

**The President's Fiscal Year 2023 Budget**  
**Senate Finance Committee**  
**June 7, 2022**

**Opening Statements**

**Chair Wyden (D-OR)** stated that the number one topic across the country and in Oregon is inflation. He said that this is happening at the same time as we have a 3.6% unemployment rate and rising wages, but inflation is still causing real headaches. He continued that the challenge ahead is how to tackle inflation and said that Democrats are working to lower prescription drug prices as well as cut the cost of middlemen in our economy, like pharmaceutical benefit managers. Wyden turned to energy and climate saying that the war in Ukraine is driving up prices for gas even more alongside the growing climate crisis. He thought that Americans would be interested in a plan to lower energy costs, make Putin poorer, and prevent climate catastrophes. Wyden said that Democrats want to lower the cost of renting and owning a home by investing in cost effective housing and cutting red tape. He pointed to the previous electronic signatures law that helped buyers and sellers. On the other hand, he said that Republicans' plan is to phase out Medicare and Social Security, referring to Senator Scott's (R-FL) plan. Wyden closed by saying that there are clear contrasts in their approaches to solving inflation.

**Ranking Member Crapo (R-ID)** remarked that inflation is eroding wages and hurting families. He stated that the American Rescue Plan was 'inflation fuel' and said that this is not the time to resurrect the Build Back Better bill or raise taxes. Crapo believed that we are on an unsustainable track. He said that the international tax agreement that the Treasury negotiated under the OECD was negotiated without congressional approval and said that the Treasury has declined to provide any analysis on the impact of this. Crapo predicted that the impact on American businesses would be significant and make them less competitive. He said that the flaw is that the agreement cannot be implemented without congressional action via a treaty approved by a  $\frac{2}{3}$  Senate vote. Crapo referred to the ProPublica leak and was still worried about the leaking of Americans' private information. He also advocated for more oversight of ARP funding. Crapo stated that the Senate Finance Committee deserves more transparency and accountability from the Treasury than it has been given.

**Witness Testimony**

**The Honorable Janet Yellen**, *Secretary, United States Department of the Treasury*, stated that the Treasury's budget prioritizes tax reforms that enable deficit reductions and a fairer tax system. She continued that the recovery has been successful due to congressional action taken during the pandemic. Yellen stated that we are now in a period of transition and that making this shift is central to the President's plan to lower inflation without harming the economic recovery. She highlighted the historically low unemployment rate and said that the deficit will be lower than expected. Yellen turned to inflation saying that clean energy initiatives and plans to reform

the prescription drug market can help lower inflation. She addressed the war in Ukraine saying that the Treasury is doing what it can to ensure that Putin's plan is met with resistance around the world, pointing to the sanctions imposed on Russia to ensure that the Kremlin is locked out of the financial system. Yellen thanked Congress for their support on this and discussed the positive impacts of the bipartisan infrastructure legislation. She said that the budget's investments are paid for and emphasized that everyone should pay their fair share of taxes. Yellen addressed the global minimum tax saying that the negotiated deal will be good for the American economy and was hopeful that Congress would also implement a global minimum tax.

### **Member Questions**

**Chair Wyden (D-OR)** said that some Republicans have proposed increasing taxes on middle income families and small businesses and said that Democrats instead proposed lowering the cost of energy, drugs, and childcare. He and the President believed that billionaires should not be able to use current tax laws to avoid paying taxes and asked how these policies would reduce costs. Yellen replied that the President supports policies to ease the burden on middle-income families through the Child Tax Credit, lowering the cost of healthcare and drugs, and investing in energy to lower utility bills. She added that this would be paid for and that the budget asks billionaires to pay their fair share. Wyden turned to the IRS and said that the lack of oversight has allowed 'high flyers' to cheat on their taxes and referred to the billions of dollars lost due to this. He asked Yellen to talk about why additional investment in the IRS is smart. Yellen replied that the IRS investment would increase revenue for the US and said that more broadly, the IRS is an agency that entered the pandemic underfunded. She said that we need to invest in the IRS to close the tax gap and to modernize its technology. Wyden then addressed the backlog at the IRS for tax returns.

**Ranking Member Crapo (R-ID)** said that Democrats are claiming that Republicans are raising taxes and rejected that and asked if it would be prudent fiscal policy to raise taxes. Yellen replied that there is a lot Congress can do to ease the cost burdens households are experiencing and said that the Administration is working hard to bring down energy costs referring to the release of barrels from the Strategic Petroleum Reserve. She defended that the US is not the only country experiencing this inflation and said that the President would like to see policies from Congress that would address childcare expenses, medical costs, and housing costs. Crapo did not hear Yellen say that we should increase our domestic energy production and asked about domestic energy production. Yellen replied that oil producers in the US are sitting on thousands of leases on US land and drilling has not begun yet. Crapo said that the President's actions have stalled these permits and said that we were energy independent and now we are not. Yellen explained that given the global nature of the markets, the US cannot insulate themselves from global oil prices. Crapo wanted to discuss the OECD and his concerns.

