HOUSE WAYS AND MEANS COMMITTEE

"Hearing with Treasury Secretary Janet Yellen"

April 30, 2024 – 10:00 AM

OVERVIEW

On Tuesday, April 30, the House Ways and Means Committee held a hearing titled, "Hearing with Treasury Secretary Janet Yellen." During the hearing, the witness and Members discussed: taxes, including the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC), the Low Income Housing Tax Credit (LIHTC), the New Market Tax Credit (NMTC), Research and Development (R&D), 199A, and the Tax Cuts and Jobs Act (TCJA); Organisation Economic Co-operation and Development (OECD); foreign adversaries; Inflation Reduction Act (IRA); energy; U.S. economy, including the federal deficit; the U.S. Department of Treasury, including Direct File and artificial intelligence (AI); Social Security; critical minerals; Basel III Endgame proposal; privacy; and digital trade.

OPENING STATEMENTS

- Chairman Jason Smith (R-MO)
- Ranking Member Richard Neal (D-MA)

WITNESS PANEL

- The Honorable Janet Yellen, United States Secretary of the Treasury

QUESTION AND ANSWEER SUMMARY

Taxes

Chairman Jason Smith (R-MO) asked if the Biden Administration's proposed tax policies would impose a tax hike that would disproportionately impact middle income families. Secretary Yellen explained President Biden affirmed no family earning less than $400,000 would face a tax hike. She asserted he has not proposed any tax hikes since taking office, and has not proposed any policies enabling tax hikes after the Tax Cuts and Jobs Act (TCJA) expires.

Rep. Bill Pascrell (D-NJ) asked Secretary Yellen if she could commit to prioritizing carried interest when considering future tax legislation. Secretary Yellen answered in the affirmative.

Rep. Ron Estes (R-KS) expressed concern that taxes would increase on those making less than $400,000. Secretary Yellen reemphasized the Biden Administration's policy is that it will not support an increase of taxes on families making less than $400,000.

Rep. Terri Sewell (D-AL) asked about the inclusion of the Mortgage Relief Credit in the President's 2025 budget. Secretary Yellen asserted homeownership can be prohibitively expensive due to mortgage rates staying low for a long period of time, which has influenced homeowners to stay in their mortgages so they do not lose the benefit of their rate. She added this issue is further exacerbated by immovable home prices with higher interest rates. Secretary Yellen explained the budget includes a tax credit of $10,000 to purchase new homes, as well as another credit to benefit individuals looking to sell their homes. She emphasized the need to promote the usage of these credits among affordable housing and starter homes.

Rep. Blake Moore (R-UT) asked if tax policy has an impact on the U.S. economy. Secretary Yellen answered in the affirmative. Rep. Moore then noted the Joint Committee on Tax (JCT) reported the cost of a 28 percent corporate tax rate would primarily impose an additional tax liability on Americans making less than $500,000. He asked Secretary Yellen if there is specific analysis demonstrating that raising the corporate tax rate would not have these impacts. Secretary Yellen stated the analysis she has read argues that TCJA imposed regressive tax cuts which disproportionately benefited wealthy individuals and large corporations. She asserted TCJA had estimated an investment boom which never materialized. Rep. Moore then argued raising the rate would force companies to raise income, and subsequently, prices on consumers. Secretary Yellen noted she read a paper which reported there were benefits of the TCJA corporate tax cut which were disbursed to wage earners, but they went almost exclusively to the highest income earners within corporations rather than mass workers.

Rep. Don Beyer (D-VA) inquired about Secretary Yellen's proposal for a minimum income tax of 25 percent on the ultra-wealthy. Secretary Yellen explained President Biden's budget would impose a minimum tax of 25 percent on total income, including unrealized capital gains. She added the tax would only apply to taxpayers with more than $100 million in wealth and would not require for those taxpayers who have highly illiquid assets to pay immediately; they instead could defer payment or pay in installments.

Child Tax Credit (CTC) and Earned Income Tax Credit (EITC)

Chairman Smith noted Secretary Yellen stated in a recent Senate Finance hearing that President Biden did not have a plan to address incoming tax hikes. He asked if without a plan, the Child Tax Credit (CTC) would be cut in half. Secretary Yellen asserted President Biden has principles in place to guide his negotiations with Congress, which make clear that he opposes increasing taxes on individuals earning less than $400,000 and supports cutting taxes for working families. Chairman Smith asked if President Biden supports codifying the CTC at $2000. Secretary Yellen noted President Biden proposed a recent budget expanding the CTC, and has also supported the Wyden-Smith legislation increasing CTC.

