ensure that the form can be used in a way that maximizes FinCEN's ability to conduct compliance and enforcement reviews.

Furthermore, we intend to ensure that the reporting company user experience makes clear that the reporting company submitter is required to ensure that reports are accurate and complete and that all information is submitted.

Question. Given these shortcomings, do you believe either or both of these proposed rules to be consistent with Congress's intent in passing the CTA as well as the language of the CTA as written?

Answer. FinCEN's priority is to implement a highly useful beneficial ownership reporting regime, while minimizing burden on reporting companies (particularly small businesses) and financial institutions, as required by the CTA. FinCEN is carefully reviewing comments received in response to the BOI access Notice of Proposed Rulemaking and the associated BOI reporting form. Because FinCEN is engaged in an active rulemaking process, we are unable to comment further on any particular policy decision at this point.

Question. Do you agree that businesses being able to opt out of answering 14 out of 16 questions in the BOI collection form will significantly diminish the utility of the database? Why or why not?

Answer. To be clear, reporting companies have a regulatory obligation to submit accurate and complete beneficial ownership and company applicant information to FinCEN. Willful violation of that requirement can result in civil and criminal penalties. Furthermore, we intend to ensure that the reporting company user experience makes clear that the reporting company submitter is required to ensure that reports are accurate and complete.

Question. With the passage of Democrats' Inflation Reduction Act (IRA) last August, the Internal Revenue Service (IRS) received roughly $80 billion in new funding, with around $3 billion earmarked for addressing the agency's significant backlog (3.8 million returns during the 2022 filing season) and improving taxpayer services. The IRS urgently needed the new cash infusion: Republican attacks have left the agency chronically underfunded and short-staffed, leading to longer wait times and possibly disastrous consequences for families and businesses in need of immediate assistance.

Many tax filers have faced significant delays in receiving their refunds in the past several tax filing seasons. For example, through conversations with my constituents and with the National Taxpayer Advocate, I have learned that it is common for applicants for the Employee Retention Tax Credit (ERTC) to have to wait more than 18 months to receive the tax credit, potentially forcing some businesses to close their doors for good and put even more Americans out of a job.

Already, the IRA funding has helped the IRS to make significant progress in addressing the backlog. At the start of 2022, the agency had a backlog of 4.7 million individual unprocessed paper returns; by late December of the same year, 4 months after the IRA's passage, that figure had dropped to roughly 400,000, or more than 90 percent.[39]

Do you agree that the new IRS funding included in the IRA has helped, and will continue to help, address these issues?

Answer. Yes. The IRA funding, along with IRS's annual discretionary funding, has been essential for improving service this filing season, including working down IRS's paper inventory. The IRS has processed all original paper and electronic individual and business returns received prior to January 2023. In addition, the three IRS processing centers have been opening mail within normal time frames all year. IRA funding allowed IRS to hire over 5,000 new customer service representatives,

[39] CNBC, "After 'misery' for tax filers in 2022, IRS to start 2023 tax season stronger, taxpayer advocate says," Kate Dore, January 12, 2023, *https://www.cnbc.com/2023/01/12/irs-to-start-2023-tax-season-stronger-taxpayer-advocate-says.html.*

bringing phone staffing to its highest level ever. During filing season, these IRS live assistors consistently answered 80–90 percent of customer calls, up from 18 percent last filing season, and average call wait times are down to 4 minutes, down from 30 minutes last filing season. In addition, IRS has used new resources to deploy online tools that save taxpayers time and money, and create efficiencies. For example, IRS launched a new tool that allows small businesses to e-file their 1099 forms for the first time. The IRS hit a major milestone in adopting new technology that will enable the automation of the scanning of millions of individual paper returns, scanning 480,000 940 forms as of April 7th. In the first quarter of the year, IRS scanned 80 times more returns than in all of 2022. Taxpayers are now able to respond to notices online and have new online filing options. Until this filing season, when taxpayers received notices for things like document verification, they had to respond through the mail. Taxpayers are now able to respond to nine of the most common notices for credits like the Earned Income and Health Insurance Tax Credits online, saving them time and money. Finally, IRS created a direct-deposit refund option for 1040X amended returns. These refunds were previously only available by paper check, delaying taxpayers' receipt of their refund.

Question. What is the IRS's plan to continue to address the backlog and shorten wait times for families and businesses?

Answer. Assuming IRS continues to receive sufficient discretionary resources—including funding to cover inflationary costs and additional needs in taxpayer services, operations, and IT—along with the planned IRA spending, IRS will fundamentally transform its services and technology. In the first 5 years of the 10-year plan, the IRS will eliminate the possibility of future paper backlogs that have delayed taxpayer refunds by digitizing forms and returns at the point of receipt and transitioning to fully digital correspondence processes. This was an acute issue during the pandemic and IRS is committed to changing the technology to ensure it doesn't happen again. The agency has already made progress on this front, by scanning 480,000 940 forms as of April 7th. As a result of hitting this milestone, IRS is expanding scanning to the most used forms, the 1040 and 941. The IRS is on track to scan millions of returns this year, which will result in faster processing and refunds. While the IRS will preserve paper filing options, digitizing all returns at the outset will allow IRS to focus on customer service, not processing paper. In addition, the IRS is working to fully staff all Taxpayer Assistance Centers (TACs) nationwide by next year and ensure TACs are open for additional hours that help working families access in-person service, such as by having some TACs open on Saturdays during filing season. IRS will also continue to improve phone and other services for taxpayers building off the successes of this filing season.

QUESTIONS SUBMITTED BY HON. TODD YOUNG

Question. As I mentioned during the hearing, President Biden has repeatedly promised not to raise taxes on anyone making less than $400,000 per year. As you stated during the hearing, "there certainly are aspects of TCJA that, if they sunset, would impact households where taxpayers are earning under $400,000." However, the President's FY 2024 budget does not extend any provision of the 2017 Tax Cuts and Jobs Act (TCJA) past 2025.