**Sen. Stabenow (D-MI)** said that she drove her EV from Michigan to DC. She said that the President inherited a mess when he came into office and said that the American Rescue Plan really helped a lot of Americans. Stabenow reiterated the strength of the job market right now but despite this good news, we still have a lot of issues with supply chain breakdowns leading to inflation. She asked Yellen what Congress should do to bring inflation down. Yellen thought that bringing inflation down is the number one priority and recognized the Fed's role in the economy and what it is doing to bring inflation down. She added that the President is fully supportive of the independent Fed and what it is doing to address inflation. Yellen believed that Congress could do a lot to mitigate some of the most burdensome costs like affordable housing, prescription drug price, etc. She added that through this, we will expand the supply side of the economy.

**Sen. Cantwell (D-WA)** focused on the semiconductor shortage and asked how critical it is to address this issue now through the passage of USICA. Yellen replied that the US needs to remain the leader in this industry and that it is important to be able to produce chips at home and thought that USICA was an important bill that should be passed. Cantwell asked if the chip shortage has added to inflation. Yellen replied that it absolutely has. Cantwell asked how competitive the financing market is in other countries. Yellen replied that there is a conscious drive in China and other places to boost semiconductors and believed that the US needs to develop the capacity to produce semiconductors.

**Sen. Cortez Masto (D-NV)** started with affordable housing and the lack thereof saying that ARP funds provided states the ability to build more housing. She said that it is very important for the ARP funds to leverage the most reliable and impactful affordable housing production investment: the Low-Income Housing Tax Credit (LIHTC). Cortez Masto worried that the states are not able to use the funds received to leverage those against the LIHTC and hoped that the Treasury would clarify this so the states can leverage those funds. Cortez Masto asked about this. Yellen replied that the Administration is encouraging states to use the money to address affordable housing and said that the Treasury recently published a fact sheet explaining practices that have been found promising. She strongly encouraged that the funds be used to boost housing affordability. On the LIHTC, she said that there has been an issue with average income regulations which is something that Congress intended to provide flexibility on. She added that it is a priority for the Treasury's tax team to make sure that those regulations capture that flexibility. Cortez Masto referred to her legislation, *the Lifeline Act*, which would allow states and localities to loan the state and local fiscal relief funds to LIHTC projects. She said that it is a challenge to get Republicans and Democrats on board and hoped for the Treasury to clarify this in its final rule to allow these types of loans to be used in this way. Yellen replied that she would be happy to work with her on this. She asked about Social Security Administration services and asked Yellen to talk through the investment in the Social Security Administration in the budget

and how it will help people access their earned benefits when needed. Yellen understood the purpose of those investments and would get back to her on details.

**Sen. Toomey (R-PA)** thought it was important to have a candid conversation about the 2017 tax reforms and the danger of the current Administration's attempt to throw it out. He said that pre-pandemic the economy was the best he had seen in his lifetime and was the best economy for minorities and low-wage earners. Toomey was concerned about American competitiveness and was under the impression that the Treasury has data on the impact of the tax reform being overturned. He wanted this data. Also, he thought that the Senate needed to ratify the negotiation with the OECD and asked about this. Yellen replied that for access to data, the data related to Pillar 2 is available and was included in the House passed bill so she thought he was referring to Pillar 1 and the impact. She said that it could go either way and a decision has not been made yet but said that Pillar 1 will have a small impact. Yellen agreed that the ratification involves congressional approval.

**Sen. Carper (D-DE)** said that he has advocated for a fair and well-functioning tax system for decades and said that taxpayers should not have to jump through hoops to file taxes and said that the program, Free File, has not lived up to its expectations. He asked how accessible and easy tax filing options can be provided. Yellen agreed that the cost and time associated with filing taxes is a lot and said that the Treasury is exploring options to make this less burdensome. She added that the IRS is horrendously under-resourced which is part of the issue.

**Sen. Lankford (R-OK)** stated that it is the one-year anniversary of the ProPublica leak and noted that he sent a letter to the Treasury this morning asking what has changed in the past year. He asked if the Senate could get a briefing on this. Yellen replied that she will get back to him on arrangements and said that the Treasury takes privacy and protection controls very seriously. Lankford turned to the OECD saying that this is a challenge due to the flow of information Congress is getting on this. He was concerned that it is structured to encourage companies to move their R&D internationally. Yellen did not understand Lankford's explanation saying that with this global deal, it will force every other country around the world who signed the agreement to impose a minimum tax on their overseas earnings of at least 15%. She added that many of the credits will count, and it is structured so direct subsidies will count on the tax side. Yellen said she would work with Congress to ensure that business credits are structured so they will be available. Lankford reminded her that revenue changes need to be done through Congress. He also asked about the foreign tax credit. Yellen understood that there are some issues businesses have with it and said she would work with him to address it.

**Sen. Cassidy (R-LA)** asked about Social Security insolvency and how the Administration is going to address it. He turned to inflation and the price of oil and gas and the cost of oil field services. Cassidy asked about increasing the tax incentive to drill gas. Yellen replied that prices

are very high partly because of the war in Ukraine and said that the incentives are there to boost production. Cassidy asked about increasing a tax credit for 3-5 years to offset costs and asked if this should be entertained. Yellen replied that the price system is working and provides incentives. Cassidy moved on to Russia and the price of oil and how Russia is actually making more money off oil and gas now. He asked about the negotiations with the buyer's block. Yellen replied that the negotiations on this are ongoing and said that the objective is to limit the revenue going to Russia in whatever way possible.

