

Hearing with Treasury Secretary Janet Yellen

House Ways & Means Committee

4/30/24

Opening Statements

Chair Smith (R-MO)

- Instead of allowing families hit by high prices to keep more of their hard-earned money, President Biden wants the highest tax increase on families and small businesses in American history.
- Under the President's plan, seniors will see more of their life savings captured by the federal government. Small businesses will be taxed on their sweat equity and face tax rates approaching 50%. Energy producers will pay more, weakening America's energy independence.
- China is an adversarial nation spreading its influence around the world at the expense of American workers and producers. America should be standing up to China's unfair practices, not using tax dollars to make us even more dependent on China.
- The OECD global tax deal the Administration is trying to negotiate would surrender America's tax revenue and jobs to foreign countries. Congress writes the laws, not bureaucrats negotiating behind closed doors. This deal has no path forward in Congress.

Ranking Member Neal (D-MA)

- Your team has been hard at work electrifying our nation, ushering in a new era at the IRS, and implementing President Biden's record-breaking economic agenda. All with the American people at the center of the work.
- Looking ahead, the President's Budget supercharges this progress and will finish the job for the people. The President's budget ensures they have the support necessary to not only fully participate in our workforce but also raise families and care for loved ones, and responsibly holds the wealthy and well-connected accountable.

Witness

Janet L. Yellen, Secretary, Treasury Department

- The President's Budget proposes additional investments to lower costs for workers and families and strengthen our economy while reducing the deficit, including making permanent the expansion of tax credits for health insurance premiums enacted in the American Rescue Plan and extended in the IRA and expanding the Earned Income Tax Credit, Child Tax Credit, and Low-Income Housing Tax Credit.
- We can make these investments while reducing the deficit by \$3 trillion over a decade through a combination of smart savings and tax proposals.

Question and Answer Session

Chair Smith (R-MO)

- Isn't it true that President Biden is promising a \$1,500 tax hike on a family of four earning less than \$75,000? Yellen: The President has been clear that no family earning less than

\$400,000 will face a tax hike. He's not proposed such a thing since he took office and is not proposing to allow that to happen when parts of TCJA expire.

- Isn't it true that without a plan, the President would slash the Child Tax Credit in half? Yellen: The President has principles that will guide his negotiations with Congress over how to handle this. He's made clear that he opposes increasing taxes on people earning less than \$400,000.
- Does that mean he will support the Child Tax Credit to be made permanent at \$2,000 that was in the Trump tax cuts? Yellen: The President has proposed expanding the Child Tax Credit.
- Would you say it's true that letting the Trump tax cuts expire means President Biden would roll back Republicans' guaranteed deduction, resulting in a tax increase of \$3,373 for a family earning less than \$75,000? Yellen: The President has articulated that no family earning less than \$400,000 will see their taxes go up in any set of proposals.
- I would welcome a plan from the President for that.
- Will you commit to rejecting any OECD profit reallocation plan that disproportionately impacts American companies or allows U.S. revenues to be stolen away by foreign governments? Yellen: The Biden Administration has worked closely with Congress to get input to guide these negotiations over the last three and a half years and will continue to do that.
- The Chinese Communist Party gets much more credit than our R&D tax credit. You've done nothing concerning that. Yellen: We have. We're negotiating with other countries right now to get favorable treatment of the R&D tax credit.
- Isn't it true that your foreign entity of concern rules are more China-favorable than the foreign entity of concern standards of Biden's Commerce Department for semiconductors? Yellen: They're similar. They're very strong restrictions.
- Treasury must do a better job of pushing back against our foreign adversaries.

Ranking Member Neal (D-MA)

- Can you talk about the implementation of the Inflation Reduction Act? Yellen: Although there's still more work to do, we've made tremendous progress implementing it. We've completed more than 60 guidance projects. We've been focused on getting the issues right. The IRA clean energy credits are catalyzing hundreds of billions of dollars in investment in cutting-edge green technology. Investment is especially strong in communities that haven't seen a lot of investment and have lower incomes.
- Can you speak to labor participation rates? Yellen: Labor force participation rates have moved up substantially. They've exceeded where they were pre-pandemic. It's one of the factors that has enabled our economy to grow and create more than 200,000 jobs a month.

