

Hearing on the President's Fiscal Year 2022 Budget
Senate Finance Committee
June 16, 2021

Opening Statements

Chairman Wyden (D-OR) pointed to how the Committee takes the confidentiality of taxpayer data seriously and he hoped an investigation was underway into the recent leak. Wyden also took the issue of economic inequality very seriously and noted the loopholes that rich use. He pointed to the use of carried interest. Wyden also said that the IRS has been gutted and does not have the enforcement resources that it needs. He added that corporations do not contribute enough in taxes and many of the largest corporations are paying nothing. Stock buybacks are through the roof, and he thought there would be a lot of comments about people's decreased trust in the tax system. Wyden was unhappy that those who work hard always get the short end of the stick. Prosperity is swallowed up by the wealthy who do not pay their fair share. He said that Congress has to ensure that mega corporations and the wealthy contribute. Wyden pointed to the plan of eliminating the deduction for shipping American jobs overseas and taxing multinational corporations. He looked forward to working with Sec. Yellen on these issues and thanked her for leading the battle on a minimum tax and digital service taxes. Wyden said that the American Rescue Plan (ARP) gave resources to Native American populations, and he wanted to work to make sure this was properly distributed. He also commended several Senators for their work on the Child Tax Credit (CTC).

Ranking Member Crapo (R-ID) said that they would discuss the President's fiscal year 2022 budget. He argued that more taxes and red tape is not the road to prosperity. Crapo also pointed to the high debt and rising inflation over the past few months. He said that if inflation becomes unanchored, this can turn the interest rate on the debt into budget busters. Crapo looked forward to hearing more on the Treasury's proposals in their Green Book. He pointed to the idea of financial institutions reporting amounts going in and out of accounts and found this very concerning. Crapo said that the end of big data should not be viewed as an opportunity for big brother. He did not think that individual taxpayer information was public information, and he noted the egregious leak of tax information to ProPublica. Crapo wanted Yellen to share what she knew about this massive data breach. In addition, he was interested in the recent G7 negotiations. He thought that the US already has a robust global minimum tax. Crapo said that Congress needs to understand these international proposals and make sure there are no carve outs for certain players. He noted the Special Drawing rights issue at the IMF, and he wanted the Treasury to improve its responsiveness to the committee.

Witness Testimony

Janet Yellen, Secretary of the Treasury, said that when she started at the Treasury, the key priority was COVID and recovery. However, the pandemic was not the only economic problem

and Yellen pointed to structural economic challenges like wage inequality. Yellen said that high income earners have seen their pay rise, while low-income earners have not. She noted that gender and racial pay gaps also persist. In addition, there is the challenge of climate change and racial wealth inequality. Yellen said that the divergence in wages and of geographic regions, the decline in labor force participation, the rise of climate change, and the persistence of racial inequality are destructive forces in the economy. She thought that infrastructure needed to be invested in and that we needed strong fiscal policy to unwind these trends. Yellen said Biden's budget would address all these issues and now was the strategic time to make these investments. She noted that the new tax plan would not touch most Americans and it would result in a fairer tax code.

Member Questions

Chairman Wyden (D-OR) said that he appreciated Biden's opposition to raising the gas tax. Wyden congratulated Yellen on the G7 agreement on corporate taxes. He said he remained concerned about how long digital services taxes will remain in place once an agreement is struck. These discriminatory taxes are harmful to our high skill workers, and they should not have been put in place. He asked how she is working to end these digital service taxes. Yellen shared his concern and said that they made progress at the G7 on DSTs. Steering group countries know that DSTs need to be rolled back and the US has communicated that DSTs are unacceptable. They are still retaining all options for discouraging the use of DSTs such as sanctions. Yellen said they hope to avoid using trade conflicts, but they can if need be. Wyden asked if she could commit to a swift resolution of these DSTs. Yellen said that they are pursuing every avenue for rolling back these DSTs. Wyden said that these discriminatory DSTs have to go. He said that he wrote to her on the Treasury's handling of the Hulk Bank Erdogan investigation under the Trump administration. He noted that he has not gotten what he needs, and Treasury thinks they want information on a DOJ investigation, but they want to see how Treasury and Yellen's predecessor handled this situation. He asked her to commit that the Committee will have responses to these requests before July. Yellen said that she would discuss this with her staff and get back to him promptly.