Rep. Judy Chu (D-CA) asked how programs like CTC and Earned Income Tax Credit (EITC) impact the American economy and improve individual livelihoods. Secretary Yellen noted the expanded CTC in 2021 lifted 5.3 million people, including 2.9 million children, out of poverty. She added there was overall a 46 percent decline in child poverty, which was beneficial to children and their parents.

Rep. Suzan DelBene (D-WA) asked about the Biden Administration's position on the CTC. Secretary Yellen conveyed President Biden's support for the CTC, and noted he has proposed to extend it in his 2025 budget. She emphasized the impacts of the 2021 CTC, which reduced child poverty by 46 percent.

Rep. Sewell asked how the EITC and the Low Income Housing Tax Credit (LIHTC) could level the playing field and support equity initiatives within Treasury. Secretary Yellen noted Treasury is looking to make its New Markets Tax Credit (NMTC) permanent and add a track focused on the most distressed communities. She added Treasury aims to extend EITC to individuals with low incomes, which was done with the American Association of Retired Persons (AARP). She reemphasized CTC's critical role in reducing child poverty in 2021.

Rep. Jimmy Gomez (D-CA) asked if CTC payments on a monthly rather than yearly basis would maximize CTC's impact on working families. Secretary Yellen answered in the affirmative and highlighted the Internal Revenue Service's (IRS) efforts to do so.

Low Income Housing Tax Credit (LIHTC)

Rep. Gwen Moore (D-WI) noted the 2013 amendments to the Violence Against Women (VAWA) Reauthorization Act made changes to prohibit housing providers who use LIHTC from using domestic violence, sexual assault, or related crimes as grounds for evicting a victim or denying subsidies. She stated although the IRS is the administrator of these guidelines, Treasury has not written any guidance implementing these amendments. Secretary Yellen stated the reauthorization extended VAWA's protections to applicants and tenants in LIHTC properties. She expressed openness to get her staff in touch with Rep. Moore's office if there are additional concerns. Rep. Moore then expressed her and Rep. Lloyd Smucker's (R-PA) intent to change laws so there is a presumption of physical abuse that would meet the requirements for income exclusion. Secretary Yellen affirmed she is open to working on the provision.

Rep. Gomez asked about the Biden Administration's efforts to provide relief for American renters. Secretary Yellen explained the Administration is looking to expand the supply of affordable housing through a number of tax proposals and Low-Income Housing Tax Credit (LIHTC) expansion.

Rep. Jimmy Panetta (D-CA) asked how investment in housing could support the economy. He additionally asked if Treasury would support investment in housing, particularly in workforce housing. Secretary Yellen noted concerns about the shortage of affordable housing in the U.S. and asserted President Biden is working to promote affordable housing. She highlighted proposals in the Green Book, including the expansion of LIHTC and credit for first-time buyers and sellers of houses to decrease the lock-in effect occurring because of the increase in mortgages. Secretary Yellen affirmed the Administration's willingness to work with Congress on housing issues.

New Market Tax Credit (NMTC)

Rep. Sewell asked Secretary Yellen why it is important to codify the NMTC. Secretary Yellen asserted the credit is successful in generating private investment and investment certainty.

Rep. Claudia Tenney (R-NY) asked for an update on the reauthorization of NMTC. Secretary Yellen stated Treasury plans to continue to award the credit but is unsure of a timeline.

Research and Development (R&D)

Chairman Smith argued that the U.S. has empowered China through its inaction on research and development (R&D) tax credits. Secretary Yellen stated Treasury is negotiating with other countries in pursuit of favorable treatment for research and development (R&D). She indicated other tax credits, including green energy tax credits and credits impacting LIHTC have been codified as continuing under Pillar Two.

199A

Rep. Vern Buchanan (R-FL) asked Secretary Yellen for insight on 199A and the impacts of letting the deduction sunset. Secretary Yellen affirmed President Biden's commitment to ensuring that no family making less than $400,000, including those with pass-through businesses, would experience a tax increase. She shared the Administration's perspective is that tax fairness can be achieved by compelling wealthy individuals and corporations to pay more. She stated she would need to return with more insight on 199A at a later date.

Tax Cuts and Jobs Act (TCJA)

Chairman Smith asked if allowing TCJA to expire would result in rolling back the guarantee deduction and increasing taxes on families earning less than $75,000. Secretary Yellen emphasized President Biden stated no family earning under $400,000 would see an increase in taxes.

Rep. Mike Thompson (D-CA) asked how lawmakers could offset costs of extending the TCJA. Secretary Yellen indicated the President's budget included revenue raisers intended to offset TCJA, such as raising the stock buyback tax and Corporate Alternative Minimum Tax (CAMT), enacting the Organisation for Economic Co-Operation and Development (OECD) Pillar Two, and raising the corporate income tax to 28 percent, which she argued would still be lower relative to pre-TCJA. Secretary Yellen asserted there are a variety of ways the government could finance certain TCJA extensions.