**Sen. Cardin (D-MD)** touched on affordable housing and mentioned the LIHTC. He focused on the Neighborhood Homes Investment Act and asked about the Administration's priorities on housing and about NHIA. Yellen replied that the Administration is supportive of the NHIA and that it is thinking of everything it can to promote the building of affordable housing. Cardin turned to retirement security and said that Congress needs the Administration's help on getting a retirement security bill passed. Yellen replied that her staff can talk with him where the Administration can be most helpful.

**Sen. Portman (R-OH)** thought that the new regulations with the foreign tax credit is going to make the US less competitive and asked if we should have global competitiveness in the US and if Yellen would be willing to look at the regulations as it relates to protecting jobs in the US. Yellen replied that of course she would look at any suggestions he had and that she understood the concerns around the regulations and will look at comments. She thought that the regulations are important to protect critical interests of the US and saw that there are new kinds of taxes like the digital services taxes where foreign countries are trying to expand their taxing jurisdiction through extraterritorial taxes which should not be eligible for the foreign tax credit. Portman agreed with her on the digital services taxes.

**Sen. Daines (R-MT)** said that the Administration has not taken the ARP into account for adding to inflationary pressures and asked if she agreed with the San Francisco Fed's assessment of the ARP. Yellen reminded Daines that the US is not the only country experiencing inflation which is why the ARP cannot be the main cause for inflation. Daines turned to OECD and China's in compliance with this agreement. He asked what makes her confident that China will be compliant. Yellen replied that she expects China to comply but if it does not, there is an enforcement mechanism in the agreement saying that the US and other countries will impose and collect taxes on China's companies if there is lack of compliance.

**Sen. Grassley (R-IA)** was concerned about the focus on corporate greed and worried that this would repeat price controls and windfall profit tax. He asked if Yellen agreed that price controls and windfall profit tax are not solutions to inflation. Yellen replied that anti-trust is very important and enforcing a strong antitrust policy is important. She deferred to the Fed on its role to bring down inflation as well.

**Sen. Menendez (D-NJ)** discussed gun violence and asked the economic cost of trauma from gun violence. Yellen was horrified by the gun violence in recent weeks and across the years. She said that she is not an expert on the psychological impact from gun violence but said that there is literature in economics that says that early life events can have lifelong impacts. Menendez turned to student loan debt and asked about the economic impact of default. Yellen replied that the Administration is still considering how to proceed with student loan debt. Menendez asked about SALT and universal property tax.

**Sen. Brown (D-OH)** referred to Grassley's comments on corporate greed saying that a number of American industries have used the pandemic and war with Russia to raise prices. He shifted to the Child Tax Credit and asked if CTC is a driver of inflation and asked if its expansion would help families with rising costs. Yellen agreed saying that there is evidence showing that it reduced poverty. She said that there is a possible marginal impact on food prices but said that the CTC is not a significant factor of inflation. Brown turned to international tax and asked why it is important for Congress to address this now. Yellen thought that this was an important initiative and important given that the US spearheaded the issue and said that it would raise considerable revenues to spend on a wide array of programs like health insurance, housing, energy investments, and to support investments in people.

**Sen. Casey (D-PA)** talked about the union dues tax deduction that the 2017 tax cuts got rid of. He asked Yellen about the steps the Administration is taking to ensure that wealthy corporations are paying their fair share of taxes. Yellen replied that this is a big issue and that most of the tax gap has to do with high income earners. She added that the lack of resources at the IRS impacts its ability to handle these complexities in taxes.

**Sen. Bennet (D-CO)** discussed the positive impacts of the Child Tax Credit and was grateful for Yellen's efforts and the effort by the IRS to get the CTC out to families. He asked if Yellen had any reflections on the CTC. Yellen agreed with Bennet's comments and thanked him for his words. She added that the President strongly supports CTC expansion.

**Sen. Warren (D-MA)** talked about money for the IRS and said that thanks to Republican tax cuts and corporate lobbying, the IRS is stuck with technology from the 1970s and is unable to address the tax gap. She continued that the IRS does not have an 'easy peasy' program and that the IRS worked with Intuit and H&R Block to make the tax return process easier. Warren said that these companies have not made it easier or free and believed that these companies have steered people away from Free File to make a profit. She asked Yellen if the current system is not working for Americans and if, with appropriate funds, it is time for the IRS to develop a new system. Yellen agreed with her that Free File has not worked and that in a country like the US, it should not be this hard to file your taxes. She said that the IRS is under siege and is suffering

from huge under investment and has massive problems. Yellen said right now the priority is dealing with the backlog of tax returns.

**Sen. Thune (R-SD)** discussed inflation and believed that the use of the word ‘transitory’ to describe inflation was very wrong. Thune added that this inflation rate has eaten up the unemployment rate and wage gains. He believed the ARP overheated the economy and caused the mess happening today.

**Sen. Hassan (D-NH)** talked about clean energy tax cuts and asked Yellen if this would help lower costs for those in New Hampshire. Yellen agreed and said that clean energy tax cuts can help families cut costs while addressing climate change and reducing American dependence on fossil fuels. Hassan turned to the employee retention tax credits and asked how the Treasury is addressing these backlogs to ensure that small businesses get relief. Yellen answered that she is aware of this problem and that the IRS is working very hard to address the backlog. Hassan turned to Russian gold reserves and how Putin is stockpiling gold to insulate itself from sanctions. She asked about the Treasury's ongoing actions on this issue. Yellen replied that the Treasury has issued guidance on gold related transactions and is monitoring any actions to circumvent sanctions through the use of gold.