During the hearing, you committed to providing my office with a list of TCJA tax rates and other provisions that, if they were to expire in 2025 as currently scheduled, would violate President Biden's pledge not to raise taxes on anyone earning less than $400,000.

Can you please provide a comprehensive list of such tax rates and other provisions? Please note that during the hearing, I requested that you provide me with this list within 2 weeks of the hearing date.

Answer. The TCJA is a complex piece of legislation with many interrelated parts, including both gross tax increases and tax cuts. The net effect of the expiring provisions on a household depends on how all expiring provisions are addressed. The President will work with the Congress to address the 2025 expiration of portions of the TCJA, and focus tax policy on rewarding work not wealth, based on the following guiding principles. The President:

- Opposes increasing taxes on people earning less than $400,000 and supports cutting taxes for working people and families with children to give them more breathing room;

- Opposes cutting taxes for the wealthy—either extending tax cuts for the wealthy or bringing back tax breaks that would benefit the wealthy; and
- Supports additional reforms to ensure that wealthy people and big corporations pay their fair share, so that America pays for the continuation of tax cuts for people earning less than $400,000 in a fiscally responsible manner and addresses the problematic sunsets created by President Trump and congressional Republicans.

Question. The President's FY 2024 budget proposes raising the top Federal income tax base rate to 39.6 percent, and applying this rate to all income above $450,000 for joint filers, $425,000 for heads of households, and $400,000 for single filers. These dramatically lowered top income tax rate brackets are a serious mismatch with current law income tax rate brackets and would likely also violate the President's pledge to not raise taxes on anyone earning less than $400,000.

The last time the 39.6-percent rate was reinstated was in 2013, during President Biden's tenure as Vice President. Was the 2013 bracket structure the brackets Treasury assumed are in place when you made your estimates regarding this FY 2024 proposal? If not, please provide the specific brackets that you assumed were in place when you made your estimate.

Answer. The President's budget would increase the top marginal tax rate to 39.6 percent. The 39.6-percent rate would apply to taxable income over $450,000 for married individuals filing a joint return, $400,000 for unmarried individuals (other than surviving spouses), $425,000 for head of household filers, and $225,000 for married individuals filing a separate return. After 2024, the thresholds would be indexed for inflation using the C-CPI-U, which is used for all current thresholds in the tax rate tables. The proposal would make no changes to the tax rates or brackets that apply below these thresholds.

Question. When you came before the Senate Finance Committee last year regarding President Biden's FY 2023 budget, I asked you in a question for the record why the Biden administration had agreed to rules at the OECD that would substantially diminish the value of our research and development (R&D) tax credit. In your answer, you stated that when determining the effective tax rate, "[f]ailure to account for credits and other incentives would render the minimum tax meaningless." My concern is that by the design of the current Pillar 2 agreement, we are directly *disincentivizing* U.S. companies from engaging in important activities in the U.S. by allowing outside countries to increase taxes on U.S. entities for U.S. activities.

Can you please detail what efforts the U.S. Treasury Department made to protect U.S. interests by advocating that U.S. tax credits should not decrease a company's effective minimum tax rate in the U.S. under the Pillar 2 agreement?

Answer. The Pillar 2 rules must take into account credits and other tax incentives to be meaningful. At the same time, Pillar 2 was not meant to, and does not, address all forms of government spending. The Pillar 2 rules therefore require a rule to distinguish tax incentives from other forms of government subsidies, and that rule follows the financial accounting treatment of credits—nonrefundable credits reduce tax expense and refundable credits are like government grants and are therefore treated as income.

The decision to follow the financial accounting distinction between refundable and non-refundable tax credits in determining the effective tax rate for Pillar 2 purposes was made in the Pillar 2 blueprint, which was agreed and published in 2020 during the prior administration. Since that decision was made, the Biden administration has worked within that framework to protect key U.S. tax incentives. Treasury has secured agreement protecting U.S. credits in a number of cases, including (i) carryforward of the full benefit of existing stocks of credit carryforwards due to the transition rules (ii) protection of low-income housing tax credits and green incentives through tax equity investments, and (iii) protection of transferable credits and direct pay credits in the commentary to the Pillar 2 rules.

The U.S. Treasury continues to engage multilaterally on this issue through the ongoing discussions at the OECD.

Question. Why were other countries, like Great Britain, more successful in protecting their tax incentives? How do their successes instruct your Department's approach to renegotiations on this subject?

Answer. The U.S. Treasury continues to represent U.S. interests in the ongoing multilateral negotiations at the OECD, which is the best forum for protecting those interests.

Question. The current OECD Pillar 2 agreement will be especially problematic for S corporation ESOPs, which were intentionally created by Congress to encourage employee ownership and help workers build retirement savings. Pillar 2 would create an entity-level tax on multinational S ESOPs, even when they are employee-owned and their owners are already taxed at ordinary income rates when they realize the value of their interests. I am concerned that this tax will negatively impact employee-owners and their retirement accounts directly.

What will the Treasury Department do to ensure the OECD does not move forward with a global minimum tax that includes employee-owned S corporations?

Answer. The U.S. Treasury continues to participate in the ongoing negotiations at the OECD. We are engaged on this issue and are pursuing a multilateral resolution.

Question. As you know, I have worked with my Senate Finance Committee colleague, Senator Hassan, on restoring research and development (R&D) tax incentives. We recently reintroduced our American Innovation and Jobs Act which, among other things, would make full and immediate expensing of R&D expenditures under section 174 permanent. The bill already enjoys considerable bipartisan support, and our list of bipartisan cosponsors continues to grow.

Do you agree it is important to support domestic R&D activities here in the United States to remain competitive against our international rivals, including China, yes or no?

Will you commit to supporting the Hassan-Young American Innovation and Jobs Act, yes or no? Why or why not?

