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Senate Finance Committee: Questions for the Record

Treasury Secretary Janet Yellen

Tax and Financial Services Responses

Confirmed

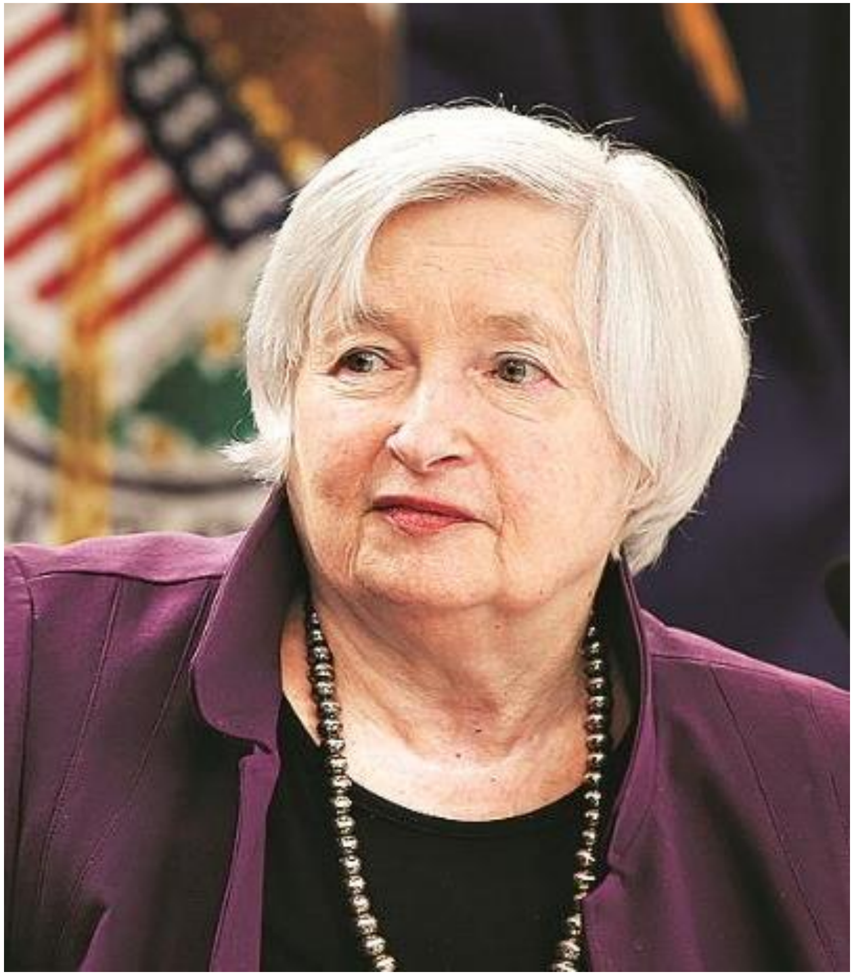
Treasury Secretary Janet Yellen

On Jan. 25, the Senate voted overwhelmingly to confirm President Joe Biden's nomination of Janet Yellen to be the 78th treasury secretary. Yellen is the first woman to hold the position and she will be responsible for overseeing U.S. economic recovery in the wake of the COVID-19 pandemic.

Yellen, who previously served as chair of the Federal Reserve System Board of Governors and chair of the Council of Economic Advisors, has long been at the forefront of shaping the country's monetary policy. However, her views on fiscal policy, particularly those related to the nuances of tax issues, are less well known.

Lawmakers probed Yellen on some of these issues during her confirmation hearing and subsequently in writing through the committee's Questions for the Record (QFR). Yellen's answers in the QFR, which total 114 pages, are summarized in this document.

While Yellen answered a host of questions ranging from international economic policy to domestic banking regulation, the answers examined below are focused most intently on those related to tax and financial services policy.



