



June 18, 2021

Summary of Congressional Tax Writing Committee Hearings on FY 2022 Budget

Earlier this week, Treasury Secretary Janet Yellen testified before the Senate Finance Committee and the House Ways and Means Committee on President Biden's Fiscal Year (FY) 2022 budget request. This alert includes summaries of both hearings.

Senate Finance Committee Hearing Highlights

Chair Ron Wyden (D-OR) said the administration's proposed budget addresses long-standing inequities in the tax system by fully funding the IRS and increasing payments to families through the Child Tax Credit (CTC) and paid family leave. He also spoke about his framework to overhaul the U.S. international tax policy and specifically called for a reversal of deduction for corporations that outsource manufacturing jobs overseas. **Ranking Member Mike Crapo (R-ID)** criticized the budget proposal for increasing the budget deficit and cautioned against the rising tide of inflation. He also expressed concerns over the proposal's increase in information collection from financial institutions.

- Global Minimum Corporate Tax: Democrats expressed hope that the administration could reach an agreement with other G7 countries in order to establish a global minimum corporate tax to combat tax havens. Republicans expressed concerns that establishing a minimum tax higher than other nations would incentivize corporations to move jobs and profits overseas.
- Capital Gains Tax: Republicans questioned the administration's proposals for stepped-up basis in capital gains and the impact it would have on families, especially given the apparent retroactive nature of the proposal. Secretary Yellen was unable to give a clear answer on the proposal's effective date.
- IRS Funding and Tax Compliance: Democrats focused on bolstering tax compliance efforts as a means of achieving equity in the tax code. Republicans raised concerns about whether the IRS will ensure security of taxpayer data given ProPublica's recent publication of confidential taxpayer information.
- Inequity in the Tax Code: Democrats noted the high audit rates Earned Income Tax Credit (EITC) recipients receive compared to audit rates of wealthy individuals. Republicans raised the point that poverty rates declined substantially after the enactment of the Tax Cuts and Jobs Act (TCJA) of 2017.

House Ways and Means Committee Hearing Highlights

Chair Richard Neal (D-MA) stated high-quality infrastructure is the backbone of the U.S. economy. He expressed optimism that President Biden’s budget proposal addresses necessary provisions to bolster the nation’s physical and human infrastructure. He emphasized the importance of taxpayer compliance and noted his support for investing in the IRS to close the tax gap. **Ranking Member Kevin Brady (R-TX)** criticized the budget proposal for increasing the budget deficit and cautioned against the rising tide of inflation. He also expressed concerns about the repeal of the Tax Cuts and Jobs Act (TCJA) and the implementation of a global minimum tax, which he believes will render the U.S. uncompetitive, globally.

- **Global Minimum Corporate Tax:** A possible agreement on a global minimum corporate tax was again a popular topic for debate. Democrats were optimistic about reaching an agreement with other G7 countries on establishing a global minimum corporate tax rate. Republicans stated that setting a high minimum tax rate would only work to incentivize off-shoring of jobs and profits.
- **Tax Credits:** Democrats emphasized the importance of strengthening and enhancing tax credits addressing several issues from housing affordability to education and labor retention. Secretary Yellen expressed a willingness to work on the expansion and enhancement of many of the tax credits discussed.
- **Labor Force Issues:** Democrats highlighted the importance of providing support to American workers to ensure labor retention in the workforce, specifically pertaining to women. Republicans expressed concern about the impact of supplemental unemployment payments as an incentive for workers to not participate in the workforce.

Senate Finance Committee Hearing: “The President’s Fiscal Year 2022 Budget”

On Wednesday, June 16, the Senate Finance Committee held a hearing on President Biden’s fiscal year (FY) 2022 budget. Treasury Secretary Janet Yellen testified to the administration’s priorities pertaining to taxation, tax compliance, the proposed global minimum corporate tax and the specific provisions in the president’s proposed FY 2022 budget. Democrats on the committee focused on the importance of equity in the tax code, bolstering compliance efforts and expressed their support for the global minimum tax Secretary Yellen is in the process of negotiating with multi lateral organizations. Republicans voiced concerns about increased taxes, including the proposed global minimum tax, and about efforts regarding increased tax compliance.

Present Members

<ul style="list-style-type: none"> • Sen. Ron Wyden (D-OR), <i>Chair</i> • Sen. Debbie Stabenow (D-MI) • Sen. Maria Cantwell (D-WA) • Sen. Bob Menendez (D-NJ) • Sen. Thomas R. Carper (D-DE) • Sen. Ben Cardin (D-MD) • Sen. Sherrod Brown (D-OH) • Sen. Michael Bennet (D-CO) • Sen. Bob Casey (D-PA) 	<ul style="list-style-type: none"> • Sen. Mike Crapo (R-ID), <i>Ranking Member</i> • Sen. Chuck Grassley (R-IA) • Sen. John Cornyn (R-TX) • Sen. John Thune (R-SD) • Sen. Richard Burr (R-NC) • Sen. Rob Portman (R-OH) • Sen. Patrick Toomey (R-PA) • Sen. James Lankford (R-OK) • Sen. Steve Daines (R-MT)
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| <ul style="list-style-type: none">• Sen. Sheldon Whitehouse (D-RI)• Sen. Maggie Hassan (D-NH)• Sen. Catherine Cortez Masto (D-NV)• Sen. Elizabeth Warren (D-MA) | <ul style="list-style-type: none">• Sen. Todd Young (R-IN)• Sen. Ben Sasse (R-NE)• Sen. John Barrasso (R-WY) |
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Witness

