SENATE APPROPRIATIONS FSGG PANEL REVIEWS TREASURY'S FY 2025 BUDGET REQUEST

EXECUTIVE SUMMARY

On June 4, the Senate Appropriations Subcommittee on Financial Services and General Government (FSGG) held a hearing to review President Biden's fiscal year (FY) 2025 budget request for the Treasury Department, with testimony from Treasury Secretary Janet Yellen. During the hearing, Secretary Yellen provided Democrats with updates on various Treasury efforts including around, among other matters, outbound investment screening, implementation of the REPO Act (Pub. L. 118-50, div. F), the creation of a national financial inclusion strategy, and Inflation Reduction Act (IRA) tax credits. Regarding the last of these, some Democratic senators, along with **Sen. Joe Manchin (I-WV)**, raised concerns over Treasury's treatment of the IRA's 45V and electric vehicle (EV) tax credits.

Meanwhile, Republicans present for the hearing, including **Ranking Member Bill Hagerty (R-TN)**, pressed Secretary Yellen on sanctions enforcement and Treasury's debt issuance activities, accusing the department of issuing securities in a politically motivated manner aimed at bolstering President Biden's election prospects by stimulating the economy.

Additional topics raised during the hearing included Internal Revenue Service (IRS) funding and Direct File, Chinese technology transfers to Russia, and CHIPS tax credits, among others.

OPENING STATEMENTS

Chair Chris Van Hollen (D-MD) applauded the Biden administration's efforts to address a lack of affordable housing by taking steps to increase the housing stock through, for example, tax credits. He touted how IRA funding for the IRS has served to reduce call wait times, modernize systems, and facilitate enforcement. The Chair also stated that he was "pleased" by the recent decision to continue and expand the IRS's Direct File program. Regarding Treasury's international efforts, Chair Van Hollen highlighted the department's sanctions on Russia and effort to implement the REPO Act to use immobilized Russan sovereign assets to help Ukraine.

Ranking Member Bill Hagerty (R-TN) criticized the Biden administration's treatment of sanctions on Iran, claiming that the administration has deliberately relaxed enforcement, thereby allowing Iran to derive more revenue from oil sales and increase support for terrorist groups. He also voiced concern that Treasury's issuance of debt may be influenced by politics. The Ranking Member was also critical of the IRS's Direct File program, citing its adoption rate and claiming that the total cost of a successfully filed return through the program could "easily exceed" that of the most expensive commercial tax prep software.

WITNESS TESTIMONY

Treasury Secretary Janet Yellen (testimony) touted U.S. GDP growth, a decline in inflation, the health of the labor market, and companies' clean energy and manufacturing investments under the Biden administration. She also spoke of how Treasury is working to promote U.S. leadership and national security abroad, including through sanctions on Russia, the leveraging of frozen Russian sovereign assets, and ensuring that U.S. workers and firms can compete on a "level playing field." She outlined several areas from Treasury's FY 2025 budget request including funding: (1) for the IRS as the agency pursues enforcement actions against wealthy individuals and looks to expand Direct File; (2) to address emerging threats, including for investment security, financial stability, and cybersecurity; and (3) for the Office of Terrorism and Financial Intelligence (OFTI) and Financial Crimes Enforcement Network (FinCEN), including to support sanctions and combat illicit finance.

DISCUSSION AND QUESTIONS

IRA, CHIPS, and Tax Credits

- **Sen. Chris Coons (D-DE)** asked when to expect final rules that would make tax credits under the CHIPS and Science Act available to manufacturing facilities producing semiconductor materials. The Secretary said that Treasury is working closely with the Commerce Department and trying to issue final rules "as quickly as possible," acknowledging businesses' need for certainty.
- Sen. Coons inquired whether Treasury needs more resources to finalize its proposed rulemaking on the IRA Section 45V Clean Hydrogen Production tax credit, contending that the seven regional clean hydrogen hubs selected last year cannot move forward amid a lack of certainty. Secretary Yellen replied that it is not a matter of resources but rather the "complexity of the issues involved" with the credit. Treasury is working jointly with the Department of Energy (DOE) and Environmental Protection Agency (EPA) on this, she said.
- **Sen. Joe Manchin (I-WV)** criticized Treasury's implementation of the IRA's EV tax credit, specifically pointing to the department's treatment of requirements around component sourcing, which he indicated will allow for continued competition from China. Secretary Yellen defended Treasury's rules around the credit, expressing her belief that they conform to statute. Sen. Manchin strongly disagreed.
- Sen. Manchin additionally criticized Treasury's approach to rules and conditions for the 45V tax credit. Secretary Yellen noted that the 45V rule must conform to the Clean Air Act's definition of "lifecycle greenhouse gas emissions," which she said is where "complications" arise. She acknowledged concern over the rules' impact on the regional hydrogen hubs.
- **Full Committee Chair Patty Murray (D-WA)** asked how Treasury will ensure that a final rule on the 45V credit "helps rather than hinders" clean hydrogen projects. Secretary Yellen indicated that Treasury has received, and will factor in, input on circumstances where there is minimal risk of "significant" induced grid emissions and corresponding state policies.