Rep. Buchanan (R-FL)

- What do you think about the IMF and their report that they're concerned about where we're at financially and where we're going? Yellen: I'm not concerned about where we are. I do have concerns about where we're going unless we undertake some significant steps to reduce the budget deficit. The President's 2025 Budget proposes \$3 trillion in measures to reduce the deficit over the next decade.
- What are your thoughts on taxes reaching north of 50% if the pass-through rate expires? Yellen: The President is committed to making sure families, even those with pass-through businesses, making under \$400,000 don't see their taxes increase.

- It will be a burden on small businesses. What are your thoughts? Yellen: The President feels it's important to tax those who are making high incomes at high rates.
- Where are you at on letting 199A sunset? Yellen: I need to get back to you on that.

Rep. Doggett (D-TX)

- Why is important that the United States implement the agreement that European countries are already implementing to stop the global race to the bottom in corporate taxation? Yellen: This race to the bottom took place over decades around the world. The only beneficiaries from that were the companies themselves, not workers. Stopping the race to the bottom means companies around the world will race the same minimum tax. Some countries will charge more. The U.S. has proposed a minimum rate of 21%.
- How will our multinationals remain competitive if they pay a rate on their foreign profits that's higher than 15%? Yellen: Competitiveness has to do with differentials in incentives across countries. Prior to Pillar Two, the U.S. was the only country that taxed the overseas earnings of its multinationals. Our companies did just fine with that. Now the rest of the world will go to a country-by-country 15% minimum, which would leave the U.S. with the lowest rate even if we go up to 21% because of the differential.
- What do you think should be done to make sure our companies are not being subject to anti-competitive practices because of dirty production? Yellen: President Biden proposed to raise tariffs on Chinese steel. Our firms are cleaner.

Rep. Kelly (R-PA)

- How do we replace the lost revenue with Pillar Two? Yellen: The most likely case is that tax collection would be positive, not negative.
- Does Treasury commit to working with Congress before signing the OECD Pillar One agreement? Yellen: We've been in touch with Congress throughout this process. One of the things we heard is that there needs to be an opportunity for public comment. We heard that certainty around Amount B is very important to members. We also heard that getting a clear definition of digital service taxes is important. Those are our redlines and what we're negotiating for.
- My concern is that Congress is an afterthought when doing these negotiations.
- I'd hate to see us keep giving up authority. We need to know what's going on. Yellen: We've consulted with Congress throughout the last three and a half years.
- It depends on how you define consulting with Congress.

Rep. Thompson (D-CA)

- Can you talk more about the implementation of the clean energy tax credits in the IRA? Are those incentives working? Yellen: We've working around the clock to write regulations that will provide certainty around the credits. We're seeing IRA clean energy credits catalyze investment in clean energy technologies. We're concerned about supply chains being over-reliant on China for our clean energy. We want to make sure we're strengthening our supply chain at the same time we're creating jobs and reducing emissions.
- What are some of the more responsible ways we might offset the costs of any TCJA extensions? Yellen: The President has proposed a large number of razors in his budget. All of them could be used for this purpose. He has proposed raising the stock buyback tax, raising the corporate alternative tax, enacting Pillar Two, raising the corporate income tax to 28%, a billionaires' tax, and other ideas.

Rep. Schweikert (R-AZ)

- What type of operating balance do you need to maximize stability and interest rate efficiency? Do you need this committee to update any statutory authorities or mechanics? Yellen: I don't think we need legislation. We have a standing policy on operating cash balances and around \$500 billion would be a normal level.
- You're now running around \$900 billion. Yellen: It depends on the flow of expenses and can vary over time.
- My fear is that we're not telling each other the truth about our borrowing stress.

Rep. Larson (D-CT)

- Could you discuss the importance of social security and why the President has adhered to making sure we're not taxing people who make below \$400,000? Yellen: Every year social security lifts tens of millions of seniors out of poverty. It's the federal government's most important anti-poverty program. He's committed to working with Congress to protect social security.