Janet Yellen

Secretary

United States Department of the Treasury

Member Opening Statements

Chair Ron Wyden (D-OR) said both the confidentiality of taxpayer data and economic equity are serious issues. He said the recent ProPublica article, which included confidential tax data of some of the wealthiest taxpayers, is a “gut punch” to compliant taxpayers. Additionally, he highlighted what he described as a “carried interest on steroids” tax provision, which allows individuals to convert wage income to capital gains assets as a mechanism to avoid taxation. Chair Wyden noted the Trump administration subverted any ability of the IRS to address aggressive tax avoidance behaviors such as these. He noted the framework he has worked on to overhaul U.S. international tax policy and specifically called for a reversal of deduction for corporations that outsource manufacturing jobs overseas and to ensure corporations pay their owed taxes. He also said he is introducing a bill to address the core unfairness in the tax code and noted Democrats’ interest in addressing tax compliance. Chair Wyden expressed his interest in stopping discriminatory digital service taxes, which unfairly target American workers and employers. He noted the Treasury Department and the Internal Revenue Service (IRS) are preparing to send the first Child Tax Credit (CTC) advance payments to eligible families. Finally, he highlighted the success of a provision in the American Rescue Plan Act geared toward ensuring people in rural communities and tribes have the resources needed for schools, roads and health care and expressed his interest in continuing with the implementation of the program.

Ranking Member Mike Crapo (R-ID) said the Biden administration’s proposal to increase spending will “strangle” Americans with increased taxes and ultimately hurt the economy. He said the plan will increase the deficit by \$14.5 trillion over the next 10 years, which he noted was risky. He noted that the effective annualized consumer inflation rate increased 7.7% from April to May of this year and the inflation rate for durable goods increased by 36% at an annualized rate during the same time period. He said if the inflation expectations are unfettered that would have huge, negative implications. Ranking Member Crapo said the Treasury Department’s top-line budget request is \$22 billion, which is an 11.3% increase from FY 2021. He expressed concern with the proposal to increase information collection from financial institutions of amounts above the \$600 threshold. He also expressed his belief that the U.S. would be at a competitive disadvantage if it moves first in implementing a global minimum corporate tax.

Witness Opening Statement

Janet Yellen (Secretary, Department of Treasury) stated the pandemic was the first issue she faced in her position and noted the American Rescue Plan allowed the U.S. to help millions of Americans. While Secretary Yellen acknowledged the success of the American Rescue Plan provisions, she said prior to COVID-19, there were long-term economic structural issues that made it difficult for many Americans to find well-paying jobs. She noted that the average cost of climate-related disasters is expected to double every five years. She also noted racial inequity pertaining to economic success continues to persist and is relatively unchanged in the past 60 years. Secretary Yellen said private sector corporations are not making sufficient investments to substantially make changes to the persistent economic structural

issues. She stated the child care credits and paid leave provisions called for in the budget will help companies retain workers. She emphasized that President Biden's FY 2022 budget proposal is aimed at implementing ambitious fiscal policy. She said the proposal is fiscally responsible and will pay for itself and addresses persistent issues of economic inequity.

Discussion

The Global Minimum Corporate Tax

Ranking Member Mike Crapo (R-ID) said the domestic effective corporate tax rate is more than 26% and the Biden administration wants to implement this tax rate before other countries implement a global minimum tax. He asked if President Biden's stance is that the U.S. should implement a 26% corporate tax rate before an agreement on a global minimum tax is reached and what the implications would be for other countries if the U.S. were to act first. **Secretary Yellen** said the strategy is for the U.S. to move toward a corporate tax rate that is closer to the proposed global minimum corporate tax rate. She said she has had constructive conversation with countries, including Ireland, and believes they will ultimately agree to the tax. She noted it is not necessary for every country to participate. She also noted there are enforcement mechanisms to encourage tax havens to establish a global minimum tax.

Sen. John Cornyn (R-TX) asked what the role of Congress is in negotiations pertaining to the implementation of a global corporate minimum tax and if there are multilateral mechanisms in place to prevent predatory global economic practices. **Secretary Yellen** said anything that affects tax law must be enacted by the U.S. Congress. She said there is no specific mechanism in effect but there have been conversations encouraging allies to enhance and develop those processes.

Sen. Bob Menendez (D-NJ) said prior to the Trump administration, the corporate tax rate was 35% and after the passage of the Tax Cuts and Jobs Act (TCJA) of 2017 the rate dropped to 21%. He asked Secretary Yellen what the effective corporate tax rate is today. **Secretary Yellen** said including the state corporate tax rate, the U.S. effective corporate tax rate is approximately 25.8%, which she noted is slightly below the corporate tax rate of the other G7 countries.

Sen. Sherrod Brown (D-OH) asked how the global corporate tax will ensure that American workers will not lose their jobs to overseas competition. **Secretary Yellen** noted her optimism with the unanimous support at the G7 Summit with regard to the global corporate minimum tax. She said the "race to the bottom" pertaining to corporate tax rates has harmed the U.S. and revenue potential.