**Sen. Barrasso (R-WY)** believed that the Administration is targeting energy even while saying that gas is too high and asked Yellen to explain this. Yellen discussed incentives to produce renewable gas to help wean the American dependence on fossil fuels. She said that we have high prices for oil and believed that producers are sitting on millions of acres of leased land where they can drill more oil. Barrasso pointed out that you need permission to drill along with the leases and said that the Administration has not given permission to drill at all. He thought it was wrong to use the Defense Production Act to manufacture solar panels.

**Sen. Whitehouse (D-RI)** talked about the beneficial ownership legislation that was passed over a year ago by Congress in January 2021 but said that he is still waiting on the rule from the Treasury. He asked about when the Treasury will be done with the Beneficial Ownership Rule. Yellen replied that last December FinCEN published a notice of proposed rulemaking to implement the beneficial ownership reporting requirements which is the first rulemaking and said that the second will govern access to the beneficial ownership information system which will be published this year. She added that to fully implement the Beneficial Ownership Rule, the Treasury will need full funding to build this database in 2023. Whitehouse also discussed 501(c)(3)s and 501(c)(4)s in regard to dark money in politics.

**Wyden** closed by saying that Congress has a big role to play in cutting costs and addressing inflation. He looked forward to continuing to work with Yellen.

**The President's Fiscal Year 2023 Budget**  
**House Ways & Means Committee**  
**June 8, 2022**

**Opening Statements**

**Chair Neal (D-MA)** stated that since the last time Yellen appeared before them, the economy has made substantial progress. He noted how it was unbelievable that we are now back at full employment and how 11 million job opportunities are still open. Neal said that Americans are struggling less due to their increased savings, but inflation is still a concern. He pointed to the success of the American Rescue Plan (ARP) and how we have recovered faster and stronger compared to other nations. Neal pointed to the Child Tax Credit (CTC) and other tax credits that help working families. He noted the stimulus payments and other relief that kept families and businesses afloat. Neal pointed to how the Treasury quickly dispersed these payments and how they made a difference in the lives of the American people. He then moved onto the IRS and how many on the Committee would like to see the IRS better resourced. Neal hoped to see Build Back Better (BBB) come back as it would supply the IRS with the resources it needs. He moved on to the importance of addressing climate change and how oil companies have benefited from high energy prices. Neal said that they were fortunate to have Yellen's help in crafting a thoughtful reconciliation package. He then thanked Yellen for her leadership at the OECD tax negotiations and he was hopeful that there would be progress among allies on implementing Pillar II in the coming weeks.

**Ranking Member Brady (R-TX)** strongly disagreed with the failed economic policies of the Biden Administration. He said that Americans are being hammered with the shrinking economy and record pessimism about the future. Brady noted that Biden has missed expectations in four of his five core economic reports and how the economy has actually shrunk. He noted the massive deficit spending that fueled high inflation and how the Administration should have known that the ARP would increase inflation. Brady emphasized that Yellen was wrong that this would not cause inflation and how families and businesses are now suffering. He moved on to high gas prices and how most Americans believe we will be in a recession. Brady pointed to how Biden is proposing increased tax hikes that will cripple businesses. He then noted the OECD tax negotiations and how Congress should not approve of this and turn over these critical decisions to foreign entities. Brady then discussed the IRS personal data leak and the administration's dangerous open border policy. He questioned when the American people would see relief.

**Witness Testimony**

**Janet Yellen, Secretary, United States Department of the Treasury**, stated that the Treasury's budget prioritizes tax reforms that enable deficit reductions and a fairer tax system. She continued that the recovery has been successful due to congressional action taken during the

pandemic. Yellen stated that we are now in a period of transition and that making this shift is central to the President's plan to lower inflation without harming the economic recovery. She highlighted the historically low unemployment rate and said that the deficit will be lower than expected. Yellen turned to inflation saying that clean energy initiatives and plans to reform the prescription drug market can help lower inflation. She addressed the war in Ukraine saying that the Treasury is doing what it can to ensure that Putin's plan is met with resistance around the world, pointing to the sanctions imposed on Russia to ensure that the Kremlin is locked out of the financial system. Yellen thanked Congress for their support on this and discussed the positive impacts of the bipartisan infrastructure legislation. She said that the budget's investments are paid for and emphasized that everyone should pay their fair share of taxes. Yellen addressed the global minimum tax saying that the negotiated deal will be good for the American economy and was hopeful that Congress would also implement this global minimum tax as part of its legislative agenda.

### **Member Questions**

**Chair Neal (D-MA)** asked why the Administration was seeking more resources for the IRS and what more investment in the IRS would mean for all taxpayers. Yellen said it would ensure tax compliance among high earners and it would improve the experience of all taxpayers as they interact with the IRS. She said it would ensure that there are customer service representatives as well as tax credits and refunds that they are entitled to. Yellen added it would ensure that they have the necessary updated technologies. Neal then moved to the advanced premium tax credits and how many were able to enroll in quality health plans from about \$10 a month. He said that a step toward fighting inflation would be extending these credits. Yellen said that the ARP expanded tax credit made a huge difference for families and extending it would extend this further.