During the recent House Ways and Means Committee hearing on the President's FY 2024 budget, when asked whether you would commit to helping Congress restore section 174 R&D expensing, you said you were "working with Congress to put something more effective in place." Please provide specifics detailing how you have been working with Congress on this vague alternative. As a leader on the R&D issue, I for one have not heard from you or anyone at Treasury on this alternative proposal.

Please provide specific details on this "more effective" R&D proposal you and President Biden are hoping to implement in lieu of section 174 and other R&D incentives.

Answer. Research and development are one of many types of investments that are critical drivers of competitiveness and long-run growth. The President's budget proposes a range of investments to boost our long-term growth potential, including improving the availability of high-quality childcare, providing free and universal preschool, and boosting the supply of affordable housing.

When it comes to tax policy, the President strongly believes that any bill that cuts taxes for big corporations must also cut taxes for working people and families with children. As you note, the budget proposes to repeal the foreign-derived intangible deduction and use the revenues raised to encourage R&D.

Question. In response to my question for the record following last year's budget hearing, when asked about the apparent leak of confidential information to ProPublica, you stated: "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."

Do you still agree with your above statement, yes or no?

I received your above response to my question for the record on February 10, 2023, via the Senate Finance Committee majority staff. Since February 10, 2023, have you requested a status update on the ProPublica investigation from the Office of Inspector General, the Treasury Inspector General for Tax Administration, and/or the Department of Justice, yes or no?

If your response to the previous question is "yes," please provide details as to the dates and relevant offices for each and every status update request you have placed during that time. If your response to is "no," please explain why you have not requested a status update despite "remain[ing] deeply concerned about this matter." If you requested status updates prior to February 10, 2023, please provide details on those inquiries.

At any point following the June 8, 2021, publication of the ProPublica article that contained the confidential taxpayer data, have you or anyone on your staff briefed the Senate Finance Committee chairman or majority staff on the matter, yes or no? If your answer is "yes," please provide dates and attendee details.

Answer. As you know, I ensured this matter was immediately referred to the appropriate authorities, which conduct their investigations independently. I would refer you to the Treasury Inspector General for Tax Administration and the Department of Justice for more information, including about any briefings provided to Congress.

Question. Section 107 of the CHIPS and Science Act of 2022 established the Advanced Manufacturing Investment Credit (AMIC) codified in section 48D of the Internal Revenue Code. Briefly, the AMIC allows for a 25-percent credit on any qualified property "integral to the operation of [an] advanced manufacturing facility" for which the "primary purpose is the manufacturing of semiconductors or semiconductor manufacturing equipment." The Department released a Notice of Proposed Rulemaking (NOPR) on March 23, 2023.

How is the U.S. Treasury Department, together with the Internal Revenue Service, engaging with stakeholders and Congress to determine eligibility requirements for the AMIC, specifically as it pertains to eligibility for the semiconductor ecosystem at large and congressional intent?

Answer. Earlier this year, in coordination with the Department of Commerce and the Department of Defense, Treasury and the IRS published a Notice of Proposed Rulemaking with proposed rules to implement the section 48D investment tax credit and the special "applicable transaction" recapture rule in section 50(a)(3). The NPRM expressly requested public comment on issues like the scope of terms like "semiconductor," and we will carefully consider public feedback and work with interagency partners before issuing final rules.

Question. How is the delay in issuing final regulations affecting the semiconductor industry (*e.g.,* in terms of project delays)? What steps are being taken to remedy the negative impact of this delay on the industry?

Answer. Consistent with the Administrative Procedure Act, the proposed regulations are going through a rulemaking process that provides the public notice and an opportunity to comment before we issue final regulations. We will carefully consider public feedback and work expeditiously with interagency partners to issue final regulations.

Question. Ultimately, how does the delay in issuing final regulations affect the primary goal of the CHIPS Act—securing America's global leadership in the production of next generation chips?

Answer. Based on public reporting of announcements by semiconductor manufacturers that are investing hundreds of billions of dollars in U.S. semiconductor manufacturing, we are not aware of any such impacts.

Question. What steps are the Treasury Department and the Internal Revenue Service taking to ensure that future regulations are issued swiftly?

Answer. Consistent with the Administrative Procedure Act, the proposed regulations are going through a rulemaking process that provides the public notice and an opportunity to comment before we issue final regulations. We will carefully consider public feedback and work expeditiously with interagency partners to issue final regulations.

Question. Last year, my Democratic colleagues enacted a 1-percent excise tax on stock buybacks as part of the Inflation Reduction Act. At the time, my constituents expressed concern over the lack of clarity as to how that tax would be applied to preferred stocks. While there was initially an indication that the IRS would exempt preferred stocks from this excise tax, recently released guidance indicates that the IRS is going to take the position that the tax does apply. This interpretation seems out of line with the general intent of the new law.

As an example, let's say a corporation has outstanding common stock that is traded on an established securities market, as well as mandatorily redeemable preferred stock that is not traded on an established securities market. The preferred stock is stock for Federal tax purposes. On January 1, 2023, that same corporation redeems the preferred stock pursuant to its terms. Under some practitioners' interpretation of the IRS's Notice 2023–2,[40] redemption by the corporation of its mandatorily redeemable preferred stock would be considered a repurchase and is therefore taxed as such.

Do you agree with the interpretation that, pursuant to the IRS's initial guidance, the 1-percent excise tax would apply in this circumstance, yes or no? Why or why not?

Answer. Yes, Notice 2023–2 explicitly addresses the fact pattern that you described above in order to provide clarity as to how the excise tax applies to preferred stock, although this initial guidance only describes regulations that the Treasury Department and the IRS intend to propose.

Example 1 of Notice 2023–2[41] provides a fact pattern in which a corporation (Corporation X) has outstanding common stock that is traded on an established securities market, as well as mandatorily redeemable preferred stock that is not traded on an established securities market. Example 1 further provides that (i) the Corporation X preferred stock is stock for Federal tax purposes, and (ii) on January 1, 2023, Corporation X redeems the preferred stock pursuant to its terms.