Response Topics

Domestic Business Tax Policy

- General Domestic Business Issues
- Made in America
- Targeted Small Business Relief

International Business Tax Policy

- Digital Services Taxes & OECD Process
- Other Issues

Individual Tax Policy

- Middle Class Taxes and TCJA Repeal
- State and Local Tax Deduction
- Retirement Security

Economic Recovery

- State and Local Relief
- Workforce Assistance
- Education Access and Student Loans
- U.S. Debt and Federal Spending

Progressive Economic Policies

- Climate Change and Regulation
- Equality Under the Tax Code

Internal Revenue Service

- Tax Administration and IRS Resources

** Note: The slides include a reference to the questions summarized in each section. The list of questions referenced are not exhaustive.*

Domestic Business Tax Policy

MEMBER QUESTIONS

Grassley (10, 11, 13, 14, 15, 26); Portman (1); Sasse (12, 21); Cornyn (11, 12)

Republican senators including Sens. Chuck Grassley (IA), Rob Portman (OH), Ben Sasse (NE) and John Cornyn (R-TX) raised concerns about the Biden administration's plans to overturn at least portions of the Tax Cuts and Jobs Act (TCJA, P.L.115-97), such as Sec. 199A and plans to increase the corporate tax rate. Senators also questioned Yellen about the Biden administration's corporate income tax proposals, particularly the 15% minimum book profits tax.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Technical Corrections to the TCJA.** Grassley noted that without technical corrections to the TCJA, the law would not operate fully as intended. He asked Yellen if she will support the enactment of technical corrections to the TCJA and other tax legislation. Yellen responded that she is "committed to working with the tax-writing committees on technical corrections on all legislation."
- **Corporate Tax Increase.** The Democratic platform includes an increase to the corporate income tax rate from 21% to 28%. Republican senators pushed back on an increase, noting that it would once again result in the U.S. having one of the highest corporate tax rates among developed countries. Yellen noted the administration's support for a 28% rate, saying it is the mid-point of the pre-2017 rate and well below what had been in place for decades. At the same time, she recognized the need for U.S. companies to be competitive globally and committed to working through the OECD/G20 to agree on a global tax regime that protects American competitiveness, while ensuring that corporations "pay their fair share." Yellen also noted that a corporate tax increase would not occur in a vacuum—it will be coupled with massive investments to benefit American businesses and improve international competitiveness. This includes plans to bolster infrastructure spending, worker training, research funds for renewable energy, and create good-paying jobs.
- **Sec. 199A.** Republican senators expressed concerns that Democrats might repeal Sec. 199A, which provides a 20% deduction for pass-through businesses with qualifying income. Yellen emphasized that the Biden administration is committed to improving economic conditions for small businesses, and pointed to the grant program that was included in the American Rescue Plan. She did not take a specific stance on Sec. 199A, instead noting that it is a newer provision and that she is committed to studying its impact to determine the extent to which it is improving prospects for small businesses.

Domestic Business Tax Policy (cont.)

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Business Interest Deductions.** As a result of the TCJA, business interest deductions were limited to 30% of earnings before interest, taxes, depreciation and amortization (EBITDA). However, after this year, the limitation will be reduced further to 30% of earnings before interest and taxes (EBIT). Grassley noted that as a result of the change, businesses with significant depreciation, such as manufacturers, will see the amount of interest they can deduct drastically limited, increasing the cost of capital. He asked Yellen about several reforms that would ensure the wealthiest taxpayers and corporations pay their fair share, including this one. While Yellen did not take a position on this specific proposal, she committed to furthering her understanding of how this will impact small businesses during recovery from the economic crisis.
- **Net Operating Loss, CARES Act.** Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress created a temporary rule allowing U.S. businesses to carry back net operating losses (NOLs) incurred in 2018, 2019 and 2020 to the prior five years. In the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, House Democrats proposed to repeal the CARES Act NOL provisions. Republicans noted that in the past, Democrats, including former President Barack Obama, cautioned against increasing taxes in the middle of a recession. Yellen responded that the repeal of the NOL was one of many proposals being considered by President Biden to ensure that corporations "pay their fair share." She noted that the administration's focus first and foremost is ending the pandemic and helping families get through the economic and public health crisis. This could signal that large tax increases may come only after the economy has been stabilized.
- **Cost Recovery.** Cornyn asked Yellen if she believes that cost recovery provisions are essential for businesses to reinvest and that all economic sectors should have access to these provisions. Yellen responded that businesses should be able to recover their costs so that the income tax is applied on net income and not gross receipts. She did not opine on the timing of when businesses should receive such deductions.
- **Biden Minimum Tax.** President Biden has proposed a new 15% corporate minimum tax based on book income, rather than taxable income as currently used in the tax code. Republicans expressed concerns that basing a minimum tax on book income will minimize the value of certain incentives provided by the tax code. Yellen noted that the minimum book tax proposal was directed at those companies with low or zero tax liabilities paying their fair share. She pointed to research that there are several corporations with a large gap between their tax and book income.