Sen. Steve Daines (R-MT) asked what would happen if China or another country insist on carve-out exemptions for their corporations pertaining to the global minimum tax agreement. **Secretary Yellen** said the U.S. would not agree to a carve out from any country about the global minimum tax and insisted that they would continue to work with China prior to the G20 Summit. She said there would be no agreement that weakens their agenda.

Capital Gains Tax

Sen. Chuck Grassley (R-IA) asked about the stepped-up basis capital gains proposal and how it would affect multigenerational farms. **Secretary Yellen** said the proposal allows for owners of farms and small businesses to transfer ownership within their family, tax free, and tax is only applied when the farm or small business is sold to a third party. She also noted there is an exclusion for up to \$1 million for an individual and \$2 million for a couple.

Sen. John Cornyn (R-TX) asked what the effective date is of the capital gains tax provision listed in the administration's Green Book, which accompanied the president's FY 22 Budget request. **Secretary Yellen** said she did not have an answer and would get back to the senator. She said Congress has the power to change tax laws and has done so on many occasions, but said she is not aware of the retroactive nature of the tax.

The IRS, Compliance and Data Collection

Sen. John Cornyn (R-TX) said the administration has proposed mandatory spending for the IRS and asked whether Secretary Yellen agrees with eliminating oversight on the IRS' functioning. **Secretary Yellen** insisted on the importance of oversight on agencies and clarified that the mandatory spending is to ensure the IRS has funding to overhaul their systems, modernize and hire more staff to improve their audit performance and narrow the tax gap.

Sen. John Thune (R-SD) asked how the Treasury Department and IRS will ensure the security of taxpayer data and asked what steps they have taken, considering the ProPublica article. **Secretary Yellen** said the matter was referred to the Department of Justice and the Federal Bureau of Investigation (FBI), but emphasized that there is no information on who leaked the information. She agreed on the importance of taxpayer data security.

Sen. Sherrod Brown (D-OH) asked how the budget proposal's compliance provisions will benefit taxpayers who are already compliant. **Secretary Yellen** said the additional funding will enable the IRS to ensure audit rates are enhanced.

Sen. James Lankford (R-OK) asked why President Biden's proposal requests information collection of inflows and outflows above \$600 for compliance measures. **Secretary Yellen** said the administration is asking for two small pieces of information including the aggregate inflows and outflows from financial institutions, which is information they already collect.

Sen. John Barrasso (R-WY) asked how the budget is going to increase visibility of taxpayer advocate services. **Secretary Yellen** said taxpayer services and IRS customer service is not at the level it should be due to longstanding underfunding of the IRS.

Addressing Inequity in Tax Code

Sen. Debbie Stabenow (D-MI) noted the importance of the tax gap and pointed out the disparate IRS audit rates, exemplified by the high audit rate of Earned Income Tax Credit (EITC) recipients and the relatively low audit rates of wealthy and high-income individuals. She asked how the government can ensure every American pays the taxes they owe. **Secretary Yellen** said the tax system needs to be fair and the IRS needs the ability to properly enforce tax laws and address noncompliance, which they can do with the requested funding and increased information collection capabilities.

Sen. Tom Carper (D-DE) said taxpayers are compliant when they are convinced everyone is compliant and positively remarked on the importance of fairness reflected in the IRS budget. **Secretary Yellen** said raising capital gains and corporate tax are based upon the principle of fairness and equity with wage income. She also said the tax gap reflects shortfalls in reporting, which will be addressed in the IRS' increased information collection provision enumerated in the FY 2022 budget.

Sen. Ben Cardin (D-MD) asked how the tax code could more effectively provide resources to underserved communities and asked how the New Market Tax Credit (NMTC) and the Neighborhood Homes Investment Act would help underserved communities. **Secretary Yellen** said the administration shares the broad aim to help underserved communities. She said the NMTC is an important way to channel funds to qualified community development entities

who can then make investments in low-income communities. She noted the Neighborhood Homes Investment Act fills an unaddressed need by gearing credits toward the construction of owned and occupied housing in distressed neighborhoods.

Sen. Elizabeth Warren (D-MA) referred to the inequity reflected in the ProPublica article and asked whether multibillionaires pay taxes when they take out loans against their own wealth. **Secretary Yellen** said they do not and agreed the mechanism is unfair tax avoidance.

The Tax Cuts and Jobs Act (TCJA) of 2017

Sen. Menendez (D-NJ) asked whether it is a fair characterization to say President Trump's tax cuts were a loss of money with no return. **Secretary Yellen** agreed that the tax cuts were very expensive and contributed to the deficit.

Sen. Rob Portman (R-OH) asked whether the poverty rate was lowered after the passage of the 2017 tax law. **Secretary Yellen** said it was a continuation of prior trends.

Sen. Catherine Cortez Masto (D-NV) said after the passage of the TCJA, immigrant children were excluded from benefitting from the CTC and asked whether the administration would ensure the CTC is as inclusive as possible. **Secretary Yellen** said she supports extending the CTC to immigrant children.