Based on this fact pattern, Example 1 provides the following analysis and conclusion: "The redemption by Corporation X of its mandatorily redeemable preferred stock is a repurchase because (i) Corporation X redeemed an instrument that is stock for Federal tax purposes (that is, mandatorily redeemable preferred stock issued by Corporation X), and (ii) the redemption by Corporation X is a 26 U.S.C. § 317(b) redemption."[42]

Accordingly, the proposed regulations described in Notice 2023–2 would provide that a redemption by a corporation of its mandatorily redeemable preferred stock is a repurchase and therefore is taxed as such under the excise tax statute. However, we will carefully consider public feedback in accordance with the Administrative Procedure Act as our rulemaking process on the implementation of this excise tax proceeds.

Question. If your answer to part (a) is "yes," please explain whether you believe this outcome is consistent with the Inflation Reduction Act.

Answer. The first rule of the excise tax statute provides that the tax is imposed on "the fair market value of *any stock of the corporation* which is repurchased by such corporation during the taxable year."[43] Similarly, that statute defines a "repurchase" to mean "a redemption within the meaning of 26 U.S.C. § 317(b) with regard to *the stock* of a covered corporation" and any transaction determined to be economically similar to such a redemption.[44] Congress's decision not to provide any exception for preferred stock (or any other type of stock) is confirmed by 26 U.S.C. § 4501(f)(2), in which Congress explicitly requested the Treasury Department to consider regulations or other guidance to address special classes of stock and preferred stock.

Notice 2023–2 mirrors the excise tax statute by defining the term "stock" in relevant part to mean "*any instrument issued by a corporation that is stock* or that is treated as stock for Federal tax purposes at the time of issuance."[45] To implement Congress's request that the Treasury Department consider special treatment for preferred stock and other special classes of stock, Notice 2023–2 provides the following request for public comments:

> Are there circumstances under which special rules should be provided for redeemable preferred stock or other special classes of stock or debt (including debt with features that allow the debt, whether by the issuer, the holder, or otherwise, to be converted into stock)? If so, please provide objectively verifiable criteria that such special rules should incorporate to provide certainty for taxpayers and the IRS.[46]

[40] *https://www.irs.gov/pub/irs-drop/n-23-02.pdf.*
[41] Notice 2023–2, section 3.09(1) (entitled "Example 1: Redemption of Preferred Stock").
[42] *Id.*
[43] 26 U.S.C. § 4501(a) (emphasis added).
[44] 26 U.S.C. § 4501(c)(1) (emphasis added).
[45] Notice 2023–2, section 3.02(25) (providing a definition for the term "stock") (emphasis added).
[46] Notice 2023–2, section 6.01(1) (under the heading entitled "Comments Regarding Rules Included in Notice").

The Treasury Department will carefully consider such public comments in developing the proposed excise tax regulations, which will also go through a public notice-and-comment process before any final regulations are issued.

Question. Though I disagree wholeheartedly with much of the administration's proposed FY 2024 budget, there are some areas where we are in agreement on expanding affordable housing production through the Low-Income Housing Tax Credit (LIHTC)—a bipartisan, effective, and ready-to-go tool. I have heard from businesses, families, and individuals in urban, suburban, and rural areas about the need for more affordable housing and the benefits of LIHTC in their communities.

However, despite estimates showing a shortage of 7 million affordable homes to serve our constituents in need, we let a cut to LIHTC, the primary tool for affordable housing production, stand with the expiration of the 12.5-percent increase at the end of 2021. To meet this crisis head-on, I am proud to partner with Senator Cantwell, Chairman Wyden, and this year, upon Senator Portman's retirement, our new Senate Finance Committee colleague Senator Blackburn, to expand LIHTC resources and enact bipartisan and effective policies to increase affordable housing supply. These reforms include increasing LIHTC allocations and increasing access to LIHTC equity by reducing the number of bonds needed for shovel-ready developments.

All of this is critical to any progress we have made working together on the CHIPS and Science Act, because if the workforce housing is not there we will be unable to fuel the critical expansion of manufacturing in our Nation.

Will you commit to working with us to enact a much-needed expansion of affordable housing production that will directly impact not only working families struggling with their budgets, but also help businesses, farms, and communities on the workforce housing front to enhance local economic growth?

Answer. As you know, the administration's revenue proposals include two items that are also mentioned in your question: an increase in the potential credits available for allocation and a reduction in the level of tax-exempt financing needed for bond-derived LIHTC eligibility. We welcome the opportunity to work with you to see these necessary changes enacted.

Question. In addition to the administration's support of the LIHTC program, I also appreciated the inclusion of a proposal in line with Senator Cardin's and my Neighborhood Homes Investment Act (NHIA). Our bill creates a Federal tax credit that covers the cost between building or renovating a home in distressed areas and the price at which they can be sold. The legislation also caps the price of sales for each home to ensure that they are affordable housing options in the community. The NHIA would also help existing homeowners in these neighborhoods to renovate and stay in their homes.

Do you agree that it is important to help revitalize communities from within so that distressed neighborhoods are not permanently subjected to blight?

Will you commit to working with me and Senator Cardin as we seek to pass our Neighborhood Homes Investment Act into law this Congress?

Answer. The President's budget includes a proposal for a Neighborhood Homes Credit. We would welcome further engagement with your staff on this important issue.

PREPARED STATEMENT OF HON. TODD YOUNG, A U.S. SENATOR FROM INDIANA

Secretary Yellen, I want to voice my continued frustration over the way the administration has handled the OECD Pillar 2 negotiations. Over the years, on a bipartisan, bicameral basis, tax writers have focused on what the agreement would mean for the U.S. tax base. After all, if we get that wrong and the U.S. tax base is harmed, we would be enabling further Federal fiscal deterioration. Our constituent workers, job-creating businesses, and taxpayers will pay the price if we get it wrong. Yet here we are, almost a year and a half after your fellow finance ministers and you reached agreement on Pillar 2, and you have not made the case that U.S. workers and the job-creating businesses that employ them will be better off if the U.S. Congress and the world adopt Pillar 2. I am not asking whether a Joint Committee on Taxation table would show revenue gains if we enacted the Biden administration's more onerous per-country Global Intangible Low-Taxed Income

(GILTI) system. I am asking, would we undermine the incentive to invest and grow jobs in the U.S. if this regime were enacted globally?