**Ranking Member Brady (R-TX)** was concerned about the OECD tax negotiations and said that given that the US tax base is for US taxpayers, would she walk away from Pillar I or II deals that lower tax revenues for the US. Yellen said that the proposal is to subject a proportion of the profit of highly profitable multinationals to share a global portion of those taxing rights. She said that the US will gain a right to tax a portion of foreign companies and they cannot provide an exact estimate of the gains or losses for this. Brady thought she would admit that a majority of those tax revenues would come from the US tax base and revenues. He asked if she would share the details of this economic impact. Yellen said that until final details of Pillar I are estimated, they cannot come up with an estimate, but the impact is likely to be small either way. Brady noted that congress should give up taxing authority to foreign governments, the OECD, and their accounting practices and asked how she convinces them that they should cede this authority. Yellen disagreed that they were ceding their tax income to foreigners and how countries have the right to ensure that other countries pay a minimum tax. Brady said she is not protecting the US tax code or the way we do our tax credits.

**Rep. Doggett (D-TX)** noted how Poland has come up with last minute objections and asked why the US should lead instead of follow. Yellen said that this agreement is in the US national interest, and it will enable us to reduce some of the burden that falls on workers and place it on corporations. She said that the agreement has strong protections, and they can sanction countries that do not go along with it. Yellen said many countries are adopting it, including the EU, and she was hopeful that Poland would adopt it. She emphasized that this would level the playing field. Doggett said that this minimum tax would minimize distortion and also help many multinationals because of the way its competitors will be taxed. He said it is not just a matter of comparing the OECD proposal with doing nothing and how many have recognized the importance of getting agreement on Pillar I. Yellen agreed and said it would provide an environment of tax certainty, especially for digital services.

**Rep. Buchanan (R-FL)** asked what we can do about the national debt and how this ties into inflation. He noted that the deficit was also hurting those on fixed incomes. Yellen said that government spending and the deficit has come down dramatically. She said there was no question that inflation was unacceptably high and pointed to issues with supply and demand. Buchanan moved to rising interest rates and how that results in more taxes and how we cannot continue to raise rates because of the massive debt and deficits. Yellen said rates were previously exceptionally low and that resulted in a negative debt burden on the US economy. She said that they always projected that interest rates would rise, and the interest burden of the debt remains manageable. Buchanan pointed to how there could be trillions of dollars in interest and questioned how sustainable this was.

**Rep. Larson (D-CT)** noted inflation and the war in Ukraine and how Sen. Scott has suggested sunseting Medicare and Social Security. Larson said that Leader McConnell has not suggested this and how they will tell people their plan after they are elected. He pointed to the Affordable Care Act (ACA), CTC and making sure entitlements are there for those most impacted by inflation. He asked what they should continue to do in those areas. Yellen agreed with him on the importance of these programs and how these are the foundations of a secure retirement. Larson asked what message sunseting these would send. Yellen thought Congress could look for other ways to make household budgets work and they should mitigate expenses for the most burdensome items like healthcare and childcare.

**Rep. Smith (R-NE)** said that the Administration seems to be doing little to combat inflation and noted issues with the workforce participation rate. He was concerned that the policies that got us into this situation would be continued. Smith noted a letter that he sent to her on windfall taxes on domestic energy production and asked if Biden supports this tax. Yellen said that their focus is making sure that there are adequate incentives for energy, and they haven't taken a position in support of the proposal. Smith then pointed to a recent panel with Chair Rouse where she said that most household balance sheets are strong and provide cushion. Yellen agreed with this

statement. Smith asked if she thought low inflation before the pandemic was a bad thing. Yellen said that the 2% target is an appropriate target and how right now we are not the only economy to face inflationary pressures. Smith closed by saying that the American people would have a different perspective on the American economy than that which we see from the administration.

**Rep. Blumenauer (D-OR)** thought that Yellen has been doing a great job in the face of many challenges. He noted the COMPETES Act and how cannabis businesses should have access to bank services and not be targets for robberies. He wanted to work with Yellen staff on this. Blumenauer wanted to yield time to her on the work she has done on international tax negotiations and how some businesses are not paying taxes at all. Yellen thought the international agreement would prevent a global race to the bottom and how corporate rates are falling and falling and the winners are the corporations, and the losers are the workers. She noted that no other country taxes the foreign earnings of corporations like the US and this agreement would level the playing field.

**Rep. Kelly (R-PA)** wanted to show the disconnect between Washington and main street America through reading a passage from *The Tale of Two Cities*. He did not understand how they could be so disconnected and pointed to tax credits for those with EVs. Kelly thought the truth was the real perspective of Americans and how 7 out of 10 Americans think we are going in the wrong direction. He pointed to how what the government is spending does not match its revenues and emphasized the need to look at real Americans.

**Rep. Kind (D-WI)** said it is unquestionable that the administration inherited an unprecedented economy and since then we have seen a drop in unemployment, increased wages, reduced deficits, and more. He noted that the issue of inflation was global and asked Yellen what's driving this globally. Yellen responded that all developed countries are seeing higher inflation and how an important part of this is higher food and energy prices. She pointed to the war in Ukraine and how this especially impacting the emerging markets. Kind said that Republicans think that the ARP rebate checks are driving demands and if this was different from tax cuts. Yellen said that tax cuts can also stimulate spending. Kind also did not see any benefit to the 301 tariffs and wanted to make that point as he knew this was under review.