Sen. Pat Toomey (R-PA) asked whether Secretary Yellen is aware of any significant U.S. corporate inversions after the 2017 TCJA. **Secretary Yellen** said the administration is most concerned with addressing corporations evading taxes and the loss of tax revenue, which is necessary to fund crucial policy priorities.

Tax Credits

Sen. Todd Young (R-IN) spoke about Section 174 of the Internal Revenue Code (IRC), which is an incentive allowing U.S. corporations to deduct for research and development and asked if Congress should ensure the immediacy of the deductibility of research and development expenditures. **Secretary Yellen** said it is possible and insisted on the administration's interest in incentivizing innovation.

Sen. Michael Bennet (D-CO) asked what the work on the Child Tax Credit (CTC) advance payments looked like and where the Treasury Department and IRS is on the issue. **Secretary Yellen** said the department is continuing to figure out how to make the CTC refundability permanent.

Sen. Maggie Hassan (D-NH) asked whether the administration would commit to supporting research and development by extending credits. **Secretary Yellen** agreed.

Climate Change

Sen. Sheldon Whitehouse (D-RI) asked whether the administration supports carbon pricing and a carbon tax in pursuit of better climate outcomes. **Secretary Yellen** said climate and clean energy are paramount agenda items and expressed support for carbon pricing.

Sen. John Barrasso (R-WY) noted President Biden is opposed to indexing the gas tax for inflation but is eliminating subsidies available for the fossil fuel industry, which will ultimately increase the price of gas. **Secretary Yellen** said the president does not see a benefit in inefficient subsidies in the fossil fuel sector and wants to position the U.S. to become a leader in clean energy. She said climate change is a global threat and insisted on the importance of multilateral action

on the issue, noting the U.S. is providing funds to low-income countries to address climate change per a commitment made in the Paris Climate Agreement.

Other Issues

Chair Ron Wyden (D-OR) said digital service taxes (DSTs) are used as discriminatory mechanisms against American workers and employers and asked how long the DSTs are going to persist. **Secretary Yellen** said the G7 came to an agreement to eliminate DSTs and believes they will soon be a relic of the past. She said the discriminatory nature of DSTs is harmful and insisted the Treasury Department is retaining all options to prevent and eliminate DSTs, adding that they have trade mechanism procedures available to ensure prompt action pertaining to DSTs.

Sen. Chuck Grassley (R-IA) asked about the burst of inflation and what the administration intends to do to address the issue. **Secretary Yellen** said the inflation reflects the reopening of an economy that has largely been shut down for a year and said bottlenecks are expected given the swings in economic behaviors.

Sen. John Thune (R-SD) asked whether the inflation period is transitory or permanent. **Secretary Yellen** said she believes it is transitory and said some sector pricing has already begun moving toward pre-pandemic pricing and repeated her belief that the current inflation is a function of bottlenecks.

Sen. Bob Casey (D-PA) asked how the U.S. is ensuring its trade agreements have assurances of equity pertaining to women's rights. **Secretary Yellen** said domestically the U.S. has provisions to ensure that women are supported as reflected in the American Rescue Plan Act. Internationally, she said the U.S. is working with the International Monetary Fund (IMF) and other multilateral organizations to ensure women's rights abroad.

Sen. Catherine Cortez Masto (D-NV) asked whether the budget would ensure the financial crimes enforcement network act is enforced. **Secretary Yellen** said she would need more details but there are funds for the network.

Sen. Ben Sasse (R-NE) asked whether there was an update pertaining to the decoupling of technologies from the Chinese government. **Secretary Yellen** said national security interests and broad economic interests are balanced and that could result in growing decoupling of technologies with the Chinese government but pointed to the importance of interconnected technological developments. She added that technology that could lead to national security risks would necessitate supply chain decoupling.

Sen. Maggie Hassan (D-NH) asked whether unfair practices that systemically affect American workers and employers are being addressed in supply chains. **Secretary Yellen** said the U.S. welcomes fair competition, but unfair subsidies have affected American workers and industries and the strike force is one element of the strategy to address unfair competitive practices.

House Ways & Means Committee Hearing: "The President's Fiscal Year 2022 Budget"

On Thursday, June 17, the House Ways and Means Committee held a hearing on President Biden's fiscal year (FY) 2022 budget. Treasury Secretary Janet Yellen testified to the administration's priorities pertaining to taxation, tax compliance, the proposed global minimum corporate tax and the specific provisions in the president's proposed FY 2022 budget. Democrats on the committee focused on the importance of equity in the tax code, bolstering compliance efforts, supporting retention in the labor force, tax credits incentivizing positive economic behaviors, and expressed their support for the global minimum tax. Republicans voiced concerns about increased taxes (specifically on low- and middle-income

Americans), the proposed global minimum tax, inflation rates harming economic growth, increased national debt and efforts regarding increased tax compliance.