Ranking Member Crapo (R-ID) said that the Administration has proposed a 15% minimum tax at the OECD, but the Biden Tax plan aims to raise the corporate rate to more than 26% and they want to change law before even implementing the new minimum tax. He pointed to countries that do not plan to even implement it. Crapo asked if the Administration was planning to raise it to 26% before other countries. Yellen said that they agreed to 15% and they have been working globally on a tax that is at least 15%, but hopefully they can get higher than that. She said that if the US can work on reforming the system here, we can convince others to do the same. Crapo said that it sounds like she thinks the US should move first without a global agreement. Yellen said that they are trying to move in tandem and that this would help fund important priorities in the President's budget. Crapo said that even if we acted in conjunction, that does not include a

number of other critical nations. Yellen said that he mentioned Ireland and others and she has had constructive conversations bilaterally with them. She believed that the EU would go along with higher minimum taxes. Yellen noted that we need broad support, but we do not need every country to go along with it. Crapo said she seemed to be talking about the shield concept and how it will force other nations to come around. He said that he would ask her about it in her QFR.

Sen. Stabenow (D-MI) wanted to put deficits in perspective and noted how Democrats are often digging out of debt and deficits. She said there were clear differences in what Biden wants and what Congress wants. Stabenow noted how they want the CTC extended and pointed to the tax gap between poorer and wealthier Americans. She asked Yellen to speak ‘big picture’ about right-sizing the tax system and making sure everyone pays what they should be paying. Yellen said that we need to do this to help low-income families and CTC will help with this. She also pointed to the massive tax gap and said that it largely reflects shortfalls in collection for wealthy individuals and corporations, so the IRS needs resources to address this.

Rep. Grassley (R-ID) wanted to talk about stepped up basis and how farmers pass on their family operations. Grassley asked if Rep. Scott was correct on this and how this would impact family farms. Yellen said that the proposal would enable families to pass on farms without paying any tax on that and the same would be true for small businesses as long as the property remains within the family, only if it was eventually sold would there be taxes. Grassley then pointed to how Yellen said that there would not be an inflationary problem, but the Fed would deal with it. He found this to be a very nonchalant response and asked if it is not incumbent upon the President, Secretary of the Treasury, and Congress to take inflation seriously. Yellen said that they are monitoring inflation very carefully and they are taking it seriously. She said it was crucial that fiscal policy was on a responsible course, and she thought that the budget was on this path.

Sen. Cornyn (R-TX) asked what she and the Administration saw as the role of Congress in the G7 negotiations. Yellen said that these negotiations have been going on for years and any changes to US tax law must be made by Congress. Cornyn pointed to mandatory spending for the IRS and asked if Congress should be removed from appropriations and oversight of the IRS. Yellen responded that she did not think Congress should be removed and said that the mandatory spending is for the IRS to have the budget certainty to take on modernization efforts and retain a qualified cadre of audit staff. Cornyn then asked how this was different from other federal agencies. Yellen said that it is not inherently different and most of the IRS budget would go through annual appropriations. Cornyn pointed to concerns about retroactive capital gains tax, and he asked what date the announcement refers to. Yellen said that she had to get back to him. Cornyn said that there were also concerns about the rules of the game being changed on capital gains when people have relied on existing rules to plan their affairs, he asked if this was fair.

Yellen said that Congress has the ability to change the tax laws and has done so on many occasions and she did not see a change to future capital gains being a retroactive future. Cornyn then asked about CFIUS and new responsibilities that it was given. He thought it would be helpful to have a multilateral mechanism to address predatory activities. He asked if there were talks with allies on this yet. Yellen said that this would be desirable, but she would not say that there is a process in effect.

Sen. Menendez (D-NJ) said that the corporate rate used to be 35% and then it was lowered to 21%. He asked what the new average effective corporate tax rate was. Yellen thought it was a little under 26% and if you look at other G7 countries, our effective tax rate is a bit below theirs. Menendez said that it dropped after the Trump tax changes and most American families were paying more. He asked if this corporate tax rate was \$1.5 trillion unpaid for. Yellen responded yes and there was a lack of productive spending and boom as a result of it. He said that this tax bill made things worse and noted how it capped certain tax deductions and this especially impacted NJ. He asked if those who were the hardest hit by SALT were the ones who invested more in schools and highways. Yellen said yes and that these states often have higher taxes and invest more in public infrastructure. Menendez thought it was bad to punish people with things like SALT. He was disappointed SALT was not mentioned in the Biden tax proposals. Menendez pointed to how Treasury was not making much progress in minority hires and he hoped that she was aware that among the largest money managers the largest minority and women managers represent less than 1%, so the Treasury is not much better than mainstream managers. He hoped to see real change and wanted her to commit to it. Yellen said she was committed to working hard to change these numbers.