**Rep. Smith (R-MO)** asked if she saw any role for fiscal restraint in combating inflation. Yellen said yes. Smith noted how last year's deficit was the second largest deficit and how it was more than what the CBO predicted it would be. He noted comments from an economist from the Obama Administration who said that this would happen. Smith then pointed to the rise in food and oil prices and how this is affecting real Americans. Smith then asked if it was acceptable that private tax information was shared publicly. Yellen said we do not know how the ProPublica leak happened. Smith asked what the IRS or the Treasury had done to see if there was a leak.

Yellen said that they handed it over to independent investigators and they have not gotten a response yet.

**Rep. Pascrell (D-NJ)** noted a letter he sent on the step-up basis loophole to her and how he appreciated her response and willingness to work on this issue. He asked when the Treasury and IRS will implement its guidance. Yellen said very soon. Pascrell pointed to the \$1 trillion tax gap and how the GAO reported that audit rates have dropped significantly for high incomes. He asked how tax compliance and customer service would improve with the requested IRS budget. Yellen responded that the IRS is hugely under-resourced, and they have the same number of employees as 40 years ago. Pascrell believed our economy was going strong, but inflation was a concern, and asked how to balance these two issues. He pointed to concerning comments from Powell on increasing unemployment. Yellen would not comment on the Fed and said that this decision is up to them. She said her goal would be to have full employment and bring inflation down. Yellen thought they should pass legislation to address the most burdensome costs that fall on households.

**Rep. Rice (R-SC)** thought the recovery was due to BBB not passing and the pro-growth policies that were put in place by President Trump. He turned to how inflation is the number one thing he hears about and how it costs an average of around \$300 for families. Rice said that energy prices are the greatest driver and how this was not just due to the war in Ukraine. He asked if the Biden Administration is intentionally driving up energy prices noting several comments and actions from the President. Yellen responded that it is not intentional and pointed to the release from the Strategic Petroleum Reserves and leases for domestic drilling.

**Rep. Davis (D-IL)** applauded the President's support for reducing child poverty and supported a Child Tax Credit. He asked her to confirm that the administration sees this credit as key to helping working families. Yellen said yes. Davis then asked how each of the refundable credits impacted families this past year. Yellen did not have the statistics, but CTC is estimated to have reduced child poverty by 50%. Davis said that these credits are seriously important, and we must keep them moving.

**Rep. Sanchez (D-CA)** noted investments in a livable future in this budget and asked Yellen to expand on how small tax credits compare with the overall economy with regard to inflation. Yellen said that inflation is from many problems and the CTC was a small expenditure that accounts for very little inflation. Sanchez asked her to talk about how strengthening these supports would help families as we deal with the true drivers of inflation. Yellen said that CTC helps low- and middle-income families as they deal with increased expenses.

**Rep. Schweikert (R-AZ)** noted that the inflationary environment is much more structural and asked if the Treasury has looked at how many in retirement will be in poverty because of this

structural inflation. Yellen did not have any numbers to offer him, but she did not see a way where inflation is a decade long matter, and they are committed to bringing down inflation. Schweikert said that this is different from 30 years ago due to the demographic curve. He then moved to the OECD minimum tax and how there is no fairness if there is a refundable VAT in other countries. Schweikert said that the model does not offset this. Yellen said that they are able to rebate their taxes because it raises the costs of their domestic producers, so it is WTO consistent. She said that the purpose of the global agreement is to ensure that global corporations pay a minimum tax of at least 15%.

**Rep. Sewell (D-AL)** noted that the Treasury has launched an initiative to advance equity. She said that early accomplishments of this group included collaboration with Ways and Means to prioritize equity in ARP. Sewell asked how important some of the equity issues were in ARP. She thought the New Market Tax Credit (NMTC) and CTC in the budget is an effort to level the playing field. Sewell asked how the ARP was a necessary way of getting out of the pandemic and how this department on equity will include such initiatives. Yellen said that the pandemic impacted these disadvantaged communities more and noted the ARP focused on this, pointing to ERAP, the Homeowner Assistance Fund, and money for CDFIs and MDIs.

**Rep. DelBene (D-WA)** thanked Yellen for her support of the expansion of CTC and moved onto the need for more affordable housing. She noted that she has introduced the Affordable Housing Improvement Act and how it would strengthen and expand LIHTC. DelBene asked Yellen to expand on how LIHTC would help and what the Biden Administration is doing to make this a priority. Yellen said that this is a priority for President Biden, and they are looking to expand LIHTC as well as the average income regulations. DelBene noted a letter she sent to Yellen and Rettig on the average median income test rule and asked if they were on track with regard to the deadline. Yellen said that they expected to get it done this summer and address some of the problems in connection with the rule.

**Rep. Walorski (R-IN)** said that inflation is a flat-out disgrace and there is nothing to blame but the Biden Administration's policies. She then turned to the Sec. 301 tariffs and understood that they are evaluating these tariffs and asked for more on this potential exclusion process. Yellen said this is under consideration and the Sec. 301 tariffs were not designed to serve our strategic interests. She said some tariffs ended up being paid by Americans, not the Chinese, and they are looking to reconfigure these tariffs in a way that is more strategic. Walorski asked about the timeline. Yellen said that she expects a decision to be made in the coming weeks.