Rep. Wenstrup (R-OH)

- I'm concerned that the Administration's tax policy proposals would take us in the wrong direction when it comes to our economic security and national security.
- Are you for or against domestic supply chain production to enhance our national security? Because I don't see how increasing our corporate tax rate and making us less competitive in the world is going to bring business back to the United States. Yellen: I agree with the goal of having resilient supply chains. There are a variety of ways to promote that.
- If we're increasing our corporate tax rate, that doesn't make us more competitive. Yellen: The Pillar Two agreement does impose taxes on China. China won't gain any advantage.

Rep. Pascrell (D-NJ)

- I'm glad the Budget proposal finally includes closing the carried interest loophole.
- Can you commit to making carried interest fairness a top priority? Yellen: Yes.
- Can you expand on plans to address gaps in the IRS hiring, training, and tech so that the agency has the tools to close the tax gate? Yellen: The IRS is doing exactly that using funding provided in the IRA.

Rep. Ferguson (R-GA)

- If a company owes the Treasury \$200 million in taxes, but it can write off all of that by buying green energy tax credits, how much of that \$200 million is going to come to the Treasury? Yellen: If the firm is using the transferability feature to buy the tax credits, then another company can benefit from the stimulus and incentive. It's the same thing as making the tax credits refundable.
- Why would we do that? Yellen: Many of the companies are companies that lack sufficient tax liability.
- You're giving a tax break to the very people that the other side of the aisle wants to pay their fair share.

Rep. Davis (D-IL)

- Can you share updates on energy investment credits for solar power in low-income communities? Yellen: We've worked hard to clarify the rules and make sure that low-income communities can benefit from the credits.
- Are these proven to be effective in terms of job creation? Yellen: The data shows that the green energy credits have been effective at stimulating investment resulting in job creation. Those jobs are disproportionately in lower-income communities and rural communities.

Rep. Estes (R-KS)

- In 2021, you described inflation as transitory. What word would you use to describe inflation now? Yellen: Inflation has come down considerably and the consensus of thinking among economists is that it was largely due to supply shocks that are mitigating.
- Joe Biden is going to increase taxes on those making less than \$400,000 if he lets the TCJA expire. Yellen: President Biden has issued a set of principles that will guide his negotiations and has repeatedly said he won't support increases for families making less than \$400,000.
- These policies that have been negotiated with OECD are dangerous for our U.S. tax base which is already struggling to collect revenue.

Rep. Smucker (R-PA)

- Can you tell me the current level of our debt? Yellen: I need to find it.
- It's about \$34 trillion. Yellen: Yes.
- That includes intergovernmental debt as well. Yellen: That's right.
- Can you tell me what the projected debt will be at the end of this budget period at the end of 10 years? Yellen: In 2034 under our budget, it will be about \$45 trillion. But GDP also grows and the ratio to GDP would be a few percentage points more.
- It would be a significant increase in the debt. Yellen: A small increase.
- In a recent Treasury report, you say the current policy is not sustainable and the cost of delaying policy reform will make it much harder to implement changes that would affect the debt trajectory. Do you think that's a real threat to the country going forward? Yellen: We need to enact policies that ensure the debt stays sustainable and that we're on a fiscally sustainable path. The President has proposed over \$3 trillion in deficit reduction.
- Where do you get the \$3 trillion in savings? Yellen: In some areas, there are spending decreases. Most of it comes from additional tax revenues.
- The tax revenues are from families making less than \$400,000. Yellen: President Biden has never said that, and those taxes would be paid for.

Rep. Sanchez (D-CA)

- What has Treasury been hearing from taxpayers who filed their taxes online for free and directly with the IRS? Yellen: The pilot was successful. There was increasing interest from taxpayers throughout the five weeks it was available. They found it easy to use.
- How does the direct file help families understand their eligibility for and ability to claim certain tax credits? Yellen: The program walks people through those areas.
- How does our inflation rate compare with those of other modernized countries around the world? Yellen: Inflation has come down considerably. Household wages have also gone up. We know we have more work to do to lower costs.

Rep. Hern (R-OK)

- Are you concerned that Pillar Two is creating a new tax subsidy race where countries enact Pillar Two taxes but offset the higher tax cost with higher subsidies in the form of qualified, refundable tax credits and other incentives? Yellen: The idea of Pillar Two is to level the playing field. Countries that enact the minimum can tax companies in tax havens that haven't done it.
- Is this Administration concerned that Pillar Two incentivizes subsidy warfare that puts our adversaries like China at a competitive advantage? Yellen: It would concern me but I'm not aware that that is broad-based at this point.