Rep. Brian Fitzpatrick (R-PA) noted President Biden's 2025 budget assumes the TCJA provisions will expire at the end of 2025, resulting in the CTC and the standard deduction being cut in half. He questioned how the Administration plans to protect the economic security of Americans on the lower end of the economic scale who benefit the most from the two TCJA provisions. Secretary Yellen explained the President's budget is built on a baseline that assumes the features of TCJA will expire as is written in the current law. She added the President has made a number of proposals, but has not offered a detailed plan for how he would meet his pledge to make sure that no family earning under $400,000 would see an increase in their taxes when the provisions expire. Secretary Yellen affirmed President Biden has articulated that no family making under $400,000 should see an increase in their taxes because it would be costly to implement relative to his budget. She added the President has confirmed his willingness to work with Congress to agree on a set of raisers to cover the additional costs.

Rep. Michelle Fischbach (R-MN) asked how the expiration of TCJA and inaction on a new tax plan would impact tax liabilities for American citizens. Secretary Yellen asserted President Biden opposes increasing taxes on individuals earning less than $400,000 and supports cutting taxes for working individuals and families.

Organisation for Economic Co-Operation and Development (OECD)

Chairman Smith asked Secretary Yellen if she would commit to rejecting the OECD's profit reallocation plan, on the account of its impacts on American companies and how it enables tax revenue to be disbursed to foreign governments. Secretary Yellen affirmed the Biden Administration has worked closely with Congress to identify the priorities needed to guide OECD negotiations over the last three and a half years and will continue to seek their input. She argued the Pillar Two agreement is in support of goals that are beneficial to the U.S, since it directs all countries to tax the profits of their multilateral companies, creating a more level playing field for American companies.

Rep. Lloyd Doggett (D-TX) asked why the U.S. should implement the OECD Pillars One and Two proposals. Secretary Yellen argued a "race to the bottom" in corporate tax rates has taken place over decades around the world, where jurisdictions have competed with one another to attract investment with the only beneficiaries being companies. She explained this practice made it more difficult for countries, including the U.S, to support middle class families and invest in the U.S. She asserted preventing the "race to the bottom" includes imposing the same minimum tax on all multinational companies. However, she noted some countries will charge more than the minimum tax. Secretary Yellen shared the U.S. has proposed its own rate of 21 percent, which would align with the Corporate Alternative Minimum Tax (CAMT). Rep. Doggett asked how corporations could remain competitive if they pay a rate higher than 15 percent. Secretary Yellen argued competitiveness has to do with differentials and incentives across countries. She noted prior to Pillar Two, the U.S. was the only country taxing the overseas earnings of its multinationals through the Global Intangible Low-Taxed Income (GILTI) tax. She stated now, due to the Pillars agreements, the U.S. will have the lowest rate while the rest of the world moves to 15 percent. She indicated even if the U.S. moved up to 21 percent, the differential would still be substantially smaller than before.

Rep. Mike Kelly (R-PA) asked how the U.S. could offset an estimated two billion dollars in lost revenue from the implementation of OECD Pillars One and Two. Secretary Yellen noted the estimate put forth by JCT is a worst-case scenario. She noted their analysis indicated that the outcome of implementation is uncertain, and the most likely outcome would be positive. Rep. Kelly asked if Treasury would commit to working with Congress prior to signing on to Pillar One. Secretary Yellen noted Treasury has been in touch with Congress throughout the Pillars One and Two processes. She noted a piece of feedback Treasury has received from Congress is that there should be an opportunity for public comment. She added they are aware of the uncertainty around Amount B in the transfer pricing guidelines, and expressed Treasury's intent to secure commitments from other countries. Secretary Yellen also indicated getting a clear definition of digital services taxes (DST) are a part of Treasury's "red lines" in negotiation. Rep. Kelly expressed concern that Congress has been treated as an "afterthought" in OECD negotiations. Secretary Yellen asserted Treasury has consulted with Congress during the last three and a half years.

Rep. Kevin Hern (R-OK) asked if Pillar Two could unintentionally create a tax subsidy race where countries enact Pillar Two taxes but offset them through tax subsidies in the form of refundable credits, noting Bermuda's new corporate tax as an example. Secretary Yellen asserted the goal of Pillar Two is to level the playing field. She noted despite countries who refuse to raise their corporate tax rate to the minimum, countries that participate and enact the minimum tax can effectively tax companies in tax havens that have not done so. She stated she is aware of Bermuda's corporate offsets but is unsure if it is broad based. She expressed willingness to investigate the issue further. Rep. Hern asked if the Biden Administration is concerned that Pillar Two incentivizes "subsidy warfare" that could put competitors like China at an advantage. Secretary Yellen stated it would be concerning if there were broad based subsidies. She noted in the case of the U.S, credits like LIHTC are treated as refundable but Treasury is working to ensure firms can benefit from R&D tax credits.