Present Members

<ul style="list-style-type: none"> • Rep. Richard Neal (D-MA), <i>Chair</i> • Rep. Lloyd Doggett (D-TX) • Rep. Mike Thomson (D-CA) • Rep. John Larson (D-CT) • Rep. Earl Blumenauer (D-OR) • Rep. Ron Kind (D-WI) • Rep. Bill Pascrell (D-NJ) • Rep. Danny Davis (D-IL) • Rep. Linda Sánchez (D-CA) • Rep. Brian Higgins (D-NY) • Rep. Terri Sewell (D-AL) • Rep. Suzan DelBene (D-WA) • Rep. Judy Chu (D-CA) • Rep. Gwen Moore (D-WI) • Rep. Daniel Kildee (D-MI) • Rep. Brendan Boyle (D-PA) • Rep. Donald Beyer (D-VA) • Rep. Dwight Evans (D-PA) • Rep. Bradley Schneider (D-IL) • Rep. Thomas Suozzi (D-NY) • Rep. Jimmy Panetta (D-CA) • Rep. Stephanie Murphy (D-FL) • Rep. Jimmy Gomez (D-CA) • Rep. Steven Horsford (D-NV) • Rep. Stacey Plaskett (D-VI) 	<ul style="list-style-type: none"> • Rep. Kevin Brady (R-TX), <i>Ranking Member</i> • Rep. Devin Nunes (R-CA) • Rep. Vern Buchanan (R-FL) • Rep. Adrian Smith (R-NE) • Rep. Tom Reed (R-NY) • Rep. Mike Kelly (R-PA) • Rep. Jason Smith (R-MO) • Rep. Tom Rice (R-SC) • Rep. David Schweikert (R-AZ) • Rep. Jackie Walorski (R-IN) • Rep. Darin LaHood (R-IL) • Rep. Brad Wenstrup (R-OH) • Rep. Jodey Arrington (R-TX) • Rep. A. Ferguson (R-GA) • Rep. Ron Estes (R-KS) • Rep. Lloyd Smucker (R-PA) • Rep. Kevin Hern (R-OK) • Rep. Carol Miller (R-WV)
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Witness

Janet Yellen

Secretary

United States Department of the Treasury

Member Opening Statements

Chair Richard Neal (D-MA) expressed optimism about the decade ahead. He provided that high-quality infrastructure is the crucial backbone of the U.S. economy and noted that infrastructure investment benefits the economy, creates jobs and improves climate change resiliency. He emphasized the necessity of pairing physical infrastructure investment with human investment, including provisions enumerated in the American Families Plan, which allow more Americans the security to participate in the workforce. Chair Neal expressed his belief that the government should empower the Internal Revenue Service (IRS) to collect every dollar of taxes owed. He noted important policy challenges facing the U.S.

and emphasized the goal of Congress is to build greater economic opportunities for the American people. He ended by preemptively disputing his Republican colleagues' presumed arguments that (1) the Biden administration wants to raise taxes on the middle class, (2) the budget will harm job opportunities, (3) tax cuts benefit the economy and (4) inflation rates are uncontrollable.

Ranking Member Kevin Brady (R-TX) provided that retirement savings, medical independence from China, exportation of greenhouse gas technology, protection of taxpayer data, and funding an infrastructure bill without burdening middle-class and working families as the most important priorities. He said the administration's climate-related actions are harming job and employment outcomes. He expressed concern about declining wages, "disastrous" jobs reports from April and May, and increasing inflation. Ranking Member Brady emphasized the negative outcomes the U.S. would face if the Tax Cuts and Jobs Act (TCJA) were repealed, including the loss of 6 million U.S. jobs over the next decade and less income for families presently making less than \$73,000 annually. He also noted the loss of jobs from the end of the Keystone Pipeline XL and the detriments of increasing tax rates on capital gains. He highlighted a Tax Policy Center study that projected three-fourths of middle-class families will face a tax increase in 2022. He criticized the push to restore the state and local tax (SALT) deduction, which he argued only protects wealthy individuals. He ended by stating that the implementation of a global minimum tax only highlights that the U.S. is uncompetitive globally.

Witness Opening Statement

Janet Yellen (Secretary, Department of Treasury) opened by noting that the pandemic was the first issue she faced as secretary and that the American Rescue Plan allowed the U.S. to help millions of Americans. After addressing the success of the American Rescue Plan, Secretary Yellen stated that prior to COVID-19, there were long-term economic structural issues that made it difficult for many Americans to find well-paying jobs. She noted that the average cost of climate-related disasters is expected to double every five years. She also provided that racial inequity persists with respect to economic success and is relatively unchanged over the past 60 years, and private-sector corporations are not making sufficient investments necessary to address these economic structural issues. She stated that the child care credits and paid leave provisions in the administration's budget will help companies retain workers. She emphasized that President Biden's FY 2022 budget proposal is aimed at implementing ambitious fiscal policy. She said the proposal (1) is fiscally responsible, (2) will pay for itself, and (3) addresses the persistent issue of economic inequity.

Discussion

The Global Minimum Corporate Tax

Rep. Ron Kind (D-WI) asked the secretary how confident she is about coming to a consensus on the global minimum corporate tax proposal. **Secretary Yellen** responded that she is optimistic after unanimous agreement from the G7 on a global minimum tax of at least 15%. She added there are other countries outside of the G7 that are supportive, and is hopeful the Organisation for Economic Co-operation and Development (OECD) countries will come to a consensus as well.