Sen. Thune (R-SD) pointed to inflation and the increase in prices. He asked if this inflation trend was transitory or more long lasting. Yellen said that she previously noted that it would be transitory and they will continue to monitor it. She noted that demand collapsed in the service sector and prices are moving back to normal levels, but there are also bottlenecks and a labor shortage. Yellen said that the economy was on track to get back to normal, but they would be monitoring it carefully. Thune asked if the 2% projection was still correct. Yellen said that at that time yes, but they will be doing a review and put out a new forecast as it will be higher than that. Thune pointed to the idea of financial institutions monitoring inflows and outflows of individuals and then noted the leak of tax information. He asked how they hold these people accountable for leaks and how they will prevent it in the future. Yellen responded that this was a serious matter and they have referred this to the Treasury IG and DOJ. They do not have a lot of information on it yet, but they will keep Congress informed. Thune said that he would submit a QFR on the step-up tax proposal.

Sen. Carper (D-DE) said he always asks if tax changes are fair, if they simplify the code, if they encourage economic growth, and how they impact the deficit. Carper said that the Biden

proposal would help close the tax gap. He then asked if Yellen could highlight how the budget strengthens the fairness of the tax system and how they can make these investments while being fiscally responsible. Yellen said that they have tried to make their tax proposals fairer and fiscally responsible. She noted that it would target higher income earners and ensure that everyone pays their fair share with proper enforcement. Tax shortfalls are a huge issue, and the proposal would provide the IRS the resources they need to improve tax compliance.

Sen. Portman (R-OH) said that Democrats think that the 2017 tax plan had a negative impact. He asked if she agreed that after the 2018 tax bill there were improvements to the economy, equality, and poverty rates. Yellen agreed that it was a period of good economic performance but indicated that it was a continuation of trends from prior years. Portman said it was not true that it was a trend because wages had been going down previously. He asked if she agreed that unemployment was low, especially for minorities. Yellen said yes and that was good, but it was largely a continuation of trends that had been in place, and it was not caused by the 2017 tax act. Portman said that others differed on this, including the CBO, and they said that this plan helped workers. Corporations also were not going offshore. Portman was also concerned about the budget proposal as it relates to the debt. Yellen said that she believed that they were getting back on track as much of the budget is paid for and, over the next decade, the real interest costs are expected to be negative or barely positive.

Sen. Bennet (D-CO) thanked Yellen and her team for their work on preparing for the monthly distribution of CTC. He asked what that work has looked like and where we are in that process. Yellen said that this CTC was an important step and they have worked hard with the IRS to begin monthly payments to eligible families beginning July 15. They also developed a non-filer portal on this and are working to get the word out to people on CTC. Bennet said that there are a lot of them who support making the CTC permanent and then pointed to his Infrastructure Bonds Act. He asked Yellen about her views on these types of bonds. Yellen said it was an important and interesting proposal and there is a tool like that for schools, but there are also private activity bonds. She said that she could work with him on this.

Sen. Cardin (D-MD) wanted her view on how to use the tax code more efficiently in underserved communities. Cardin pointed to things like LIHTC, but he wanted to ask about the New Market Tax Credits and the Neighborhood Home Investment Act which deals with the appraisal in value gap. He noted that there is funding for NHIA and asked how the Biden Administration plans to use the tax code for communities that have been left behind in the past. Yellen responded that they have a tool kit with a number of important elements and both of those are part of it. The New Markets Tax Credit is an important way of funneling funds to low-income communities. She added that NHIA also fills a need that is not addressed anywhere else, as far as she knows, in our tax structure. We have tax credits for the rehabilitation of rental properties, but NHIA would encourage the building and rehabilitation of properties in

underserved neighborhoods. She said the Treasury would write rules to ensure that this funding would be awarded competitively. Cardin urged her to work with them on this so they can maintain bipartisan support on NHIA. He said that traditional appraised values do not allow for proper financing.

Chairman Wyden (D-OR) thanked Cardin for his work on NHIA and said that NHIA would be included in his big bill on housing.

Sen. Brown (D-OH) echoed the words of Bennet on CTC and asked about Yellen's efforts on international tax. Brown said that the G7 agreement could address the race to the bottom and asked how this would help workers in his state, especially ones who fear their jobs being shipped overseas. Yellen said that they were right to worry about American firms moving jobs overseas and moving income overseas to deprive the US of tax revenue. She was happy they could get unanimous support for a global minimum tax, and they hope to get an agreement on a higher rate. Yellen said a global agreement would address current incentives for firms and unfair competition that American corporations face. Brown then asked about addressing wealthy tax cheaters. Yellen said that they have proposed a substantial investment in the IRS to improve their ability to collect taxes from high income earners.