Rep. DelBene asked how suggestions that the U.S. will never implement Pillar Two could prevent the U.S. from experiencing positive changes. Secretary Yellen stated the U.S. has consistently argued Pillar Two is good for allies, but expressed concern that allies may view it as a failure on the U.S. to not implement the guidelines. She noted this undermines the U.S's leadership.

Rep. Michelle Steel (R-CA) asked how lawmakers could be sure that China would fully comply with OECD agreements. Secretary Yellen emphasized Pillar Two contains an enforcement mechanism where other countries can tax members that are not complying with the agreement.

Rep. Beth Van Duyne (R-TX) asked if the TCJA lowered the corporate rate to the lowest possible amount in the OECD. Secretary Yellen affirmed the U.S.'s corporate rate is among the lower rates in the OECD.

Foreign Adversaries

Chairman Smith noted while the Inflation Reduction Act (IRA) includes directives to prevent foreign adversaries benefitting from electric vehicle (EV) tax credits, there are still Treasury loopholes which enable the practice. He asked Secretary Yellen if she is concerned that Treasury Foreign Entity of Concern (FEOC) policies are more favorable to China than FEOC standards at the Department of Commerce (DOC) for semiconductors. Secretary Yellen asserted they are similar. She explained Treasury imposes strong restrictions that continue into next year and preclude companies from receiving the $7,500 EV credit if they contain components originating from a FEOC. She noted Treasury is working with the Department of Energy (DOE) and DOC to formulate FEOC rules that would prohibit China from profiting from the tax credit.

Rep. Doggett asked how lawmakers could prevent American companies from being subject to anticompetitive practices, noting Chinese steel and aluminum imports as an example. Secretary Yellen stated President Biden proposed to raise taxes and tariffs on Chinese steel and noted they tend to suffer from overcapacity, resulting in lower sale price.

Rep. Brad Wenstrup (R-OH) argued increasing the corporate tax rate will make it more difficult to domesticate manufacturing and de-risk from China, highlighting their pharmaceutical monopoly as an example. He asked Secretary Yellen about the impacts of raising corporate tax rates. Secretary Yellen affirmed the need for a resilient supply chain which encourages domestic sourcing and collaboration with allies, especially since certain foreign nations may not prove dependable in the future. Rep. Wenstrup asked who the U.S. will depend on if it raises corporate tax rates. Secretary Yellen noted OECD's Pillar Two imposes taxes on China to create level playing fields and prevent them from gaining any advantage. She asserted if they do not comply, the U.S. will impose taxes on China via the undertaxed profits rule (UTPR).

Rep. DelBene asked how Treasury can influence allies who are large seafood importers, including Japan, Canada, the European Union (EU), and the UK to cut off seafood trade with Russia. Secretary Yellen stated she is not familiar with the issue but affirmed Treasury is working with its allies to coordinate sanctions.

Rep. Nicole Malliotakis (R-NY) asked about China's role in providing fentanyl precursors and their interaction with Mexico's drug cartel. Secretary Yellen asserted Treasury is taking all possible action to stem the flow of precursors from China to Mexico and the illegal sale of fentanyl from Mexico the U.S. She noted she has visited Mexico to discuss the fentanyl trade and enhance cooperation on prevention, and that President Biden met with President Xi in November during which they agreed to jointly address fentanyl precursors being sold in Mexico. Rep. Malliotakis asked if money laundering organizations responsible for fentanyl precursors are operating outside of Chinese Communist Party (CCP) control. Secretary Yellen stated it is not her understanding that the CCP is directing the activity, but that it is taking place among Chinese firms. She emphasized the U.S's need for their cooperation to address those firms. She noted there are also smaller firms involved in producing precursors the U.S. and China must work together to address.

Rep. Carol Miller (R-WV) expressed concern about the strength of Treasury's FEOC definitions, the delayed implementation of the 1099-K threshold, and the U.S's reliance on Chinese investment and technologies, which she argued have resulted in American tax funds being disbursed to Chinese companies. She questioned whether the Biden Administration is supportive of these trends. Secretary Yellen asserted FEOC restrictions on EVs will go into effect next year, which will curtail the participation of Chinese firms in producing components or minerals for batteries. She noted the 45X credit will only to go companies undertaking certain advanced manufacturing. Rep. Miller asked if the Biden Administration is concerned that China could be utilizing various IRA credits to deepen its influence in U.S. domestic manufacturing industries. Secretary Yellen affirmed Treasury is doing as much as it can to implement the IRA, strengthen U.S. supply chains, and make the U.S. less vulnerable to China's influence.