Rep. Lloyd Doggett (D-TX) asked why it is important for the U.S. to take the lead on implementing a global minimum tax and how the U.S. can set its domestic corporate tax at a higher rate than the global minimum tax. **Secretary Yellen** responded that the move toward a global minimum tax is historic and explained that a 15% global minimum tax narrows the current gap (as some countries have less than 15%) with the current domestic corporate tax rate of 21%. She noted if the U.S. corporate rate were increased, the U.S. would encourage a higher rate for the global minimum tax.

Rep. A. Ferguson (R-GA) asked for a comparison of how many U.S. companies and Chinese companies would be included in the scope of the OECD's Pillar 1. **Secretary Yellen** responded that it is still being negotiated, but the current

proposal is that Pillar 1 would apply to companies with sales of 20 billion euros or more, whichever companies those may be.

Rep. Ron Estes (R-KS) asked, with respect to the global minimum tax proposal, why the U.S. would want to take money from the U.S. and give it to other countries. **Secretary Yellen** said the global minimum tax would raise taxes on foreign income, benefitting the U.S.

Rep. Tom Suozzi (D-NY) asked whether one of the secretary's goals is mitigating international pressure from foreign taxes. **Secretary Yellen** answered affirmatively.

Tax Cuts and Jobs Act (TCJA) of 2017

Chair Richard Neal (D-MA) asked who benefited from TCJA. **Secretary Yellen** said TCJA will reduce government revenues by approximately half a trillion over a decade, and noted that while TCJA was intended to encourage investment in the economy and wage growth, it did not. She noted the largest tax cuts from TCJA went to the wealthiest individuals and corporations.

Ranking Member Kevin Brady (R-TX) asked whether the Biden proposal to repeal much of TCJA (as set forth in the Green Book) would increase taxes on middle-class individuals. **Secretary Yellen** said the president is dedicated to not raising taxes on any American making \$400,000 or less.

Rep. Stacey Plaskett (D-VI) said that TCJA levied a tax that treated corporations in the U.S. territories as foreign corporations, which overburdened those corporations with taxes. She asked whether the secretary would address this issue. **Secretary Yellen** answered affirmatively.

The IRS, Compliance and Data Collection

Rep. Mike Thompson (D-CA) said the easiest pay-for in the infrastructure bill is ensuring tax compliance, noting the Biden administration's proposed investment of \$80 billion into the IRS and asked Secretary Yellen to speak about the IRS increased budget and outcomes. **Secretary Yellen** said the estimated tax gap is \$700 billion, which is indicative of an inequitable tax system. She then emphasized that the proposed IRS budget will implement mechanisms to increase compliance including increased information collection and audit rates.

Rep. Jason Smith (R-MO) asked why the budget proposal gives the IRS the power to target and burden Americans in light of the egregious violations of privacy by the IRS (as evidenced by the IRS employee who leaked the taxpayer data to ProPublica on behalf of the Biden administration). **Secretary Yellen** emphasized that the privacy breach is undergoing investigation and there is no information as to who breached the taxpayer data.

Rep. Judy Chu (D-CA) asked how the FY 2022 budget addresses the capacity of the IRS to print more checks for individuals where direct deposit is not an option and how the IRS would improve its technologies to give individuals the option to choose their payment method. **Secretary Yellen** said the administration wants to see more direct deposit payments because it is the safest and securest method.

Rep. Brendan Boyle (D-PA) asked for an estimate of the tax gap. **Secretary Yellen** said her estimate is \$7 trillion over the next decade but noted that IRS Commissioner Chuck Rettig cited a much higher number.

Rep. Ron Estes (R-KS) asked whether the secretary would seek criminal charges for whoever accessed the IRS taxpayer data. **Secretary Yellen** said the actions seem criminal in her opinion and would support whatever law enforcement pursues.

Rep. Lloyd Smucker (R-PA) asked whether Secretary Yellen agreed with Sen. Warren's wealth tax legislation. **Secretary Yellen** said the administration has not proposed a wealth tax, but noted the administration's approach includes an increased capital gains tax and addresses the step up in basis provision.

Addressing Inequity in Tax Code

Chair Richard (D-MA) Neal asked how policies to strengthen the U.S. benefit system would help Americans. **Secretary Yellen** said investing in research, child care, infrastructure and clean energy along with modest tax increases on those who can most afford it, will, over 15 years, help create widely shared economic prosperity.

Rep. Mike Thompson (D-CA) asked what the administration is doing to address private equity that evades taxes through mechanisms allowing individuals to convert management fees to capital gains (thereby decreasing tax liability). **Secretary Yellen** said the administration is proposing raising the rate on capital gains and dividends to levels equivalent to that applied to wage and salary income. She also noted the administration has proposed eliminating the carried interest.

Rep. John Larson (D-CT) expressed optimism about social security being prioritized by the president's budget and asked whether social security is a means to address economic inequity. **Secretary Yellen** said President Biden is very interested in addressing inequity and social security is a critical system.

Rep. Lloyd Doggett (D-TX) asked whether the overall goal of the revenue proposal is equity. **Secretary Yellen** answered affirmatively, stating equity is extremely important and the system is currently unfair to wage and salary earners.

Rep. Donald Beyer (D-VA) asked whether there are any reasons why companies should be required to report less information than individuals. **Secretary Yellen** said the tax administration apparatus needs more information about opaque income sources.