Sen. Lankford (R-OK) noted that she made comments about a fiscally responsible budget, but it spends 25% of the GDP. In addition, she talked about the difference in wages and Lankford noted that the lower wages actually went up more. Lankford then discussed how the budget request asks for information on every transaction of \$600 or more for everyone. He asked why they need that level of granularity. Yellen said that they are asking financial institutions that already have to do 1099 forms to add 2 boxes to that form on the total aggregate outflows and inflows. She said that these were not actionable or taxable items in their own right, but it would help the IRS target its resources. Lankford then pointed out the tax information leak at the Treasury and how she's now requesting more information from private individuals. He looked forward to hearing what she says to Sen. Thune on this. Yellen said that they are investigating this, and they do not know if it was leaked from the IRS. He then mentioned getting rid of normal treatment of oil and gas businesses and he asked if there were studies from the Treasury and the IRS on this.

Sen. Casey (D-PA) wanted to ask about women's rights and noted how the Senate advanced legislation with trade programs on nondiscrimination. He asked how Yellen planned to work here at home and with the IMF for a more inclusive recovery. Yellen said that this is very important, especially when you look at the disproportionate impact on women. She said that they examine projects at multilateral financial institutions with a mind to these issues. Casey then pointed to the CTC and dependent tax credit and how it reduces child poverty.

Sen. Young (R-IN) said that Sec. 174 on R&D is one major incentive for domestic investment. He said that next year businesses cannot immediately deduct this, and he introduced legislation with Sen. Hassan to address this deduction's expiration. He asked Yellen, given Biden's interest in encouraging investment in manufacturing, innovation, and jobs, if she would encourage preserving this deduction. Yellen said they are absolutely looking for ways to allow for more investment and that could be one effective way to bring that about. She said that there could also be more generous R&D tax credits. Young asked why their proposal is not in the President's Green Book. Yellen said that the President has proposed to repeal the FDII exemption and then work with Congress on the best approach. Young said that his bill with Sen. Hassan would be a better approach. Young then noted that the Administration's revenue proposals have over \$2 trillion tax increases on corporations and that it would result in a 32.5% total tax and in comparison, to other countries, they have lower total tax rates.

Sen. Cortez Masto (D-NV) wanted to ask about FinCEN and how her legislation was included in the AML bill. It allows for investigations of digital currency in relation to domestic terrorism. She asked how the president's budget for FinCEN meets the requirements of this law. Yellen said that she would have to get back to her, but part of it is definitely building the beneficial ownership database. Cortez Masto said that we need to be as inclusive as possible with recovery and how CTC was cut for immigrant children by the 2017 tax bill. She asked if they could be re-included. Yellen said that they were concerned about this, but not sure if it had been addressed, but she would get back to her.

Sen. Crapo (R-ID) said that Yellen has mentioned the shield concept on global minimum tax agreements. He asked her to describe how that is intended to work. Yellen said that it is built to counter foreign companies' profit shifting by denying deductions to firms operating in the US when they make deductions related to their affiliates in areas where there is not a global minimum tax. She said that the under-tax payment rule is a mechanism for all countries to deal with tax havens and it should incentivize tax havens to want to implement global minimum taxes.

Sen. Sasse (R-NE) said that he wrote to her about the strategic perils of interdependence with the CCP and he wanted an update on her current thinking about financial and technological decoupling from the CCP. Yellen said that they recognize that China is their most serious competitor, and they are looking at the full range of tools to push back and address practices that harm our national security and economy. She said that she would worry about complete economic decoupling and how we could lose the advantages of the global economic system. Sasse said that we want access to foreign markets, but as we move into technological goods and services, there are some aspects of technology that are uniquely dangerous. He asked about plausible midpoints over the next few years. Yellen expected some technology points to decouple to protect national security.

Sen. Warren (D-MA) pointed to ProPublica's investigation on wealthy individual's taxes. She asked how our tax code is structured to allow Bezos to pay the same as the average public-school teacher. Yellen said that Biden is proposing ways to address this disparity. Warren asked if Bezos would pay his portion if we focus on income. Yellen said that if we focus on capital gains and step up, he would. Warren then asked if billionaires like Bezos have the salary of a public-school teacher and she asked if they pay taxes when they borrow against their wealth. Yellen said that to the extent they avoid capital gains, they do so by doing this. Warren asked if the public-school teacher had the same options as Bezos. Yellen said no and the Biden proposal would end many of these options for very rich individuals, such as the carried interest loophole, higher capital gains, and step up. Warren said that Bezos is a billionaire grifter along with the others. She asked if we should give up on trying to tax the rich or change the tax laws. Yellen said that they are working to change the tax laws. Warren thought this was good and also suggested a universal wealth tax.