**Rep. Chu (D-CA)** asked how these new IRS resources would change the audit strategy and the impact on low-income filers. Yellen thought that what's happened here is that over the past decade, the resources available to the IRS have been gutted and they have not been able to apply the tax laws to high end evaders. She pointed to the tax gap due to underpayment from higher

earners and she hoped they could hire more professionals who have the skills to audit these returns and collect this revenue. Chu then pointed to funding for a CDFI Affordable Housing Supply Fund and asked why CDFIs are the right vehicle and how this would help with the ongoing inflation. Yellen said that rental prices are rising rapidly and CDFIs have the capacity to make loans to communities that often lack access to affordable housing.

**Rep. Kildee (D-MI)** said that there are two issues he wanted to raise, including the Delphi Motors retirees who suffered draconian cuts to their pensions. He pointed to his legislation that would restore their benefits and asked what the administration position was on this legislation. Yellen knew this had been a difficult issue to resolve and she strongly supported finding a legislative solution and she was happy to have her staff look at the legislation. Kildee then discussed the Opportunity Zone legislation and how it excluded some of the most logical locations for investment. He said that they have legislation to address this and asked for her opinion. Yellen was aware of this issue and thought it called for a legislative solution.

**Rep. LaHood (R-IL)** said that the biggest issues in his district are gas and groceries and noted how inflation is a tax on all Americans. He moved onto the budget proposal and how it had tax hikes on American companies and asked if \$4 trillion in tax hikes will help lower costs for consumers. Yellen said that to the extent that inflation is a result of demand and supply, deficit reduction would help. LaHood noted the work shortage out there and he questioned how increased taxes were good for the labor market. He added that taxes will not help energy prices either and submitted a report for the record on CTC.

**Rep. Higgins (D-NY)** asked what would have happened if we did not pass ARP. Yellen said that unemployment would have stayed at exceptionally high levels, but now we have an economy with the strongest labor market and the quit rate has reached records. She added that average household financial security has gone up and many can afford emergency expenses. Yellen acknowledged that inflation is way too high, but most of it reflects issues related to the pandemic. Higgins admired her response and asked if she supported the idea that we had too much money chasing too few goods and to what extent is that contributing to inflation. Yellen responded that spending produced excellent rewards for Americans and at most it contributed modestly to inflation.

**Rep. Boyle (D-PA)** noted the 50 year low in the unemployment rate and the great labor market and asked why the US economy has done better than other countries. Yellen said that the US is enjoying the strongest recovery in terms of employment and growth, and this is because of the large fiscal package that addressed challenges in the economy. Boyle then moved to changing the way we deal with the debt ceiling and noted his legislation that would change the mechanism by which we raise the debt ceiling. He asked for her thoughts and when she thinks we have to

raise the debt ceiling again. Yellen said she was strongly supportive of the type of initiative he described, but she would have to get back to him when it might have to be raised again.

**Rep. Wenstrup (R-OH)** noted supply chain issues and how the policies of the Administration will make things more difficult. He pointed to how the budget would increase the corporate tax rate which is higher than the rates in China. Wenstrup said that inflation and increased taxes hurt our supply chain and send companies to places like China. He emphasized that this was dangerous. Wenstrup asked how we are going to solve supply chain issues when the Administration is advocating for policies that send jobs and supplies overseas. Yellen said that supply chains need to be more resilient, and she disagreed with his assessment on corporate taxes.

**Rep. Beyer (D-VA)** reminded everyone that a lot of fiscal stimulus was approved on a bipartisan basis and then moved on to the tax gap. Beyer asked her to explain the budget proposal in more detail with regard to taxes. Yellen said that the very wealthy pay little in tax and how capital gains are not taxed until they are realized. She said that the proposed minimum income tax would impose a 20% tax on total income, including on unrealized gains, on those with wealth more than \$100 million. Yellen thought this proposal was well crafted and it would ensure higher income earners pay their fair share. Beyer asked if they would reinvest this capital in more protected assets. Yellen said yes and how sometimes investments are not productive are kept to avoid taxes, but this proposal would ensure a more productive allocation of capital.

**Rep. Evans (D-PA)** noted how inflation was hurting families and how increasing affordable housing was key. He asked Yellen to expand on what the Biden Administration is doing in this area, including through LIHTC and NMTC. Yellen said that this is a focus, and they are looking to make NMTC permanent, and they are trying to reach others through ERAP and the Homeowner Assistance Fund. Evans asked if expanding the EITC (Earned Income Tax Credit) to younger workers was important to expanding opportunities. Yellen thought so and said that the EITC expansion had a positive impact.

**Rep. Arrington (R-TX)** noted how we had economic prosperity under President Trump, but the Biden Administration reckless economic policies have ignited economic pain. He pointed to the energy crisis that is pummeling working families and how this crisis is happening because of the attacks on this industry. Arrington asked if the Administration would commit to going to West Texas to request more oil instead of Saudi Arabia.

**Rep. Schneider (D-IL)** wanted to ensure that US companies can best compete in a global economy. He moved on to briefly discuss a potential delay in an effective date on recent foreign tax credit rulings. Schneider then shifted to inflation and how this is a global issue. He said that the US is still in a strong position to combat inflation and asked where we would be if Congress

had not acted during the pandemic. Yellen said that ARP had an enormously beneficial impact on the economy and going forward, the President is doing all he can to address high costs, especially when it comes to rent and housing. She thought Congress could address prescription drugs, utility costs, and more to help Americans.