Domestic Business Tax Policy—Made In America

MEMBER QUESTIONS

Grassley (12, 23); Sasse (22); Scott (4b, 4c)

Republican senators including Sens. Chuck Grassley (IA), Ben Sasse (NE) and Tim Scott (SC) raised concerns about the Biden Made in America agenda, the R&D credit and other policies to spur innovation and domestic manufacturing.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Made in America.** Grassley noted that Biden's Made in America proposal includes a 10% penalty on goods and services imported by U.S. companies from foreign affiliates. He criticized this policy as only penalizing U.S. companies, putting them at a competitive disadvantage with similarly situated foreign companies. He also noted that it ignores the reality of global supply chains and might result in foreign countries taxing goods and services imported from the U.S. Yellen replied that President Biden's objective is to create incentives for American companies to create and maintain domestic jobs. She clarified that the offshoring tax penalty referenced is specifically aimed at those who offshore manufacturing and service jobs to foreign nationals in order to sell goods or provide services back to the American maker when the jobs could have been done by U.S. workers.

- **Research and Experimentation Costs.** Pursuant to the TCJA, Section 174 of the Internal Revenue Code was amended so that U.S. businesses can immediately deduct research and experimental (R&E) costs. Beginning next year, however, U.S. businesses will be required to capitalize and amortize those costs over five years rather than immediately deducting them. Grassley asked whether Biden plans to extend the immediate deduction for R&E costs. While Yellen did not take a position on this specific proposal, she committed to furthering her understanding of how revoking this benefit will impact innovation, and specifically small businesses, during recovery from the economic crisis. She also noted that if the R&E credit reverts to pre-TCJA law, it would not do so in a vacuum—it would be coupled with massive investments to benefit American businesses and improve international competitiveness. This includes plans to bolster infrastructure spending, worker training, research funds for renewable energy, and create good-paying jobs.

Domestic Business Tax Policy—Made In America

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Stronger Domestic Manufacturing.** Scott asked Yellen what types of policies would strengthen the manufacturing sector to make it more competitive and promote innovation. Yellen noted that America needs stronger, more resilient domestic supply chains in a number of areas supporting domestic innovation, U.S. jobs and national security. She explained that President Biden is calling for new incentives to spur domestic production of critical products (e.g., semiconductors), including new targeted tax credits, investments, matching funds for state and local incentives, and R&D support. Biden is also calling for the U.S. to close supply chain vulnerabilities across a range of critical products on which the U.S. is dependent on foreign suppliers. Yellen also noted that incentives must also be paired with eliminating tax policies that reward offshoring and penalize U.S. companies for manufacturing within U.S. borders, including some of the international tax reforms enacted as part of the TCJA. She also said that government procurement should prioritize products made by American companies employing American workers. Yellen also highlighted the important role that small manufacturers have to play. Policies such as the Manufacturing Extension Partnership, which provides technical assistance to small manufacturers, and strengthening access to capital can help encourage domestic production.

Domestic Business Tax Policy—Targeted Small Business Relief

MEMBER QUESTIONS

Daines (1); Portman (6, 7); Toomey (22); Young (3)