Tax Credits

Rep. Stacie Plaskett (D-VI) said opportunity zone assistance is important and expressed an interest in an expanded New Market Tax Credit (NMTC) geared toward areas facing unique challenges, including the Virgin Islands. **Secretary Yellen** said she would work with the representative on this issue.

Rep. Danny Davis (D-IL) asked whether the administration is open to enhancing refundable tax credits pertaining to rent, adoption and college affordability while also ensuring billionaires comply with tax payments. **Secretary Yellen** said housing affordability and education are prioritized in the FY 2022 budget proposal with credits to address both issues but that the administration is open to working with Rep. Davis. Additionally, she said the administration would like to work with Rep. Davis on enhancing the adoption credit and American Opportunities Tax Credit.

Rep. Suzan DelBene (D-WA) said expanding and strengthening the bipartisan Affordable Housing Improvement Act will help expand affordable housing and protect existing affordable housing, and asked whether the secretary would work with her on the issue. **Secretary Yellen** said she would and noted provisions in the president's budget providing credits to incentivize private investment in affordable housing.

Rep. Gwen Moore (D-WI) asked whether the administration will work with her on expanding the Earned Income Tax Credit to include individuals who serve as uncompensated caretakers and on implementing domestic violence replacement checks. **Secretary Yellen** answered affirmatively.

Rep. Daniel Kildee (D-MI) asked whether the administration is open to a highly targeted tax credit for the most distressed communities. **Secretary Yellen** answered affirmatively.

Rep. Brendan Boyle (D-PA) asked about the importance of the Child Tax Credit (CTC). **Secretary Yellen** said the CTC has the potential to substantially address the issue of child poverty.

Rep. Dwight Evans (D-PA) referenced his Rehabilitation of Schools Act and asked whether public schools should have access to expanded tax credits. **Secretary Yellen** said she is happy to work with Rep. Evans on the issue.

Rep. Bradley Schneider (D-IL) asked what is available to assist (1) small business owners who lost their businesses during the pandemic and (2) women who were forced out of the workforce during the pandemic and who want to return. **Secretary Yellen** said there is aid available for small businesses including PPP loans, small business loans and credit. As for women, Secretary Yellen mentioned the unemployment assistance, stimulus checks and child care credits. She also noted some provisions in the budget benefitting women in the workforce are extended beyond the pandemic.

Rep. Stephanie Murphy (D-FL) asked for a broad update on the implementation of the Employee Retention Tax Credit (ERTC) aimed at helping businesses retain and rehire workers. **Secretary Yellen** said the ERTC is an important tax credit and the IRS is working with third-party firms that provide tax services to businesses to ensure all eligible businesses are aware of the credit.

Labor Force Issues

Chair Richard Neal (D-MA) asked whether the drop in labor force participation, particularly pertaining to women, is due to the pandemic or longstanding inequity. **Secretary Yellen** said the labor force participation dropped overall because of the pandemic but there was an acute drop for women, which is indicative of longstanding inequity. She cited data showing paid leave and child care accounts for about one-third of the gap in women's labor force participation when compared to other OECD countries.

Rep. Devin Nunes (R-CA) said 26 states are in the process of ending the \$300 surplus assistance payments for unemployment and 24 states are continuing to use the payments. After noting that there are 9 million available jobs, he asked whether states should still be utilizing these payments. **Secretary Yellen** said the supplemental assistance payments are ending in September under existing laws but states should retain the flexibility to make the best decision for their citizens.

Rep. Linda Sánchez (D-CA) asked why it is better to keep parents attached to the workforce. **Secretary Yellen** said it is important for economic reasons that the workforce have the labor it requires and it is also important for women to realize their full potential in the workforce.

Rep. Darin LaHood (R-IL) said there is an employment issue where employers are looking for workers, but unemployed individuals are disincentivized from working because they are receiving unemployment assistance. **Secretary Yellen** said there are many factors contributing to people not participating in the workforce including vaccine availability, unconventional school schedules and child care constraints. Additionally, unemployment benefits are not designed to incentivize staying out of the labor force because recipients must look for work and are penalized if they refuse work. She also noted that the supplemental unemployment benefits are ending in September.

Rep. Kevin Hern (R-OK) asked whether the supplemental unemployment benefit should be extended. **Secretary Yellen** said there are no plans to extend the supplemental benefit past September.

Infrastructure Bill

Ranking Member Kevin Brady (R-TX) asked whether the president would sign an infrastructure bill that is not completely paid for. **Secretary Yellen** said President Biden is working with bipartisan lawmakers and noted the budget and infrastructure bill proposed by the Biden administration are fully paid for over 15 years.

Rep. Jimmy Panetta (D-CA) asked how the U.S. is thinking about inflation as it relates to the economy and infrastructure investments. **Secretary Yellen** said the administration is looking closely at the inflation rate and factors contributing to it, noting swings in demand and supply, and the issue of bottlenecks in the supply chain.

SALT Cap

Ranking Member Kevin Brady (R-TX) asked whether the president supports lifting the SALT cap in the infrastructure bill. **Secretary Yellen** said the administration has not made a proposal with respect to the SALT tax but is willing to work with Congress to mitigate the harms created by SALT deductions.