**Rep. Panetta (D-CA)** said that there are concerns about recessions and thought it was hard to learn from previous recessions because this time is different. He thought that the fiscal policy from the pandemic would actually help in a recession. Panetta asked if it is true that the President has little control over the price of gas. Yellen said that the oil prices have to do with global markets and noted that President Biden released oil from the strategic reserves. Panetta then noted how these leases are open for drilling. He asked when they should lower tariffs, especially on steel and aluminum. Yellen replied that the Administration did not have anything on this as they have not taken this up.

**Rep. Ferguson (R-GA)** thought the President has a lot to do with energy prices and then shifted to the leak of private data from the IRS. He asked if the FBI had acted on her referral. Yellen said that they have taken the referral and she has not heard what the findings are. Ferguson asked if she has pushed into this or gotten information back since it's been a year. Yellen said it would not be appropriate for her to push them on this investigation and she was anxious to find out more. Ferguson asked if she expected the IRS to work with the Department of Education to verify income when it comes to student loan forgiveness. Yellen did not have any information on this.

**Rep. Murphy (D-FL)** discussed the impact of tariffs, including Sec. 232 and Sec. 301, as well the expiration of GSP. She pointed to her legislation that would require the Treasury to look at the inflationary impact of these tariffs. Murphy thought the Sec. 232 tariffs were hard to justify and with regard to Sec. 301 tariffs, they have failed to change China's abusive practices. She said that in light of high inflation, the argument for removing these tariffs is even stronger. Murphy asked if she believes these tax increases contribute to inflation and if the Treasury has looked at the inflationary impact. Yellen said that they are reviewing their tariff policy with respect to China and some reductions may be warranted and help bring down the prices of things that people buy. She clarified that tariff policy is not a panacea with respect to inflation and goods account for a third of inflation and the passage through from this is not clear. Murphy asked for a timeline on this. Yellen said that they are looking at this now.

**Rep. Estes (R-KS)** discussed the 2017 Tax Cuts and then moved on to inflation. He explained the impact of inflation on his constituents and asked why it took President Biden so long to recognize that this was an issue. Yellen said that previously a critical priority was getting people back to work, so there were a number of economic challenges, but the single most serious threat

was a prolonged downturn in the economy. She recognized that inflation was too high and how they are doing all they can to address it.

**Rep. Plaskett (D-Virgin Islands)** discussed tax issues in the US Virgin Islands and how they are blacklisted by the EU. Yellen explained that the Office of Tax Policy is engaged on this issue, and they are optimistic that an agreeable solution will be found. Plaskett moved onto countries in the Caribbean and how they have been cut off from access to capital and credit due to de-risking at US banks. She asked for an update on the Treasury's work in this area. Yellen said that the Caribbean is very important economically and pointed to remittances. She added that they recognize the importance of AML/CFT.

**Rep. Smucker (R-PA)** focused on the debt and deficit and did not understand how she could claim that deficits were being reduced. He noted the new taxes proposed in the budget and asked if raising the corporate tax rate would reduce the costs of food. Smucker asked if there should be growth policies in place. Yellen said that they have growth policies and did not think that an increased corporate tax rate would not raise the price of food.

**Rep. Hern (R-OK)** asked about the foreign tax credit regulations. Yellen said that they are important to ensuring when foreign companies receive credits. He referenced a letter on credit regulations that he sent to the Treasury and how the Treasury has no plans to change the rules on holding taxes. Hern wanted to ensure that services are not sent overseas while avoiding digital taxes and asked if she would work with him. She responded that she would. Hern asked if it was possible that Yellen and the Treasury have gotten this wrong on these foreign tax credits. Yellen said that they need to ensure these credits are distributed appropriately. Hern said that we cannot pull out of these countries because China will fill the gap.

**Rep. Miller (R-WV)** noted the Biden Administration's war on energy and asked Yellen if it is the Administration's goal to make energy so expensive that Americans have to turn to green technologies. Yellen said it is important to transition to cleaner energy due to climate change and the President has a plan on going with more electric and renewable energy. Miller asked what they are doing to lower the price at the pump. Yellen said that these are global markets for oil and prices have risen dramatically because of Russia's war on Ukraine. Miller disagreed and said that producers need certainty that investments can be made. She was also concerned about the windfall tax on oil producers.

**Rep. Murphy (R-NC)** noted the rise in inflation prior to the Russian invasion and then asked how, in the face of skyrocketing inflation, can she justify that adding more taxes is good for the average American. Yellen noted that they will enable deficit reduction which will complement the Fed's tighter monetary policy and allow the financing of government programs that will help with these onerous expenses. Murphy moved on the cancellation of student debt and how many

who would benefit are higher income earners. He asked if this would add to inflation. Yellen said that no decisions have been made, but it would depend on how it was done.

**Rep. Horsford (D-NV)** noted the rising cost of living and how some of this is due to inaction from Congress. He noted how the prices for homes in Nevada have reached record highs and rents have risen as well. Horsford noted that out of state corporate investors are buying up limited housing stock. He said that Secretary Fudge visited one of these developments there this week. Horsford asked what tools the Treasury has to combat the predatory actions of corporate investors and pricing out locals and what Treasury is doing to ease the price of gas. Yellen said that they have been focused on ERAP and the Homeowner Assistance Fund and affordable housing a key goal of the administration. She pointed to how BBB had funds for affordable housing, and they looked forward to working with Congress to address this.