Sens. Rob Portman (R-OH) and Todd Young (R-IN) asked specifically about small business relief in relation to the pandemic. Portman was concerned about the issuance of timely guidance on the Paycheck Protection Program and ensuring that any new relief would achieve bipartisan goals of assisting small business. Young asked if Yellen still saw a role for the Federal Reserve in supporting small to mid-size businesses. Sens. Pat Toomey (R-PA) and Steve Daines (R-MT) asked questions about broader policies impacting small business including newly required disclosures about beneficial ownership and barriers to capital formation.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Paycheck Protection Program (PPP) Guidance.** Yellen committed to issuing timely guidance on the PPP, in particular, forgiveness for loan holders.
- **Small Business Lending.** In response to Sen. Portman’s question about the Biden small business relief plan, Yellen generally expressed support for small businesses and stated the plan was a result of consultation with experts.
- **Emergency Lending Facilities.** Yellen stated the Federal Reserve will use all available tools to support the economy, but Congress has mandated that the 13(3) program through the CARES Act will not be available. However, Yellen encouraged more action for small to mid-size businesses and expressed a desire to work with Congress to structure this relief.
- **Small Business Capital Formation.** Yellen acknowledged the need for more opportunities for small business capital formation and expressed support for federal policies that would encourage capital formation, such as investment in CDFIs.
- **Small Business Information Disclosure Requirements under the NDAA.** Yellen stated her support for financial banking regulators to consult with small businesses to reduce regulatory burdens.

International Tax Policy—Digital Services Taxes & OECD

MEMBER QUESTIONS

Cornyn (20, 21, 22); Crapo (1); Grassley (16, 17, 18, 19); Portman (4, 5); Toomey (5, 6, 7, 8); Young (4); Wyden (5)

Sens. Chuck Grassley (R-IA), Mike Crapo (R-ID), John Cornyn (R-TX), Rob Portman (R-OH), Todd Young (R-IN), Pat Toomey (R-PA) and Ron Wyden (D-OR) raised concerns about digital services taxes (DSTs) and plans to ensure that any multicountry agreement reached at the Organization for Economic Co-operation and Development (OECD) will not unfairly discriminate against U.S. companies.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **She is aware of the problem.** Yellen agreed with the questioning senators and noted that rather than waiting for agreement at the OECD level, a number of countries have unilaterally implemented their own DSTs that frequently discriminate against nonresident businesses and impose double taxation. Further, some of the DSTs appear to be designed to specifically target U.S. digital companies.

- **Process to address discriminatory DSTs.** Yellen acknowledged that the Trump administration had authorized the use of tariffs as a response to discriminatory DSTs and acknowledged a financial transaction tax imposed by Democrats, but noted that such measures impose costs of their own on Americans, and stated her desire to first attempt to address discriminatory DSTs through the OECD/G20 process before pursuing other measures.

- **Minimum tax and fair share**. As part of dealing with discriminatory DSTs, Yellen emphasized that other goals for a multicountry agreement would establish effective minimum tax rules to make sure corporations pay their fair share, prevent global profit-shifting, and diminish incentives for American companies to offshore activities.

International Tax Policy—Other Issues

MEMBER QUESTIONS

Grassley (20, 21, 22, 24); Portman (2); Toomey (1, 2)

Republican Sens. Chuck Grassley (IA), Rob Portman (OH) and Pat Toomey (PA) raised concerns about regulations promulgated for global intangible low-taxed income (GILTI), foreign derived intangible income (FDII), the base erosion anti-abuse tax (BEAT), and Biden's proposal to increase the GILTI tax and corporate tax rate.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Regulations.** Any review of regulations finalized during Trump's regime will be done to ensure consistency with the law and congressional intent.
- **GILTI.** If a global tax is agreed to at the OECD and the GILTI tax rate is increased from 10.5% to 21%, Yellen appreciates the concern with regard to the competitiveness of U.S. companies, but any gap between the U.S. minimum tax rate and a globally agreed rate would likely be smaller than the gap that exists today under the rules created by the TCJA.
- **Offshoring locations.** A global minimum tax agreed to at the OECD would stop the destructive global race to the bottom on corporate taxation. If the corporate rate is increased to 28%, it will be coupled with a massive investment that would benefit American businesses and improve international competitiveness. The plan would allow billions of dollars of worker training and education, and allocate billions in research funds for renewable energy and other economic priorities to make us more competitive on the world stage.