Rep. Tenney asked if Treasury will continue to press Iran about its role in establishing not for profit organizations which are funding terrorist organizations. Secretary Yellen asserted Treasury prioritizes targeting Iran and Hamas and added the State Department has already taken various actions against Iran and Hamas. Rep. Tenney then asked about the sanctions against Iran. Secretary Yellen affirmed Treasury enacted a set of sanctions against Hamas and Iran, noting the most recent action of targeting oil sales by Iran's military to China. She added Treasury has gone after the provision of unmanned aerial vehicles (UAV) going to Ukraine and terrorist groups against Israel. She noted the U.S. is working with its allies on these efforts.

Inflation Reduction Act (IRA)

Ranking Member Richard Neal (D-MA) asked Secretary Yellen to discuss the implementation of IRA. Secretary Yellen highlighted Treasury has completed more than 60 guidance projects on a range of critical and complex issues in collaboration with DOE, the Environmental Protection Agency (EPA), and other experts to ensure effective implementation. She emphasized the beneficial impact of IRA clean energy credits, noting how it has stimulated investment in clean energy technology, lowered emissions, and created jobs in areas of the U.S. that have not historically experienced high levels of economic activity.

Rep. Thompson asked about the implementation of clean energy tax credits and about the type of investments the credits have prompted. Secretary Yellen stated the IRA credits have catalyzed new clean energy investments and the creation of new jobs. She expressed the Biden Administration's intent to reduce the U.S's reliance on China for clean energy components such as solar panels and batteries, and strengthen the supply chain. She highlighted new jobs are beginning to liberalize apprentice requirements, while also increasing their wages and bonuses. She noted the IRA has also influenced new investment in areas impacted by the closure of fossil fuel plants and coal lines. Secretary Yellen asserted the Biden Administration is ensuring individuals, nonprofits, and state and local governments can benefit more from the law through Treasury's Direct Pay feature and by educating potential beneficiaries.

Rep. Drew Ferguson (R-GA) highlighted a potential issue with companies offsetting higher taxes by claiming more green energy tax credits. Secretary Yellen stated if a firm is utilizing the transferability feature to buy tax credits, then another company could benefit from the incentive and stimulus they offer. She noted this effectively makes the tax credits refundable. Rep. Ferguson questioned the motivation for implementing such a system. Secretary Yellen explained the system would help companies responding to the IRA and building a clean energy economy to benefit from the tax incentives.

Rep. Danny Davis (D-IL) asked about updates to the low income bonus credit program. Secretary Yellen affirmed Treasury has worked to clarify the rules and specifically target low income communities to ensure they benefit from the program. She shared Treasury is working to finalize the regulations and highlighted there are allocated credits for low income communities for which the DOE has accepted applications and awarded funds. Rep. Davis asked if the program has stimulated job creation. Secretary Yellen stated the data Treasury has collected shows that green energy credits have been effective in stimulating investments resulting in job creation which disproportionately benefit low income and rural communities.

Rep. Mike Carey (R-OH) highlighted Ohio's readiness to lead in low carbon hydrogen production, and expressed concern that the recently proposed regulations for the hydrogen production tax credit 45V could dampen the states' efforts. He advocated for Treasury to permit taxpayers to use EPA-verified greenhouse gas emissions data to calculate an accurate tax credit value rather than national averages in the proposed regulations. Secretary Yellen affirmed the hydrogen provisions of IRA are important, and the Biden Administration has worked hard to put out a notice of proposed rulemaking (NPRM) to provide clarity that will help advance projects with the appropriate environmental safeguards. She noted Treasury has worked with DOE and EPA on proposed regulations, but the issue is still complex and requires evaluating life cycle emissions. She indicated Treasury has received more than 40,000 comments on the proposed rule which it is still evaluating.