Suffice it to say, I have my doubts in large part because the Pillar 2 Under-Taxed Profits Rule (UTPR) would uniquely disadvantage American workers and job-creating businesses by providing our trading partners with the political blessing to tax the U.S. activity of U.S. companies. This would directly undercut our sovereignty as a Nation and the legislative power of tax writers to provide bipartisan and well-established economic incentives, such as the research and development tax credit or even incentives such as transferable renewable energy credits enacted just a few months ago, solely on the votes of our friends on the other side of the aisle.

These and more look to be wiped out under Pillar 2. When asked last week during the House Ways and Means hearing, you said those incentives would be lost under the current Base Erosion and Anti-abuse Tax (BEAT) regime, but I have checked and that is at best a theoretical risk that exists only in the minds of an academic with no practical experience. U.S. companies can and will generally take great pains to avoid losing credits to the BEAT. But the only way they could avoid losing credits to the UTPR is to stop doing the R&D or investing in renewable energy sources. I cannot understand why we allowed other countries to protect their incentive regimes while throwing ours to the wolves. How is that possibly in America's interest?

Madam Secretary, with all due respect, I think the Treasury Department has gotten the policy process backward. Instead of proceeding from longstanding bipartisan, bicameral principles I've mentioned, they have negotiated an agreement at odds with those principles and now want to force Congress to act. But this Congress will do no such thing. Our negotiating partners need to know that while they may have bested us in the negotiations, this Congress will not blindly ratify such an awful result. If there is to be any hope of Congress acting on these matters, it will only be after Treasury returns to the negotiating table to work out an agreement that actually serves the interest of U.S. workers and their employers, and I would urge you to do so at the first available opportunity. Failing that, I fear we are headed to more tax and trade disputes that will only undermine our collective economic interests.

YOUNG AMENDMENT NO. 3444

August 10, 2021 CONGRESSIONAL RECORD—SENATE **S6359**

SA 3444. Mr. YOUNG proposed an amendment to the concurrent resolution S. Con. Res. 14, setting forth the congressional budget for the United States Government for fiscal year 2022 and setting forth the appropriate budgetary levels for fiscal years 2023 through 2031; as follows:

On page 53, line 8, strike the period and insert ", except that no adjustment shall be made pursuant to this subsection if such legislation raises taxes on people making less than $400,000.".

United States Senate

Roll Call Vote 117th Congress—1st Session

Vote Summary

Question: On the Amendment (Young Amdt. No. 3444)

Vote Number: 335 **Vote Date:** August 10, 2021; 09:51 PM

Required For Majority: ½ **Vote Result:** Amendment Agreed to

Amendment Number: S. Amdt. 3444 to S. Con. Res. 14 (No short title on file)

Statement of Purpose: To prevent tax increases that would violate President Biden's repeated promise to not impose a single penny in tax increases on people making less than $400,000 per year.

Vote Counts: YEAs 98
NAYs 1
Not Voting 1

*Information compiled through Senate LIS by the Senate bill clerk under the direction of the Secretary of the Senate

Alphabetical by Senator Name

Baldwin (D–WI), **Yea**
Barrasso (R–WY), **Yea**
Bennet (D–CO), **Yea**
Blackburn (R–TN), **Yea**
Blumenthal (D–CT), **Yea**
Blunt (R–MO), **Yea**
Booker (D–NJ), **Yea**
Boozman (R–AR), **Yea**
Braun (R–IN), **Yea**
Brown (D–OH), **Yea**
Burr (R–NC), **Yea**
Cantwell (D–WA), **Yea**
Capito (R–WV), **Yea**
Cardin (D–MD), **Yea**
Carper (D–DE), **Nay**
Casey (D–PA), **Yea**
Cassidy (R–LA), **Yea**
Collins (R–ME), **Yea**
Coons (D–DE), **Yea**
Cornyn (R–TX), **Yea**
Cortez Masto (D–NV), **Yea**
Cotton (R–AR), **Yea**
Cramer (R–ND), **Yea**
Crapo (R–ID), **Yea**
Cruz (R–TX), **Yea**
Daines (R–MT), **Yea**
Duckworth (D–IL), **Yea**
Durbin (D–IL), **Yea**
Ernst (R–IA), **Yea**
Feinstein (D–CA), **Yea**
Fischer (R–NE), **Yea**
Gillibrand (D–NY), **Yea**
Graham (R–SC), **Yea**
Grassley (R–IA), **Yea**
Hagerty (R–TN), **Yea**
Hassan (D–NH), **Yea**
Hawley (R–MO), **Yea**
Heinrich (D–NM), **Yea**
Hickenlooper (D–CO), **Yea**
Hirono (D–HI), **Yea**
Hoeven (R–ND), **Yea**
Hyde-Smith (R–MS), **Yea**
Inhofe (R–OK), **Yea**
Johnson (R–WI), **Yea**
Kaine (D–VA), **Yea**
Kelly (D–AZ), **Yea**
Kennedy (R–LA), **Yea**
King (I–ME), **Yea**