Individual Taxes—Middle Class Taxes and TCJA Repeal

MEMBER QUESTIONS

Cornyn (1, 2); Grassley (1, 2); Lankford (1, 2); Portman (3); Toomey (3, 4)

Republican senators—Sens. Chuck Grassley (IA), Rob Portman (OH), Pat Toomey (PA), John Cornyn (TX) and James Lankford (OK), in particular—raised concerns about the Biden administration's plans to overturn at least portions of the TCJA, arguing that such a move could effectively increase taxes on middle-class Americans. In general, the senators focused on whether Yellen and the Biden administration would adhere to their plans of repealing these sections of the TCJA, such as the individual tax cuts set to expire in 2026, particularly during a pandemic.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **No Middle-Class Tax Increase.** President Joe Biden ran on ensuring individuals earning less than $400,000 a year will not see their taxes increase. As such, if the repeal or expiration of any TCJA provisions increase taxes on these individuals, it would go against Biden's campaign promise. Because of this, Yellen said she would work with Congress to ensure these legislative and regulatory actions are avoided.

- **Expanding Refundable Credits.** Under the American Rescue Plan (ARP), President Biden calls for an expansion of the Child Tax Credit and the Earned Income Tax Credit. She vowed to support these efforts.

- **Middle-Class Tax Cuts.** Yellen said President Biden would "enact more than a dozen middle-class tax cuts" that provide financial support for families.

- **Regulatory Process.** When discussing how she would use the Treasury Department's regulatory authority to alter previous guidance related to the TCJA, Yellen simply said she would ensure tax laws are fairly implemented and enforced, adding that regulatory review would be consistent with the law.

Individual Taxes—State and Local Tax Deduction

MEMBER QUESTIONS

Crapo (2); Cornyn (9, 10); Grassley (3, 4)

Republican senators—Sens. Chuck Grassley (IA), Mike Crapo (ID) and John Cornyn (TX), in particular—asked Yellen if eliminating the $10,000 state and local tax (SALT) deduction cap enacted under the TCJA would be an effective policy, particularly during the COVID-19 pandemic, given that analysis has shown it would primarily benefit upper-income taxpayers.

YELLEN RESPONSE

Yellen provided the same response to the three senators. After acknowledging the need for a fair and progressive tax code, she emphasized the importance of considering the ramifications of SALT deduction elimination. Yellen specifically mentioned the impact of the SALT cap on state and local governments, suggesting the effect of eliminating the cap would need to be fully evaluated. She said she would examine all aspects of the issue.

Individual Taxes—Retirement Security

MEMBER QUESTIONS

Crapo (3); Grassley (6, 7, 8, 9, 43); Lankford (4); Portman (12, 14); Scott (8)

Republican senators—Sens. Mike Crapo (ID), Rob Portman (OH), Tim Scott (SC), James Lankford (OK) and Chuck Grassley (IA), in particular—questioned Yellen on a variety of retirement-related topics, including multiemployer pension plans, the Old-Age and Survivors Insurance (OASI) Trust Fund and contributions to tax-deferred retirement accounts. Their questions generally focused on ways to help Americans better save for retirement. In addition, Sen. Portman sought Yellen's support for his bill, the Retirement Security & Savings Act (S. 1431 (116)), which would bolster retirement security.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Vehicles for Retirement Savings.** Yellen vowed to work with Congress and the departments of commerce and labor to shore up the Pension Benefit Guaranty Corporation's (PBGC) multiemployer pension insurance fund. She highlighted President Biden's support for the Butch-Lewis Act, tax benefits for small businesses that launch retirement plans, and the creation of an "automatic 401(k)" plan. While Yellen noted support for the president's "automatic 401(k)" proposal, she also promised to study his campaign pledge to do away with 401(k) plans in favor of a tax credit on after-tax amounts, if that would encourage more wealth building for the middle class. Yellen offered to review the Obama-era myRA retirement scheme. She did not comment on the specifics of the Retirement Security & Savings Act.

- **Social Security.** Yellen said the COVID-19 pandemic has accelerated the depletion of all Social Security trust funds, including OASI and the Federal Disability Insurance Trust Fund. She noted President Biden's support for a Social Security reform package that, among other things, broadly increases benefits for recipients, with higher increases for "vulnerable beneficiaries," including widowed spouses and older individuals. The package would be paid for by an increase in income taxes on individuals who make over $400,000 per year.