Rep. Chu (D-CA)

- Can you tell us why the IRS direct file pilot program was considered a success considering the obstacles that there were and what considerations will go into extending the pilot? Yellen: This was an experiment and deliberately introduced at a small scale. It saved a lot of taxpayers a lot of money and time.
- If you decide to renew the direct file pilot, can you talk about how it can reach more taxpayers by expanding to more languages? Yellen: I'm sure that would be something we consider over time.
- Can you talk about how tax credits will impact the economy and improve things for everybody? Yellen: A good example is the Child Tax Credit which, in 2021, lifted 5.3 million people out of poverty. We saw a 46% decline in child poverty in 2021. This is not only beneficial to the children and their parents in the short term, but when poverty is reduced for children, it benefits them for the rest of their lives.

Rep. Carey (R-OH)

- Companies investing in lower methane-intensity natural gas to produce hydrogen should be able to demonstrate the low-carbon intensity of the produced hydrogen with EPA-verified data and then use the data to calculate the corresponding tax credit value.
- Do you have a response? Yellen: The hydrogen provisions of the IRA are important, and we've worked hard to put out an NPRM that will provide some clarity and flexibility to let projects advance with the appropriate environmental safeguards.

Rep. DelBene (D-WA)

- Can you clarify the Administration's position on Child Tax Credits? Yellen: The President is supportive of the Child Tax Credit and he has proposed to extend it.
- How are emerging technologies like AI being integrated into the IRS' work to provide services to taxpayers and to enforce tax laws? How is the IRS addressing data privacy and security concerns inherent with such technologies? Yellen: The IRS has begun to use AI in its work. They see great potential on the enforcement side. We've put in place safeguards and a governance process around that to make sure it's used responsibly.
- How can Treasury push our allies to cut off seafood trade with Russia? Yellen: I'm not intimately knowledgeable on this.
- How does suggesting that the U.S. will never implement Pillar Two make it more difficult to get the changes we'd like to see? Yellen: Pillar Two is good for the entire world. Other countries see it as a failure on our part not to adopt it ourselves.

Rep. Malliotakis (R-NY)

- On your trip to China, you announced a joint Treasury-People's Bank of China cooperation on money laundering. Where is this group at? How will it save American lives from fentanyl? Yellen: Fentanyl is a critical issue and Treasury is doing everything it can to stem the flow from China to Mexico and illegal sales. President Biden and President Xi agreed to jointly tackle fentanyl which was a good development. Meetings have been taking place. We've had one meeting on the topic of illicit finance and fentanyl is one of the key issues.
- Are the money laundering organizations in the PRC operating outside of the CCP's control? Yellen: I think so. It's not my understanding that the CCP is positively directing this activity.
- I hope you'll work diligently to hold China accountable.

Rep. Sewell (D-AL)

- How will the Earned Income Tax Credit and Low-Income Housing Tax Credit level the playing field? Yellen: All of the initiatives we're proposing to make permanent are focused on the most distressed communities.
- What is the new Mortgage Relief Credit? Yellen: The President has proposed a pair of tax credits, one is \$10,000 and would go to purchases of new homes and the other would go to individuals willing to sell their homes.
- Can you talk about why permanency for the New Market Tax Credit is critical? Yellen: Because it's intended to generate private investment, knowing the program will be there over time will create more certainty.

Rep. Miller (R-WV)

- Does the Biden Administration support American taxpayer dollars funding Chinese entities? Yellen: When it comes to electric vehicles, foreign entity of concern restrictions coming into effect this year and next will curtail the participation of Chinese firms in producing components or minerals that go into batteries.
- Does the Biden Administration share my concerns that China is using various IRA credits to deepen its influence on our domestic manufacturing industries? Yellen: We are doing everything we can in implementing the IRA to strengthen our supply chains and make them less vulnerable to China.