Klobuchar (D–MN), **Yea**
Lankford (R–OK), **Yea**
Leahy (D–YT), **Yea**
Lee (R–UT), **Yea**
Lujan (D–NM), **Yea**
Lummis (R–WY), **Yea**
Manchin (D–WY), **Yea**
Markey (D–MA), **Yea**
Marshall (R–KS), **Yea**
McConnell (R–KY), **Yea**
Menendez (D–NJ), **Yea**
Merkley (D–OR), **Yea**
Moran (R–KS), **Yea**
Murkowski (R–AK), **Yea**
Murphy (D–CT), **Yea**
Murray (D–WA), **Yea**
Ossoff (D–GA), **Yea**
Padilla (D–CA), **Yea**
Paul (R–KY), **Yea**
Peters (D–MI), **Yea**
Portman (R–OH), **Yea**
Reed (D–RI), **Yea**
Risch (R–1D), **Yea**
Romney (R–UT), **Yea**
Rosen (D–NY), **Yea**
Rounds (R–SD), **Not Voting**
Rubio (R–FL), **Yea**
Sanders (I–VT), **Yea**
Sasse (R–NE), **Yea**
Schatz (D–HI), **Yea**
Schumer (D–NY), **Yea**
Scott (R–FL), **Yea**
Scott (R–SC), **Yea**
Shaheen (D–NH), **Yea**
Shelby (R–AL), **Yea**
Sinema (D–AZ), **Yea**
Smith (D–MN), **Yea**
Stabenow (D–MI), **Yea**
Sullivan (R–AK), **Yea**
Tester (D–MT), **Yea**
Thune (R–SD), **Yea**
Tillis (R–NC), **Yea**
Toomey (R–PA), **Yea**
Tuberville (R–AL), **Yea**
Van Hollen (D–MD), **Yea**
Warner (D–VA), **Yea**
Warnock (D–GA), **Yea**
Warren (D–MA), **Yea**
Whitehouse (D–RI), **Yea**
Wicker (R–MS), **Yea**
Wyden (D–OR), **Yea**
Young (R–IN), **Yea**

Grouped By Vote Position

YEAs—98

Baldwin (D–WI)
Barrasso (R–WY)
Bennet (D–CO)
Blackburn (R–TN)
Blumenthal (D–CT)
Blunt (R–MO)
Booker (D–NJ)
Boozman (R–AR)
Braun (R–IN)
Brown (D–OH)
Cruz (R–TX)
Daines (R–MT)
Duckworth (D–IL)
Durbin (D–IL)
Ernst (R–IA)
Feinstein (D–CA)
Fischer (R–NE)
Gillibrand (D–NY)
Graham (R–SC)
Grassley (R–IA)
King (I–ME)
Klobuchar (D–MN)
Lankford (R–OK)
Leahy (D–VT)
Lee (R–UT)
Lujan (D–NM)
Lummis (R–WY)
Manchin (D–WV)
Markey (D–MA)
Marshall (R–KS)

Burr (R–NC)
Cantwell (D–WA)
Capito (R–WV)
Cardin (D–MD)
Casey (D–PA)
Cassidy (R–LA)
Collins (R–ME)
Coons (D–DE)
Cornyn (R–TX)
Cortez Masto (D–NV)
Cotton (R–AR)
Cramer (R–ND)
Crapo (R–ID)
Hagerty (R–TN)
Hassan (D–NH)
Hawley (R–MO)
Heinrich (D–NM)
Hickenlooper (D–CO)
Hirono (D–HI)
Hoeven (R–ND)
Hyde-Smith (R–MS)
Inhofe (R–OK)
Johnson (R–WI)
Kaine (D–VA)
Kelly (D–AZ)
Kennedy (R–LA)
McConnell (R–KY)
Menendez (D–NJ)
Merkley (D–OR)
Moran (R–KS)
Murkowski (R–AK)
Murphy (D–CT)
Murray (D–WA)
Ossoff (D–GA)
Padilla (D–CA)
Paul (R–KY)
Peters (D–MI)
Portman (R–OH)
Reed (D–RI)

Risch (R–ID)
Romney (R–UT)
Rosen (D–NV)
Rubio (R–FL)
Sanders (I–VT)
Sasse (R–NE)
Schatz (D–HI)
Schumer (D–NY)
Scott (R–FL)
Scott (R–SC)
Shaheen (D–NH)
Shelby (R–AL)
Sinema (D–AZ)
Smith (D–MN)
Stabenow (D–MI)
Sullivan (R–AK)
Tester (D–MT)
Thune (R–SD)
Tillis (R–NC)
Toomey (R–PA)
Tuberville (R–AL)
Van Hollen (D–MD)
Warner (D–VA)
Warnock (D–GA)
Warren (D–MA)
Whitehouse (D–RI)
Wicker (R–MS)
Wyden (D–OR)
Young (R–IN)

NAYs—1

Carper (D–DE)

Not Voting—1

Rounds (R–SD)