Economic Recovery—State and Local Relief

MEMBER QUESTIONS

Grassley (53, 65)

Sen. Grassley (R-IA) posed two questions about the municipal liquidity facility and the state and local funding in the context of COVID-19 relief efforts. Sen. Grassley expressed skepticism over the level of support for state and local governments in the HEROES Act that was passed by the House in the 116th Congress. Specifically, he pointed to concerns about the use of low-interest or zero-interest loans to state and local governments without a needs-based assessment. He also cast doubt over the projections of "lost revenue" that have been used as a possible standard to apply for additional relief.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Municipal Liquidity Facility.** In response to questions about the HEROES Act provisions that would unlock funding from municipal liquidity, Yellen stated there was significant need for the government to address inequalities exposed by the pandemic. To address these inequalities, she expressed support for additional funding that could help with vaccinations, school reopenings, getting the economy going, and getting people back to work.

- **State and Local Relief.** Yellen expressed support for state and local relief. She noted that this recession is unique due to the pandemic that may make forecasting difficult. However, there is now significant data for review, and ongoing review, that indicate state and local governments are in need of assistance in order to address the challenges posed by the pandemic.

Economic Recovery—Workforce Assistance

MEMBER QUESTIONS

Casey (1); Grassley (54); Sasse (18, 24); Scott (2)

Sens. Tim Scott (R-SC) and Ben Sasse (R-NE) questioned Yellen's position on labor policy regarding pandemic relief, specifically her thoughts on implementing skill-building incentives and the impact of increased unemployment insurance on the economy's trajectory. Several Democratic and Republican senators also asked for Yellen's plans to better prepare Americans for the rapidly developing workforce, her thoughts on economic stabilizers and whether she would support an above-the-line deduction for union dues.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

Skill-Building and Unemployment Benefits Related to COVID-19. Yellen welcomed the concept of increasing skill-building opportunities, but would implement such initiatives to supplement rather than replace direct financial assistance for the unemployed. She continuously emphasized the critical role of sufficient aid for unemployed workers, reiterating that increased vaccinations and curtailing the spread of the virus must be prioritized in being able to successfully reopen businesses.

Preparing for the future. According to Yellen, America's future competitiveness will rely on increasing gender, racial and financial equity in the workforce. Echoing the Biden campaign's tax policy to "reward work, not just wealth," Yellen proposed that along with further investments in education, child care and measures to provide family, medical and sick leave, incentives in the tax code could support workers seeking a pathway to new skills and mobility.

Automatic Stabilizers for Unemployment. Yellen suggested the current automatic stabilizers in place need both updating and expansion, citing the economic strain on workers and families during the most recent economic downturn. She hopes to work with Congress on ways to adjust the length and amount of unemployment relief automatically, depending on health and economic conditions, to prevent future legislative delay from undermining the recovery.

Unions. Sen. Bob Casey (D-PA) noted that his bill, the Tax Fairness for Workers Act, would reinstate an above-the-line deduction for union dues that was eliminated by the TCJA. Yellen did not commit to a position on the deduction itself, instead saying that she would work with Congress to advance proposals strengthening worker organization, collective bargaining and unions generally.

Economic Recovery—Education and Student Loans

MEMBER QUESTIONS

Casey (2); Cornyn (23, 24); Sasse (17)

Sens. John Cornyn (R-TX) and Ben Sasse (R-NE) questioned Yellen about her thoughts on the economic impacts of student loan forgiveness and the ultimate cost of school closures on the United States' ability to keep up with other nations who chose to keep schools open throughout the past year. Sen. Bob Casey (D-PA) asked for Yellen's opinion on the ABLE Act, and whether she supported measures expanding access to the program's benefits for those with disabilities.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

Student Loan Forgiveness. Yellen plans to consult with President Biden and the secretary of education to discuss various options in her approach to alleviating student debt, noting that recent loan forbearance efforts demonstrate the federal government has a role in addressing the problem. She specifically highlighted the disparate impacts of student loans within minority communities, raising concerns over the long-term effects on lifelong wealth accumulation.

School Reopenings. Yellen will prioritize controlling the virus in order to get Americans back to work and school safely. She noted increased COVID-19 cases among children and the record number of women who left the workforce, while emphasizing that women and children's return to work and school will be essential to economic recovery. She will support the Biden administration to ensure that students not only make up for lost time but also recover from the "emotional toll" of the pandemic.