Rep. Dan Kildee (D-MI) asked about Treasury's plan to ensure the final domestic content guidance for solar facilities incentivizes the onshoring of the U.S. solar supply chain and reduces American dependence on China for polysilicon and wafers. Secretary Yellen indicated Treasury in an interagency effort put out initial guidance on domestic content. She noted they relied heavily on the Department of Transportation (DOT) in applying the Buy America rules referenced in the IRA to determine the categorization of clean energy products. She added they consulted with DOE. Secretary Yellen asserted Treasury will continue to take stakeholder feedback into account. Rep. Kildee asked Secretary Yellen if Treasury would be willing to work with his office on final guidance for the 48D advanced manufacturing investment tax credit to ensure it supports critical elements of the semiconductor supply chain. Secretary Yellen noted Treasury received a breadth of comments on their proposed rules, in which they asked questions about the appropriate scope. She added DOC administers an extensive program, and Treasury is partnering with them to ensure they cover the entire supply chain. She stated Treasury has been "very attentive" to the comments it has received.

Rep. Brad Schneider (D-IL) asked about the criteria Treasury is considering for a rule on sustainable aviation fuel (SAF). Secretary Yellen noted Treasury is releasing a notice providing clarity on SAF credit eligibility. She stated the notice aims to catalyze innovation in the aviation industry and incentivize the production of cleaner and more sustainable aviation fuels. She argued the measures would help position the U.S. as a leader in decarbonizing aviation. Secretary Yellen added Treasury will soon be releasing an updated Greenhouse Gases, Regulated Emissions, and Energy Use in Transportation (GREET) model to help firms to determine the credit for which they are eligible.

Energy

Rep. Van Duyne asked if the Treasury is "picking winners and losers" in the oil and natural gas industry. Secretary Yellen answered in the affirmative, but emphasized a focus on combating climate change. Rep. Van Duyne questioned if Secretary Yellen believes stopping all oil and natural gas production would be beneficial for the U.S.'s long-term energy security. Secretary Yellen asserted no one is suggesting to stop all oil and natural gas production. Rep. Van Duyne asked if the Administration's goal is to shut down energy companies and reduce their profitably. Secretary Yellen answered in the negative.

U.S. Economy

Ranking Member Neal asked Secretary Yellen to discuss labor participation rates in the U.S. Secretary Yellen shared labor force participation rates have grown substantially for male and female adult workers to pre-pandemic levels. She noted the rates have offset the downward trend in participation due to the U.S's aging population. She noted participation grew at a three percent rate and created around 200,000 jobs.

Rep. Estes asked about the state of inflation in the U.S. Secretary Yellen asserted inflation has gone down considerably and most economists have agreed it was due to supply shortages during the pandemic.

Rep. Linda Sanchez (D-CA) asked how U.S. inflation compares with other modern countries. She additionally inquired if allowing some of TCJA to expire but keeping other provisions could benefit working families. Secretary Yellen affirmed inflation has decreased considerably, noting how it has stayed at 2.7 percent during the last 12 months. She asserted most households experience a higher price of goods, but their wages have gone up and increased their purchasing power. She noted new data from the Employment Cost Index confirms during the last year, compensation has increased nearly one percentage point for most families. She argued individuals are better off currently despite price increases. However, she asserted Treasury still has more work to do, and President Biden is focused on lowering the cost of healthcare premiums, household energy expenses, and drug prices, which are higher priority to households.

Rep. David Kustoff (R-TN) asked if the Federal Reserve's ("the Fed") target rate for two percent inflation is still its goal and if it is attainable. Secretary Yellen indicated the two percent inflation target was codified as a part of the Federal Open Market Committee's (FOMC) years ago. She noted currently, inflation sits at 2.7 percent, which is substantially lower than its peak. She affirmed the Committee will continue to put out policies considered restrictive to move it down further, which it has already achieved. Rep. Kustoff asked about former Secretary of Treasury Lawrence Summer's recent statements claiming that the next rate move will be upwards, and that inflation is not securely trending to target levels. Secretary Yellen argued, "he's a person who's been wrong in the past." She indicated he previously stated that it would take a recession to bring inflation down, which turned out to be false. She asserted the Fed holds the purview to determine appropriate monetary policy. Secretary Yellen stated it is likely over the next year that housing inflation will decrease due to stabilized rent for apartments and single family houses. She contended housing prices have continued to rise because rents are renegotiated and brought up to market. Rep. Kustoff asked Secretary Yellen if she agrees with any of former Secretary Summer's' statements. Secretary Yellen stated she agrees with some of it but could not go through it.

Federal Deficit

Rep. Smucker asked about the level of projected debt at the end of this budget period in 10 years. Secretary Yellen stated the debt held by the public would be $28 trillion, and in 2034, it would be $45 trillion. However, she noted gross domestic product (GDP) in that time would grow and only be a few percentage points higher in ratio. She stated it would sit at 105 percent in 2034. Rep. Smucker asked if delaying policy reform threatens the fiscal health of the U.S. Secretary Yellen asserted the need to enact policies to ensure the federal debt is on a sustainable path. She noted the president has proposed three trillion dollars' worth of deficit reduction. Rep. Smucker asked where the reduction would originate. Secretary Yellen explained spending decreases, additional tax revenue, and implementing Pillar Two would help reduce the deficit.