Grouped by Home State

Alabama:
Shelby (R–AL), **Yea**
Tuberville (R–AL), **Yea**

Alaska:
Murkowski (R–AK), **Yea**
Sullivan (R–AK), **Yea**

Arizona:
Kelly (D–AZ), **Yea**
Sinema (D–AZ), **Yea**

Arkansas:
Boozman (R–AR), **Yea**
Cotton (R–AR), **Yea**

California:
Feinstein (D–CA), **Yea**
Padilla (D–CA), **Yea**

Colorado:
Bennet (D–CO), **Yea**
Hickenlooper (D–CO), **Yea**

Connecticut:
Blumenthal (D–CT), **Yea**
Murphy (D–CT), **Yea**

Delaware:
Carper (D–DE), **Nay**
Coons (D–DE), **Yea**

Florida:
Rubio (R–FL), **Yea**
Scott (R–FL), **Yea**

Georgia:
Ossoff (D–GA), **Yea**
Warnock (D–GA), **Yea**

Hawaii:
Hirono (D–HI), **Yea**
Schatz (D–HI), **Yea**

Idaho:
Crapo (R–ID), **Yea**
Risch (R–ID), **Yea**

Illinois:
Duckworth (D–IL), **Yea**
Durbin (D–IL), **Yea**

Indiana:
Braun (R–IN), **Yea**
Young (R–IN), **Yea**
Iowa:
Ernst (R–IA), **Yea**
Grassley (R–IA), **Yea**
Kansas:
Marshall (R–KS), **Yea**
Moran (R–KS), **Yea**
Kentucky:
McConnell (R–KY), **Yea**
Paul (R–KY), **Yea**
Louisiana:
Cassidy (R–LA), **Yea**
Kennedy (R–LA), **Yea**
Maine:
Collins (R–ME), **Yea**
King (I–ME), **Yea**
Maryland:
Cardin (D–MD), **Yea**
Van Hollen (D–MD), **Yea**
Massachusetts:
Markey (D–MA), **Yea**
Warren (D–MA), **Yea**
Michigan:
Peters (D–MI), **Yea**
Stabenow (D–MI), **Yea**
Minnesota:
Klobuchar (D–MN), **Yea**
Smith (D–MN), **Yea**
Mississippi:
Hyde-Smith (R–MS), **Yea**
Wicker (R–MS), **Yea**
Missouri:
Blunt (R–MO), **Yea**
Hawley (R–MO), **Yea**
Montana:
Daines (R–MT), **Yea**
Tester (D–MT), **Yea**
Nebraska:
Fischer (R–NE), **Yea**
Sasse (R–NE), **Yea**
Nevada:
Cortez Masto (D–NY), **Yea**
Rosen (D–NY), **Yea**
New Hampshire:
Hassan (D–NH), **Yea**
Shaheen (D–NH), **Yea**
New Jersey:
Booker (D–NJ), **Yea**
Menendez (D–NJ), **Yea**
New Mexico:
Heinrich (D–NM), **Yea**
Lujan (D–NM), **Yea**
New York:
Gillibrand (D–NY), **Yea**
Schumer (D–NY), **Yea**
North Carolina:
Burr (R–NC), **Yea**
Tillis (R–NC), **Yea**
North Dakota:
Cramer (R–ND), **Yea**
Hoeven (R–ND), **Yea**
Ohio:
Brown (D–OH), **Yea**
Portman (R–OH), **Yea**
Oklahoma:
Inhofe (R–OK), **Yea**
Lankford (R–OK), **Yea**
Oregon:
Merkley (D–OR), **Yea**
Wyden (D–OR), **Yea**

Pennsylvania:
Casey (D–PA), **Yea**
Toomey (R–PA), **Yea**
Rhode Island:
Reed (D–RI), **Yea**
Whitehouse (D–RI), **Yea**
South Carolina:
Graham (R–SC), **Yea**
Scott (R–SC), **Yea**
South Dakota:
Rounds (R–SD), **Not Voting**
Thune (R–SD), **Yea**
Tennessee:
Blackburn (R–TN), **Yea**
Hagerty (R–TN), **Yea**
Texas:
Cornyn (R–TX), **Yea**
Cruz (R–TX), **Yea**
Utah:
Lee (R–UT), **Yea**
Romney (R–UT), **Yea**
Vermont:
Leahy (D–VT), **Yea**
Sanders (I–VT), **Yea**
Virginia:
Kaine (D–VA), **Yea**
Warner (D–VA), **Yea**
Washington:
Cantwell (D–WA), **Yea**
Murray (D–WA), **Yea**
West Virginia:
Capito (R–WV), **Yea**
Manchin (D–WV), **Yea**
Wisconsin:
Baldwin (D–WI), **Yea**
Johnson (R–WI), **Yea**
Wyoming:
Barrasso (R–WY), **Yea**
Lummis (R–WY), **Yea**

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Statement of Michael Bindner

Chairman Wyden and Ranking Member Crapo, thank you for the opportunity to address Secretary Yellen's testimony.

The national debt is the issue of hour. The limit needs to be abolished. It was only established because previously, each bond issue was authorized by Congress. That day has long since passed. In the first attachment, we detail who owns the national debt by income class.

The bottom 60% of households own the debt held by Social Security as beneficiaries. The top 0.1% of households hold about a third of managed fund and bond assets, with the rest of the top 10% holding half and the bottom 90% one sixth. Federal Reserve, bank and long-term assets are divided in roughly half between the top 20% and the bottom 80%.

If the debt were to be defaulted on, a great deal of the damage would be to the top 10% of households. Managed fund and bond holders in the top 1% would take the biggest hit. The debt itself is owed by income tax payers. For every dollar of income tax paid, nineteen are owed. 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. This is far above historical averages and is unsustainable. The answer to this is increased revenue.

Inflation is the other big economic issue of the day. As Dodd-Frank rules are being restored, the NYMEX oil trading floor is again an honest market. Prices will go down and stay down to reflect the real availability of oil and gas. This is not to say that higher interest rates were not needed, but this is only so that families, especially retirees, earn a fair return on their savings.

How the pain of inflation is borne is more important. Households making under the 90th percentile have been losing ground for almost half a century, while incomes above that amount have increased on a regular basis.

The source of inequality, aside from abandoning the 91% top marginal tax rate, is granting raises at an equal percentage rather than by an equal amount. When the 91% rate was repealed, incomes were fairly equal, so it was not an issue.

The federal government plays an outsized role in how salaries are determined through percentage-based cost of living adjustments to government workers, beneficiaries, government contractors. The government can change this with the stroke of a pen. The private sector will follow suit with a higher minimum wage, adequate child tax credits (as described below) and paying individuals in training from ESL to community college the minimum wage to purse their studies.

From here on in, adjust for cost of living on a per dollar an hour rather than on a percentage basis (or dollars per month or week for federal beneficiaries). Calculate the dollar amount based on inflation at the median income level. No one gets more dollars an hour raise no one gets less dollars per hour in increases. Increase the minimum wage as above and consider decreasing high end salaries paid to government employees and contractors. Even without decreases, simply equalizing raises will soon reduce inequality. Why is this necessary?

Prices chaise the median dollar. The median dollar of income is actually at the 90th percentile, rather than the 77th percentile (which is about where the median is). This strategy will reduce inflation in both the long and short terms as prices adjust to decreases in higher salaried income.

Let me repeat this—prices chase income dollars, not income earners.

On the tax side, limit bracket indexing in the same manner—by dollars per bracket, not percentages.