Sen. Whitehouse (D-RI) congratulated her on her G7 tax efforts and said he would cheer her bringing that minimum rate up. He then flagged the negotiations on climate internationally and how she supports putting a price on carbon emissions. Whitehouse did not think this was the solution, but it was part of it, and he then pointed to fossil fuel subsidies. Yellen said she was supportive of carbon pricing as was Biden and he has proposed a clean energy standard that would result in carbon free energy production by 2035. Whitehouse then turned to the 501(c)(3) and 501(c)(4)s and how we have seen political abuse of them. He wanted an investigation into what went wrong in this space and noted the DOJ investigation into the confidentiality breach. Whitehouse wondered why the Treasury and DOJ never made referrals on the 501(c)(3) and 501(c)(4) mischief. Yellen said that we need to get dark money out of politics, and this was part of the problem, so she promised to work on it.

Sen. Hassan (D-NH) turned to her legislation on the R&D tax code with Sen. Young. Hassan asked if Yellen would continue to work to improve R&D incentives, including tax credits. Yellen said that they want to do more for R&D, and she was happy to work with her to discuss the specifics. Hassan then turned to terrorist financing and increased funding in the budget to address this and asked how this would help. Yellen said that this was an important office, and it has been increasingly important over the past 5 years. They oversee many sanctions, and this has helped with national security which is why Yellen is happy to see more funding for OFAC. Hassan then talked about unfair trade practices and the impact on supply chains. She pointed to her amendment in the US Innovation and Competition Act on supply chains and she asked how the Treasury is supporting broader efforts on unfair trade practices and supply chain stability. Yellen said that they started working on this right away and the Administration is implementing measures to address this.

Sen. Toomey (R-PA) was disappointed with the G7 process and commented on how expanding economic freedom was not a race to the bottom. He said that the Biden tax proposals make America less competitive. Toomey said that prior to the TCJA, multinationals had an incentive to establish their HQ in other countries, but TCJA addressed this, and he said he could not identify a major corporate inversion since the enactment of TCJA. Yellen said that they are concerned about the shifting of profits to tax havens where the US loses the ability to gain tax revenue. She said that taxes need to be raised to pay for expenditures as well. Toomey said that the data does not show any inversions and how there are plans to stop inversions that are not occurring. He asked if they would allow for the full crediting of taxes paid instead of partial. Yellen said that she believes that they will not change that.

Sen. Daines (R-MT) said that many are concerned about the recent cyberattacks and ransom payments. He said that a major attack on the Treasury or major financial institution could cripple the financial system and the economy. Daines pointed to the recent FSOC meeting and how he worried that the focus on climate came at the expense of not focusing on cybersecurity. He asked if she thought this was not a top three priority for the FSOC. Yellen said that it was top priority and they have been working with groups to address financial sector threats and it is one of the most important aspects of supervision. Daines said that something that could bring down the financial system of the US government should be of more concern. He moved on to the G7 agreement and how the greater challenge would be the G20, and he asked if she would not commit to any deal with special carve outs for countries like China. Yellen said that they would not agree to any carve out that would result in a less robust global minimum tax regime.

Sen Barrasso (R-WY) pointed to the increase in the Treasury and IRS budget. He said that most Americans are trying to pay the correct amount of taxes, but the tax code is confusing. Barrasso noted that luckily there is some taxpayer advocacy. He asked how the Treasury would enhance the visibility of the taxpayer advocate. Yellen said that she agreed that the taxpayer service is not what any of us should want it to be at the IRS and the funding they are seeking is for compliance and customer service broadly speaking. Barrasso then moved to the budget singling out producers of oil and gas and said that this would lead to an increase in prices at the pump which would violate Biden's pledge on gas taxes. Yellen said that the President is concerned about climate change and sees no justification for subsidizing fossil fuels. With regard to price increases, she generally found the impact to be small. Barrasso said that we are facing huge debt and the budget requests a billion for the international climate change fund. He asked why we should be sending this money overseas when people here are struggling. Yellen said that climate change is a global threat, and the US has to be a leader on this.