Rep. Buchanan asked Secretary Yellen for insight on the International Monetary Fund's (IMF) recent report calling attention to potential issues with the financial future of the U.S. Secretary Yellen asserted she is not "terribly concerned" about the U.S's current position, but emphasized the need to take action to reduce the budget deficit. She noted the President's 2025 budget proposed three trillion dollars' worth of measures to reduce the deficit over the next decade. She noted the plan would keep a key metric of the burden of the debt, which is real net interest the U.S. must pay.

U.S. Department of Treasury

Rep. David Schweikert (R-AZ) asked Secretary Yellen if Treasury needs the assistance of the Committee to update statutory authorities, mechanics, or operating balance to maximize stability. He additionally inquired how Treasury could maximize interest rate efficiently. Secretary Yellen asserted Treasury does not require legislation, highlighting how it has a standing policy on an operating cash balance of $500 billion. She noted, however, that the number is subject to change depending on the flow of expenses and tax collection. Secretary Yellen indicated the most threatening factor to Treasury's balance in previous years has been Congress' inaction to raise the debt limit in a timely manner.

Rep. Pascrell asked Secretary Yellen if the IRS has plans to address gaps in hiring, training, and technology so the agency has the tools it needs to close the tax gap. Secretary Yellen noted the IRS is already addressing these issues using the funding provided by the IRA, and detailed how it previously could not hire as effectively due to its limited budget. She described how the IRS has recently dedicated funds to improving customer service and how they have been able to pursue bad actors at a more frequent rate. She highlighted the IRS recently was successful in going after one thousand individuals making more than one million dollars who owed back taxes, which resulted in the collection of $500 million.

Direct File

Rep. Sanchez asked about the feedback Treasury received about its Direct File pilot program. Secretary Yellen noted while Treasury still must go through all the feedback, initial evidence has reflected success. Rep. Sanchez asked if Direct File helps families understand their eligibility for and claim EITC or CTC. Secretary Yellen noted the program walks the user through those areas to ensure they are aware of the credits and understand whether they are eligible to claim the credits.

Rep. Chu asked why Direct File was a success considering the obstacles, and about the considerations guiding the extension of the program. Secretary Yellen affirmed the program was an experiment and was deliberately introduced in a phased way at small scale. She noted it was made available to most filers over five weeks in a subset of states who agreed to participate in the program. She noted 140,000 individuals used the program and expressed positive reactions. She indicated the program would likely be most beneficial to simple tax situations, but for users who tried the program it saved them money and time for filing. Rep. Chu asked if the Treasury could make the program available in more languages in the future. Secretary Yellen affirmed it is a factor Treasury could consider over time if it renews the program, as well as expanding income and prepopulating returns.

Rep. Beyer asked for Secretary Yellen's insight on the Direct File's progress. Secretary Yellen revealed Direct File has gone well and the Treasury will provide a thorough assessment thus far. She highlighted anecdotal evidence suggesting individuals have appreciated the tool and have found it easy to navigate. Secretary Yellen indicated Direct File has saved individuals $270 and around 12 hours of work when filing their taxes.

Artificial Intelligence (AI)
Rep. DelBene asked if the IRS is integrating artificial intelligence (AI) technology in its services and when addressing data privacy and security concerns. Secretary Yellen stated the IRS has begun to use AI in its work, specifically in enforcement when sifting through tax returns of high income filers, complex corporations, and partnerships to identify candidates for audits and fraud. She shared Treasury has a governance and oversight process supporting the deployment of AI to ensure if complies with the President's Executive Order (EO) on AI.

Social Security
Rep. John Larson (D-CT) asked Secretary Yellen about the importance of the Social Security program. He additionally inquired why the President has adhered to taxing people making less than $400,000. Secretary Yellen affirmed the Social Security program is the federal government's most important antipoverty program, noting how it lifts tens of millions of seniors out of poverty each year. She noted it is a guaranteed program generations of Americans have relied on to retire with security and dignity. She asserted President Biden aims to preserve and extend Social Security benefits for these reasons.

Rep. Dwight Evans (D-PA) referenced the House Republican Study Committee's proposed Social Security budget, which suggested reducing Social Security by $1.5 trillion over the next decade. He questioned how the plan would impact the recipients of Social Security. Secretary Yellen affirmed the critical nature of Social Security, asserting the program keeps ten million individuals out of poverty. She indicated President Biden would never support cuts in benefits to those individuals. Secretary Yellen noted she is unsure of the House Republican Study Committee's suggestions.