Rep. Moore (D-WI)

- What is the status of IRS compliance with the Violence Against Women Act? Yellen: The reauthorization explicitly extended VAWA's protections to applicants and tenants in LIHTC properties. If there are specific issues or guidance you think are necessary, I'd gladly put you in touch with staff.

Rep. Kildee (D-MI)

- What is Treasury's plan to ensure final domestic content guidance for solar facilities incentivizes onshoring for the full U.S. solar supply chain and reduces our dependence on China for components? Yellen: We put our initial guidance on domestic content. We've received a lot of public feedback from stakeholders across the solar supply chain and will take that into account.
- Will Treasury continue to work with us on final guidance for the 48D tax credit that supports critical elements in the semiconductor supply chain? Yellen: We've put out proposed rules and received a lot of feedback that we're taking into account.

Rep. Steube (R-FL)

- Under the Biden Secrecy Act, the Financial Crimes Enforcement Network receives vast amounts of data covering millions of financial transactions involving everyday Americans. Is that correct? Yellen: FinCEN receives reports.
- Is it correct that FinCEN received 20.6 million currency transaction reports in 2022? Yellen: I'm not sure. It could be.
- Is it also true that FinCEN received 4.3 million suspicious activity reports in 2020, which was nearly double the amount received by the agency in 2019? Yellen: I don't know if they received double the previous year.
- Doesn't the data in these reports include important and sensitive private financial data? Yellen: These are private data only available to law enforcement.
- But it includes data on American citizens and their private financial data, correct? Yellen: On transactions that are regarded as suspicious.
- The sensitive personal financial data is held in a database, correct? Yellen: Yes.
- Neither FinCEN nor any federal law enforcement agencies need to get a warrant to access this private financial data. Is that correct? Yellen: I don't think you need to get a warrant, but it's only shared subject to strict confidentiality.
- Are you aware that in 2021 FinCEN emailed financial institutions suggesting search terms including "America First," "Trump," and "MAGA" to identify transactions that may indicate "involvement in riots or potential violence"? Yellen: This was an activity that took place under the previous Administration, not under the Biden Administration.
- Are you aware of FinCEN emailing the financial institutions with those search terms? Yellen: I'm aware that there were communications that took place in some cases.
- FinCEN also worked with the FBI in early 2021 to determine certain transaction thresholds for SARs. These include certain weapons-related transactions. Do you know how many SARs were filed as a result of the FBI and FinCEN's coordination at that time? Yellen: No.

Rep. Fischbach (R-MN)

- Allowing the Trump tax cuts to expire on middle-income Americans seems like a misguided principle to me.
- If the Trump tax cuts expire and President Biden fails to pass his tax plan, which currently doesn't exist, which Americans will pass less in taxes? Yellen: President Biden has made clear that he opposes increasing taxes on those making less than \$400,000 a year and he supports cutting taxes for working people and families with children to give them more breathing room.
- Isn't it true that nearly all middle-income families will pay more with the expiration of the Trump tax cuts? Yellen: Some individuals would, but President Biden has said he would oppose allowing tax cuts to expire for those making less than \$400,000.
- He doesn't have a tax plan; he just has ideas. Yellen: There will be a negotiation over what to do when these tax cuts expire.

Rep. Schneider (D-IL)

- Can you give us a sense of the criteria or objectives Treasury is using in thinking about how to issue the rule for sustainable aviation fuel? Yellen: We're releasing a notice today that will catalyze innovation in the aviation industry and incentivize the production of cleaner, more sustainable aviation fuels. It will provide clarity about eligibility for the SAF credit.

Rep. Moore (R-UT)

- Would you agree that tax policy has an impact on our economy? Yellen: It can, yes.
- What specific analysis can you point to demonstrating that raising the corporate tax rate won't impose burdens on low- and middle-income Americans? Yellen: All the analysis I'm familiar with shows TCJA was a regression tax cut that disproportionately benefited the wealthy and large corporations. It promised an investment boom that never materialized.