- Chair Murray prompted Secretary Yellen to speak to the immediate and long-term benefits of expanding the Child Tax Credit (CTC). The Secretary stated that, beyond an immediate reduction in child poverty, doing so could bring long-term gains to children's health, education, and earnings.

Foreign Adversaries, Sanctions Policy, & International Affairs

- Citing how China has transferred technology to Russia in facilitation of the latter's war effort, Chair Van Hollen asked how the U.S. can work with allies — whether through sanctions on Chinese companies or other measures — to address this matter. Secretary Yellen indicated that Treasury is "very concerned" about this, particularly around transfer of certain dual-use goods. Treasury intends to sanction both firms that are exporting this technology and financial firms that are promoting these exports, she indicated. Secretary Yellen added that she has discussed with other finance ministers a need to coordinate sanctions actions.
- Chair Van Hollen requested an update on the effort to implement outbound investment screening aimed at preventing China from acquiring advanced technologies, including semiconductors and artificial intelligence (AI). Secretary Yellen replied that Treasury is working through comments on its advance notice of proposed rulemaking (ANPRM) and is preparing to release a proposed rule "as soon as possible." She also stated that Treasury has been in talks with allies about implementing similar investment screening and that this includes both inbound and outbound screening.
- Ranking Member Hagerty questioned the effectiveness of the Biden administration's sanctions enforcement in limiting Iranian oil revenues. Secretary Yellen responded that, while the administration has continued to take action against those facilitating Iranian oil shipments, a "shadow fleet" of tankers has complicated enforcement.
- In response to a request from Chair Van Hollen for an update on implementation of the REPO Act, Secretary Yellen indicated that a plan for G7 countries to give Ukraine a loan that would be repaid through interest earnings on frozen Russian assets appears to be securing "considerable support" among U.S. allies. The hope is to work this idea into something that can be presented to G7 leaders at a meeting later this month, she added.
- Chair Van Hollen also sought an update on efforts to reduce Russian revenues through a price cap on Russian oil. Secretary Yellen shared that, while the price cap was very successful in the first year, Russia was subsequently able to build up a "shadow fleet" and provide services such as insurance to continue selling oil. Nonetheless, the price cap continues to be "somewhat" effective at limiting Russian revenues by driving up expenses, she concluded.

Federal Debt Issuance

- Ranking Member Hagerty voiced concern over the recent rise in the issuance of Treasury bills (T-bills), saying that the current supply is above the range recommended by the Treasury Borrowing Advisory Committee and that "excessive" reliance on T-bills imposes higher costs on taxpayers. Secretary Yellen contended that Treasury's issuance of these instruments is consistent with historical averages as a percent of overall issuance. Ranking Member Hagerty noted his recent introduction of a bill (S.4439) that would require Treasury to report to certain committees on its debt issuance, to which Secretary Yellen expressed a willingness to provide this reporting.

- In an extended back-and-forth, **Sen. John Kennedy (R-LA)** pressed Secretary Yellen on a decision to issue three-month Treasuries at a 5.4 percent interest rate rather than ten-month Treasuries at a lower rate. He accused Treasury of trying to time the market and spur the economy in an election year. Secretary Yellen rejected this notion, asserting that Treasury issues debt across the curve in a "regular and predictable" manner and in line with recommendations of Treasury Borrowing Advisory Committee.

Internal Revenue Service

- Echoing Chair Van Hollen, Chair Murray touted the benefits of IRA resources for IRS customer service and enforcement and voiced her support for the Direct File program. She asked whether Treasury's budget request would enable the IRS to expand Direct File to all 50 states. Secretary Yellen confirmed that it would.
- **Full Committee Ranking Member Susan Collins (R-ME)** questioned why, as of May 5, the IRS is expecting its employees to return to office for only half of all workdays. Secretary Yellen contended that guidelines for Treasury employees conform to Office of Management and Budget (OMB) guidance and that many IRS employees must be in-office full-time.
- When prompted by Chair Van Hollen, Secretary Yellen reiterated that her directive to the IRS is not to use IRA resources to increase audits on small businesses or households earning less than $400,000 a year and that IRS Commissioner Daniel Werfel has committed not to increase audit rates for these entities above 2018 levels.

Additional Matters

- Chair Murray applauded the recent release of guidance on pension-linked emergency savings accounts (PLESAs) under the SECURE 2.0 Act and asked whether Treasury has the resources to implement other measures under this law, explicitly mentioning interest in guidance for student loan match. Secretary Yellen answered in the affirmative.
- Sen. Coons inquired into Treasury's finalization and implementation of a national strategy for financial inclusion that was called for under the 2023 FSGG appropriations bill. Secretary Yellen noted that Treasury has been engaging in public and stakeholder outreach to this end and hopes to finalize its recommendations this summer.