Critical Minerals
Rep. Gwen Moore asked if opting not to provide additional funding for domestic mineral extraction and processing would effectively subsidize minerals from other regions. Secretary Yellen asserted Treasury is trying to make the process of obtaining the $7,500 subsidy more difficult if the mineral extraction of processing takes place in China. She added the IRA contains incentives to produce and process the minerals domestically or within allied countries.

Rep. Fitzpatrick revealed the USTR brokered a critical minerals agreement (CMA) with Japan without congressional approval. He asked why the Administration proceeded with the CMA without receiving congressional input, despite being required to do so. He additionally asked if the Administration intends to ensure Congress is notified of any free trade agreements (FTA) between the U.S. and any other country. Secretary Yellen stated the Biden Administration agrees Congress has an important role. She affirmed Japan and the U.S's objectives to reduce their dependence on China align. She noted both countries are looking for allies to rely on to build more resilient supply chains.

Basel III Endgame Proposal
Rep. Kustoff asked Secretary Yellen if Treasury will be thoughtful of the concerns of regional banks as the Basel III proposal is finalized. Secretary Yellen asserted the issue is under the purview of banking regulators, such as the Fed, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC). She stated the Financial Stability Oversight Council (FSOC) does not have jurisdiction over the issue.

Privacy
Rep. Greg Steube (R-FL) asked Secretary Yellen if she has received the letter from the Chairman of the House Judiciary Subcommittee on the Weaponization of the Federal Government regarding the financial surveillance of

American citizens without warrants. Secretary Yellen answered in the affirmative. Rep. Steube then inquired if Treasury intends to provide the Subcommittee with the Suspicious Activity Reports (SARs) requested in the letter. Secretary Yellen stated the reports are confidential and she is not prepared to discuss the reports specifically. She expressed Treasury's intent to respond to the letter. Rep. Steube questioned if the Financial Crimes Enforcement Network (FinCEN) receives data covering millions of transactions of American citizens. Secretary Yellen stated they receive reports. Rep. Steube then asked if the data in the reports included sensitive private financial data. Secretary Yellen stated the information is only available to law enforcement, and it is only information on transactions regarded as suspicious. Rep. Steube asked if the information is held in a database. Secretary Yellen answered in the affirmative. Rep. Steube questioned if law enforcement entities need a warrant to access private financial data. Secretary Yellen stated, "not to the best of my knowledge." Rep. Steube asked Secretary Yellen if she is aware that in 2021, FinCEN emailed financial institutions suggesting using the search terms "America First," "Trump," and "MAGA" to identify transactions that could indicate involvement in riots or potential violence. Secretary Yellen stated the activity took place under the previous administration. She noted there was concern about the potential disruption to President Biden's inauguration. She asserted FinCEN put forth these terms to uncover who was involved in the January 6 riot. She stated she is aware of communications which took place between FinCEN and financial institutions. Rep. Steube claimed FinCEN worked with the Federal Bureau of Investigation (FBI) in 2021 to determine transaction thresholds, which may be included certain weapons. He asked how many SARs were filed as a result of FinCEN's coordination with the FBI. Secretary Yellen answered in the negative. She stated "weapons" was not used as a search term on its own, but rather it was used to narrow the scope of the search for individuals who, based on other information available to the financial institution, may have been involved in January 6.

Digital Trade

Rep. Randy Feenstra (R-IA) referenced the U.S. Trade Representative's (USTR) decision to reverse the digital trade policy at the World Trade Organization (WTO). He explained the USTR determined it would no longer defend against foreign government's demands for American businesses to locate facilities, equipment, employees, intellectual properties (IP) in those countries. Rep. Feenstra noted in the Pillar One negotiations, market countries have sought taxing rights over companies selling into them, but those taxing rights are allocated on paper only. He asserted the local data storage requirements that would proliferate globally do the opposite, reallocating real economic assets that create a taxable presence in those countries. Rep. Feenstra highlighted President Biden's recognition of concerns regarding undesired incentives to locate certain economic activities abroad in the most recent Green Book. He argued if local data storage requirements are allowed to proliferate, U.S. businesses would face not only an incentive to invest abroad, but would be required to do so. He concluded this newly allowed method of discriminatory targeting of the U.S. companies for tax revenue is going to cost the U.S., jobs, investments, and IP transfers. Rep. Feenstra asked if Treasury consulted with the USTR on the tax and economic impacts of the decision. Secretary Yellen noted the USTR made the decision to reverse the digital trade policy at the WTO. She affirmed interagency coordination during Pillar One negotiations and indicated the Treasury's position was to remove DSTs it regards as discriminatory against U.S. firms.

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