ABLE Accounts. The Biden administration is committed to expanding opportunities and supporting financial security for citizens with disabilities. Yellen plans to support measures expanding the age limit for ABLE accounts while raising awareness and use of the program.

Economic Recovery—U.S. Debt and Federal Spending

MEMBER QUESTIONS

Crapo (3, 4, 5); Grassley (48, 55); Scott (1); Young (1, 2)

Republican Sens. Chuck Grassley (IA), Mike Crapo (ID), Tim Scott (SC) and Todd Young (IN) raised concerns about the new administration's plans to manage the "unsustainable debt path" the country is on and how to rein in the spending. The questions prompted whether a response to the economic challenges moves beyond increased government spending and raising taxes.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **U.S. Debt.** Once confirmed, Yellen plans to review current practices at the Treasury Department "with respect to debt issuance, including analyzing the weighted-average maturity of the debt." This will help determine the appropriate balance for federal debt instruments and understand the cash balance needs of the government.

- **Long-term Deficit, Fiscal Policy Adjustments.** To defeat the pandemic, provide relief to Americans and make long-term investments, President Biden is calling for investments in innovation and infrastructure, and asking high-income Americans and corporations to pay their fair share in taxes.

- **Spending and Appropriations Cuts.** President Biden's proposal gives a tax break to small businesses who start a retirement plan and provides access to an "automatic 401(k)" for workers without a pension. Furthermore, establishing a housing finance system with affordable mortgage credit and rental housing will be key.

- **Debt and Spending.** "I agree that the long-term fiscal trajectory is a cause for continuous focus and attention, but I believe addressing that issue over the long-term requires first taking sufficient and appropriate action to take on the pandemic and address the current economic crisis." President Biden has proposed reforms to Social Security and health to offset permanent spending programs.

Progressive Economic Policies—Climate Change and Regulation

MEMBER QUESTIONS

Crapo (6, 7); Grassley (40, 41, 42); Cantwell (1, 3); Whitehouse (1, 2)

Republican Sens. Chuck Grassley (IA) and Mike Crapo (ID) pressed Yellen on the types of financial regulations she would pursue to address the impacts of climate change. Grassley expressed concern about how federal investments in projects like the Keystone XL pipeline may be made worthless by policies aimed at reducing fossil fuel production. Democratic Sens. Maria Cantwell (WA) and Sheldon Whitehouse (RI) questioned Yellen about carbon pricing and reducing federal subsidies for fossil fuel production.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Climate change poses an existential threat to the economy as well as the environment.** Structuring the proper rules in the financial marketplace will ensure institutions are planning for climate-related risk, though Yellen provided few specifics. President Biden respects Congress' vital role in passing legislation needed to address the climate crisis.
- **The climate crisis cannot be solved without effective carbon pricing.** President Biden supports an enforcement mechanism that requires polluters to bear the full cost of carbon pollution. Yellen stressed the importance of ensuring that low-income Americans share in the gains of the clean energy economy and that American families are not unduly burdened by subsequent increases in energy prices.
- **Biden Climate Agenda.** Yellen committed to implementing President Biden's climate agenda, regardless of positions she has advocated for in the past. The administration will listen to and incorporate input from many stakeholders in developing climate policy.
- **Clean Energy Transition.** Although government policy can play a role in setting market incentives, the transition from fossil fuels that contribute to climate change to renewables is not a decision or choice. Stranded assets are a possibility when new forms of clean energy, transportation and production displace those that have contributed to climate change.

Progressive Economic Policies—Equality Under the Tax Code

MEMBER QUESTIONS

Crapo (8); Grassley (5, 27, 46, 56, 57, 58, 59, 60, 61, 62, 63); Toomey (9, 23)

Sen. Chuck Grassley (R-IA) asked Yellen a series of questions related to income and racial equality, raising concerns about wealth taxes, audit rates and the estate tax exemption. Sens. Pat Toomey (R-PA) and Mike Crapo (R-ID) also posed questions related to equality, notably regarding a financial transaction tax (FTT) and fair access to banking services, respectively.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Wealth Taxes and other Tax Policy Concerns.** Yellen clarified that President Biden has not proposed a wealth tax, though he does support taxing investment income of families earning over $1 million at the same rate as wages, and taxing some previously untaxed capital gains taxes. She said these changes would remove biases that "favor wealth over work." Yellen pledged to work to reduce EITC error and ensure that working families receive the appropriate credits. She further explained that President Biden's estate tax proposal would only impact the wealthiest six out of every thousand estates while every couple with assets under $7 million would be fully exempt.