Rep. Bill Pascrell (D-NJ) asked whether the secretary would commit to providing relief from the SALT deduction cap. **Secretary Yellen** said she was willing to work with Rep. Pascrell. **Rep. Suozzi** also mentioned that a priority of his is to repeal the SALT cap.

The Deficit and Increased National Debt

Rep. Vern Buchanan (R-FL) asked whether deficits and debt matter. **Secretary Yellen** said deficits and debt levels do matter and insisted on the necessity of responsible and sustainable fiscal policy, but noted that some measures of determining the amount of responsible debt have changed in tandem with changes in the economic environment.

Rep. Tom Reed (R-NY) asked why the budget proposes adding \$14 trillion to the national debt. **Secretary Yellen** said the budget proposes critical investments to address long-term structural challenges, make the economy more productive, improve resiliency pertaining to climate change, increase labor force participation, improve function of the economy and address inequity.

Rep. David Schweikert (R-AZ) said according to his office's calculations, the FY 2022 budget is only half paid for and asked whether the administration plans to cover the other half of the spending with a value-added tax (VAT). **Secretary Yellen** said there is no proposal for a VAT tax and said the scoring for the IRS compliance revenue is inconsistent across calculations pertaining to the budget.

Inflation

Rep. Devin Nunes (R-CA) asked how the current inflation rate of 6.6% (annualized) surpassed the projection of a 2% inflation rate from the beginning of the year. **Secretary Yellen** said the administration's budget was produced in February and it projected an inflation rate of 2.1% in 2021, and while inflation has surpassed that projection, it is important to take into account relevant factors including the prolonged shutdown of the economy and the dramatic swings in supply and demand.

Rep. Adrian Smith (R-NE) asked about a Bloomberg article that quoted Secretary Yellen saying inflation is not necessarily a negative. **Secretary Yellen** said she meant the Federal Reserve had established a goal of 2% average inflation on average, because for almost a decade the inflation rate has been meaningfully under 2%, which led to low interest rates, forcing them to rely on unconventional assets. She clarified that inflation rates in line with the Federal Reserve's targets allow for slightly higher interest rates, which gives the government the monetary resources to address economic monetary needs.

Rep. A. Ferguson (R-GA) asked when the inflation increase would end. **Secretary Yellen** said there is no definite timeline and noted the Treasury Department would be monitoring the inflation rate closely.

Other Issues

Rep. Tom Reed (R-NY) asked whether the secretary opposed modern monetary theory. **Secretary Yellen** said yes. Rep. Reed asked what the U.S. is doing to ensure hyperinflation does not occur. Secretary Yellen said the inflation in the U.S. is transitory as the economy returns to normal.

Rep. Jackie Walorski (R-IN) asked how many 1099-G forms have been flagged as being filed under stolen tax IDs or fraudulently. **Secretary Yellen** said she did not know. Rep. Walorski asked who keeps track of data concerning fraudulently filed benefits. Secretary Yellen said an interagency task force is in charge but acknowledged the significant nature of the fraudulent filings and said she would get back to Rep. Walorski.

Rep. Daniel Kildee (D-MI) asked whether the administration would work with him on finding an equitable resolution for Delphi retirees who lost their pensions as a matter of the General Motors bankruptcy proceedings, which the federal government was involved in. **Secretary Yellen** answered affirmatively.

Rep. Lloyd Smucker (R-PA) asked whether the Biden proposal increases taxes on middle-income families. **Secretary Yellen** said there are no proposed tax increases on middle-income families.

Rep. Jimmy Gomez (D-CA) asked whether direct cash payments should be tied to economic conditions. **Secretary Yellen** said she is broadly supportive of relief being provided in tandem with economic needs, especially for unemployment payments, but noted that stimulus checks are not always the best approach to improve economic outcomes.

Rep. Steven Horsford (D-NV) asked how the opportunity zones development proposal would be implemented. **Secretary Yellen** said they would identify opportunity zones and target areas to assist individuals living in poverty. Rep. Horsford asked whether she would commit to helping him address food deserts and food insecurity. Secretary Yellen answered affirmatively.

Rep. Carol Miller (R-WV) asked whether the Treasury Department has the capacity to implement the medical insurance proposed in the Building an Economy for Families Act. **Secretary Yellen** said they have not implemented the program but noted the Treasury Department's success with fiscal operations, including the distribution of the stimulus payments and the CTC.

Rep. Earl Blumenauer (D-OR) asked about the importance of transformational investments in combatting climate change, wind and solar tax credits and direct pay options. **Secretary Yellen** said there is no policy justification for subsidies for fossil fuels and the administration sees clean energy as a rapidly growing industry, noting the industry has a potential for high-wage employment while also addressing the existential threat of climate change. She emphasized the proposed elimination of subsidies for fossil fuels and addition of climate and clean energy subsidies in the American Jobs Plan to further this end.

This document is intended to provide you with general information regarding congressional hearings on President Joe Biden's FY 2022 Budget Request. The contents of this document are not intended to provide specific legal advice. If you have any questions about the contents of this document or if you need legal advice as to an issue, please contact the attorneys listed or your regular Brownstein Hyatt Farber Schreck, LLP attorney. This communication may be considered advertising in some jurisdictions.