Staying in economics, last year we projected another depression, which we define as a drop-in asset values below what is borrowed against them. We no longer have to project, given the falling price of valueless crypto-currency and the realization that mortgage backed securities holding single family rental properties are nowhere near what they are rated—and that they have been hidden in exchange traded funds. The recent bank failures are only the beginning.

Aside from raising income taxes to end the production of junk assets, the answer to the coming depression is enactment of the proposed increase in the child tax credit proposed by the President, although we would make it $1,000 per month and phase it out from the median income to the 90th percentile.

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.

Please see the second attachment for the latest version of our tax reform proposals, beginning with how the proposed rates are synergistic. Note that we propose ending corporate income taxes and reporting of business income on personal income taxes. We replace these with consumer paid goods and services and employer-paid subtraction value-added taxes.

The income tax for individuals with wage, dividend and salary income under $75,000 would be eliminated. A surtax on employer paid subtraction value-added taxes would be paid by employers, but filing of individual income tax would not occur until $450,000 of salary, interest paid and dividend income. Spousal income would not be included in this levy.

We propose ending the capital gains tax on short- and long-term income and full repeal of the inheritance (death) tax with 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, **tax transactions, not people!**

Ending the machinery of self-reporting of asset returns 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.

Until tax reform occurs, IRS Statistics on Income tax tables should be adjusted for inflation to get a better idea of the distribution of income. 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.

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, 2022. the ratio is $19 of debt owed for every dollar of income tax paid. Note well that the adjusted gross income of the bottom 80% is just over that garnered by the top 10%.

Percentiles	Millions of Returns	AGI	Income Tax	Debt	Federal Reserve and Bank Debt Assets	Long Term Investment Debt Assets	Managed Fund and Bond Debt Assets	Social Security and Medicare Assets
Total with tax	104.01	11,210.1	1,581.4	30,040.3	6,806.6	3,276.5	6,419.1	3,186.5
Top .01%	0.02	659.0	163.2	3,100.2	820.6	378.8	2,519.8	0.0
.01% to 1%	7.26	1,427.9	185.6	3,526.6	1,736.9	844.4	1,652.5	10.2
1% to 10%	7.28	2,086.9	348.8	6,626.8	1,957.5	978.1	1,196.5	177.6
Top 10%	**9.00**	**4,602.44**	**987.23**	**18,754.0**	**4,515.0**	**2,201.4**	**5,368.8**	**187.8**
10% to 20%	13.08	1,788.34	200.3	3,805.1	921.5	644.9	583.2	463.7
Bottom 80%	81.92	4,829.22	393.6	7,476.6	1,370.1	430.3	467.2	2,534.9

The bottom 80% of taxpaying 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. The relative shares of debt ownership, however, are current as reflected in the 2019 Federal Reserve Survey.

Attachment Two—Tax Reform, Center for Fiscal Equity, March 24, 2023

Synergy: The President's Budget for 2024 proposes a 25% minimum tax on high incomes. Because most high-income households make their money on capital gains, rather than salaries, an asset value added tax replacing capital gains taxes (both long and short term) would be set to that rate. The top rate for a subtraction VAT surtax on high incomes (wages, dividends and interest paid) would be set to 25%, as would the top rate for income surtaxes paid by very high-income earners. Surtaxes collected by businesses would begin for any individual payee receiving $75,000 from any source at a 6.25% rate and top out at 25% at all such income over $375,000. At $450,000, individuals would pay an additional 6.25% on the next $75,000 with brackets increasing until a top rate of 25% on income over $750,000. This structure assures that no one games the system by changing how income is earned to lower their tax burden.

Individual payroll taxes. A floor of $20,000 would be instituted for paying these taxes, with a ceiling of $75,000. This lower ceiling reduces the amount of benefits received in retirement for higher income individuals. The logic of the $20,000 floor reflects full time work at a $10 per hour minimum wage offered by the Republican caucus in response to proposals for a $15 wage. The majority needs to take the deal. Doing so in relation to a floor on contributions makes adopting the minimum wage germane in the Senate for purposes of Reconciliation. The rate would be set at 6.25%.

Employer payroll taxes. Unless taxes are diverted to a personal retirement account holding voting and preferred stock in the employer, the employer levy would be replaced by a goods and receipts tax of 6.25%. Every worker who meets a minimum hour threshold would be credited for having paid into the system, regardless of wage level. All employees would be credited on an equal dollar basis, rather than as a match to their individual payroll tax. The tax rate would be adjusted to assure adequacy of benefits for all program beneficiaries.

High-income Surtaxes. As above, taxes would be collected on all individual income taxes from salaries, income and dividends, which exclude business taxes filed separately, starting at $400,00 per year. 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.

Asset Value-Added Tax (A–VAT). A replacement for capital gains taxes and the estate tax. It will apply to asset sales, exercised options, 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 high income and subtraction VAT surtaxes. There will be no requirement to hold assets for a year to use this rate. This also implies that this tax will be levied on all eligible transactions.

The 3.8% ACA–SM tax will be repealed as a separate tax, with health care funding coming through a subtraction value added tax levied on all employment and other gross profit. The 25% rate is meant to be a permanent compromise, as above. Any changes to this rate would be used to adjust subtraction VAT surtax and high income surtax rates accordingly. This rate would be negotiated on a world-wide basis to prevent venue seeking for stock trading.

Subtraction Value-Added Tax (S–VAT). Corporate income taxes and collection of business and farm income taxes will be replaced by this tax, which is an employer paid Net Business Receipts Tax. 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.

As above, S–VAT surtaxes are collected on all income distributed over $75,000, with a beginning rate of 6.25% and replace income tax levies collected on the first 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 forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. 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. Inherited assets will be taxed under A–VAT when sold. Any inherited cash, or funds borrowed against the value of shares, will face the I–VAT when sold or the A–VAT if invested.

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 19.25% to 13%).

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. 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.

Attachment Three—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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