- **Equality.** Yellen said income and wealth inequality have increased in recent decades but vowed to ensure the Treasury Department and the IRS apply the law equally to all Americans.

- **Access to Services.** Yellen intends to work with Congress to provide entrepreneurs, including minority and female entrepreneurs, with expanded access to capital. She plans to direct a review of all recently released rules and regulations if confirmed, but explained that the fair access rule would not fall into this bucket as it was promulgated by the Office of the Comptroller of the Currency (OCC), an independent regulator.

- **FTT.** Yellen said she has not studied FTT designs or analyzed its impact and noted that President Biden has not proposed one.

Progressive Economic Policies—Minimum Wage

MEMBER QUESTIONS

Grassley (66); Cornyn (13, 14), Scott (3)

Sens. Chuck Grassley (R-IA), John Cornyn (R-TX), and Tim Scott (R-SC) asked Yellen a series of questions related to President Biden's proposal to increase the federal minimum wage to $15. The senators warned that the CBO reports that such a move could cost upwards of 3.7 million workers a job. The senators also noted that a $15 minimum wage may not be appropriate for all states, depending on the cost of living. They also critiqued the proposal as potentially hurting small businesses, many of which operate on razor-thin margins in the wake of the pandemic.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Impact on Workers.** Yellen noted that raising the minimum wage will lift tens of millions of Americans out of poverty. Achieving long-term economic prosperity depends on workers earned a living wage. Raising the wages for the lowest-paid workers will unlock billions of dollars of consumer spending that can be used to fuel demand for the essential goods and services that small businesses provide. Furthermore, the pandemic has highlighted the need to pay frontline workers a living wage so that they can afford basic necessities such as food and rent, especially in light of their sacrifice.

- **Small Business Impact.** President Biden's minimum wage will be phased in over time, giving small businesses time to adapt. Raising wages for workers will result in greater consumer spending. With more revenue coming in, entrepreneurs can not only pay their employees higher wages, but also invest in new equipment, expand their operations, and grow their business. Additionally, higher-paid workers will contribute to employee retention and an increase in productivity, which will also help small businesses.

Tax Administration and IRS Resources

MEMBER QUESTIONS

Grassley (25, 28, 29, 30, 31, 47b)

Sen. Chuck Grassley (R-IA) posed several questions related to tax administration and enforcement and Internal Revenue Service (IRS) resources. His questioning specifically focused on Yellen's plans to work with Congress on technical corrections legislation, the regulatory process and internal IRS operations related to whistleblowers and data protection.

YELLEN RESPONSE

In her response, Yellen emphasized several points:

- **Technical Corrections.** Yellen promised to work with the congressional tax-writing committees on technical corrections and all other legislative matters.
- **Regulatory Process.** When asked about whether she would preserve the Memorandum of Understanding (MOU) between the Treasury Department and the Office of Information and Regulatory Affairs that guided the process for TCJA guidance, Yellen said she had not yet decided. With respect to the MOU, she only said that she would carefully consider its role before making any changes.
- **IRS Resources.** Yellen said she would work with Congress to ensure that if the IRS budget is increased, the agency's resources would be used to fairly and efficiently enforce the law. She also specifically highlighted that IRS enforcement would include "abusive" tax shelters.
- **Internal IRS Operations.** Discussing the Statistics of Income Joint Statistical Research Program, which helps the IRS understand how existing tax policy affects taxpayer behavior, Yellen said the program was delayed during the COVID-19 pandemic. She said she will ensure the program, which is scheduled to return in December 2021, will be used in a cost-effective way so the IRS can think creatively about how to improve tax administration. Yellen also said she will take steps to ensure taxpayer data is protected.