Rep. Steel (R-CA)

- If the U.S. raises its corporate tax rate to 28% and we adopt a new global minimum tax rate, the U.S. will forfeit tens of billions of dollars. It also fails to hold China accountable.
- What assurances do you have that China will truly comply with the OCED rules and not continue to abuse the system? Why should we give the CCP economic advantages on the backs of American taxpayers? Yellen: This is an agreement that contains an enforcement mechanism. If a country doesn't raise its minimum tax rate, other countries that have complied can tax firms based in countries that are not going along with it. That applies to China.
- I don't know if they will really follow the rules.
- Do you support the increased standard deduction created by TCJA and support keeping these individual tax cuts for hardworking Americans? Yellen: The President supports no tax increases on families making under \$400,000.

Rep. Evans (D-PA)

- Can you describe how the \$3 trillion deficit cut over the next 10 years would impact social security recipients? Yellen: President Biden has made it clear he would never support cuts to benefits for those individuals.

Rep. Fitzpatrick (R-PA)

- Can you walk me through the decision to let the TCJA expire and how you plan to protect the economic security of Americans who qualify? Yellen: The President's Budget makes a number of proposals but hasn't offered a detailed plan. He has articulated principles he would take into a negotiation.
- Why did the Administration proceed in brokering an agreement with Japan on critical minerals without any input from Congress? What steps does the administration intend to take in the future to notify Congress of any FTA between the U.S. and another country? Yellen: The Administration agrees Congress has an important role here. The objective is to reduce our dependence on China and other foreign countries of concern. We've consulted with Congressional leadership and staff on these matters over the last year and a half.
- Can you speak to why Treasury decided to define EV components in a way that allows them to be made by foreign countries of concern and still receive tax credits? What is the Department doing to help U.S. manufacturers and not Chinese manufacturers? Yellen: The FIAC rules are very strong and indicate that battery components, starting this year, made by a foreign entity of concern can't be included in any car that receives the \$7,500 credit. Next year that expands to critical minerals and their processes.

Rep. Van Duyne (R-TX)

- Do you believe that oil and gas production is detrimental to long-term energy security? Yellen: We pick winners and losers, and they have to be positive for what is an existential threat in climate change.
- Do you believe that oil and gas production is an existential threat and it's somehow better to cut all that production for our long-term energy security? Yellen: No one is saying to cut all that production.
- Is it the Administration's goal to shut down energy companies and change the rules to make it impossible to operate profitably? Yellen: That is not the Administration's objective.
- Is tilting the scales toward green energy worth the security risk of buying oil from adversaries? Yellen: We're promoting clean energy.
- Did the TCJA lower the corporate tax rate to the lowest in the OECD? Yellen: It's among the lowest.
- Under the President's Budget, the U.S. would have the second-highest corporate rate in the world. Yellen: I don't believe that.

Rep. Gomez (D-CA)

- Can you detail the actions the Administration is taking to provide relief for America's renters? Yellen: We are looking to expand that through a number of proposals.
- Would you agree that paying the CTC monthly rather than yearly would help maximize its power for working families? Yellen: Yes.

Rep. Beyer (D-VA)

- How would the minimum tax work for the ultra-wealthy? Yellen: The President's Budget would impose a minimum tax of 25% on total income and income would include unrealized capital gains. It would only apply to taxpayers with more than \$100 million in wealth.
- Are you happy with the IRS' direct file so far? Yellen: It's gone very well. We're going to provide a thorough assessment.

Rep. Feenstra (R-IA)

- In the Pillar One negotiations, market countries sought taxing rights for companies selling into them. Those taxing rights are allocated on paper only. The local data storage requirements that would proliferate around the world do the opposite, reallocating taxing rights not on paper but instead reallocating real economic assets that create a taxable presence in those countries.
- Did the Treasury consult with USTR on the likely tax and this economic decision? Yellen: When it comes to Pillar One, we've had interagency coordination and our position on this remains unchanged. We're trying to get rid of digital service taxes.
- The thing we don't want is where our multinationals are paying taxes to other countries and they're using us as a piggy bank. Do you see that at all? Yellen: We're trying to oppose that in the Pillar One negotiations.

Rep. Panetta (D-CA)

- Can you explain how investments in housing can support the economy? Yellen: We're very concerned about the shortage of affordable housing. The President is doing everything he can to promote affordable housing, including expansion of LIHTC and credit for first-time buyers and sellers of housing.

- I'm hoping workforce housing is something the Treasury would be interested in. Yellen: We'd be glad to work with you on that.