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## TAXES

# House GOP Spars with Janet Yellen Over Biden's Tax Proposals

Republicans on the Ways and Means Committee gave the president's latest budget request an icy reception.

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U.S. Treasury Secretary Janet Yellen testifies during a House Ways and Means Committee hearing on Capitol Hill March 10, 2023, in Washington, DC. The hearing focused on President Joe Biden's fiscal year 2024 budget plan.

*By Laura Weiss, CQ-Roll Call (TNS)*

House Republicans slammed the Biden administration's tax proposals in a hearing with Treasury Secretary Janet Yellen on Friday, giving the president's latest [budget request](#) an icy reception.

GOP Ways and Means Committee members rejected proposals to again boost IRS funding and raise taxes on companies and households making over \$400,000 per year, including expanding a tax on pass-through business income, scrapping tax benefits for oil and gas, and increasing taxes on companies' foreign earnings.

Republicans seized the chance to press Yellen on the Treasury-led negotiations for setting a global minimum tax on multinational companies' earnings.

More than 130 countries agreed to a 15% minimum tax, but changes to conform with the deal and raise the tax rate on U.S. companies' foreign earnings couldn't get through a Democrat-controlled Congress the past two years. Rep. Kevin Hern, R-Okla., told Yellen there's "no way in the world" that Republicans will go along with those efforts.

Yellen told lawmakers that any concern about the U.S. raising taxes first and other countries failing to follow suit is now moot because some countries are advancing measures to align with the deal. She said China would not be allowed to evade charging taxes under the deal given its enforcement mechanism.

Ways and Means Chairman Jason Smith, R-Mo., sought several commitments from Yellen, including that Treasury detail tax proposals in legislative text within 30 days and publicize a whistleblower tool for IRS employees to report concerns to the committee.

Smith also asked Yellen when lawmakers can expect to see a public plan from the IRS for how it will spend the nearly \$80 billion budget infusion from Democrats' August budget reconciliation law, objecting to the administration's budget request to extend that mandatory funding for another two years. Yellen said the plan will be available "in the coming weeks."

Smith said the committee will be conducting oversight to make sure audits of small businesses and working families don't rise due to the extra IRS funding. Yellen

reiterated her pledge that audit rates won't rise relative to historic levels for people making less than \$400,000 per year.

Democrats touted many of the Biden administration policies that they've advanced or advocated for over the last two years, including expansions of the child tax credit and earned income tax credit, which aids low-wage workers. Yellen also pointed to legislation from the last two years, attributing taxpayer customer service improvements and tens of billions of dollars in clean energy manufacturing investments to Democrats' August law.

Several Democrats urged expansion of affordable housing incentives, which were also part of Biden's budget request and the subject of a Senate Finance Committee hearing this week.

## **Electric vehicle credits**

Though Democrats and Republicans largely diverged in their questioning during the hearing, one issue drew notable interest from both sides of the aisle. Lawmakers raised Treasury's interpretation of clean vehicle tax credits from Democrats' reconciliation law, questioning the department's interest in potentially allowing sourcing from allies without formal free trade agreements.

The law conditions part of the electric vehicle subsidies on car batteries containing minerals extracted or processed in the U.S. or countries that have a free trade agreement in effect. Some allies like the European Union and Japan don't have formal agreements in place with the U.S.

Trade Subcommittee Chairman Adrian Smith, R-Neb., said the definition of free trade agreement countries is clear. Another Republican, Pennsylvania Rep. Brian Fitzpatrick, pointed to actions by Japan and Germany, an EU member, to prioritize domestic chip and auto markets over the U.S. in their trade practices.

Democratic Rep. Linda T. Sánchez also raised concerns and noted her state of California is home to untapped reserves of lithium, a mineral used in electric vehicle batteries.

Yellen said Treasury understands the goal of the budget law was to strengthen and secure supply chains that the U.S. relies on for energy and resources, and more negotiations with trading partners could be necessary.

She said potential agreements to allow more of U.S. allies' critical mineral supplies to meet tax credit eligibility rules could impose labor and environmental standards on potential partners like Japan or the EU, and restrictions on export controls.

True to Yellen's word, President Joe Biden and his European Commission counterpart, Ursula von der Leyen, said after their meeting Friday that they'd agreed on new trade talks.

In a joint statement, Biden and Von der Leyen said they "intend to immediately begin negotiations on a targeted critical minerals agreement for the purpose of enabling relevant critical minerals extracted or processed in the European Union to count toward requirements" for tax credit eligibility.

"This kind of agreement would further our shared goals of boosting our mineral production and processing and expanding access to sources of critical minerals that are sustainable, trusted, and free of labor abuses," the joint statement continued.

Fitzpatrick and Sánchez were among lawmakers who pointed to concern about the administration overstepping and failing to defer to Congress' trade authority. Yellen said she'd work closely with lawmakers.

## **Debt limit warning**

While the hearing saw fewer questions on the looming [debt limit battle](#), Yellen warned lawmakers about the economic consequences if Congress fails to lift the limit before the Treasury Department runs out of borrowing room. Experts' predictions for when the U.S. would breach the debt ceiling and no longer be able to pay its bills on time range from June to mid-August.

House Republicans have said any debt ceiling increase should come with conditions like spending limits, while the Biden administration is still pressing for a "clean" increase.

"In my assessment—and those of economists across the board—a default on our debt would trigger an economic and financial catastrophe," Yellen said in prepared testimony. "I urge all members of Congress to come together to address the debt limit—without conditions and without waiting until the last minute."

Yellen also waved off the option of prioritizing certain payments over others in the case of a debt limit breach, after Ways and Means approved a GOP bill along party lines on Thursday that would require Treasury to do that.

Yellen said prioritizing payments to bondholders and Social Security and Medicare recipients over other obligations like congressional salaries is not a solution and “is just default by another name.” Yellen said there’s no shortcut to avoiding economic chaos if the U.S. can’t pay its bills in full.

GOP lawmakers devoted time to fiscal issues they’ve raised in the context of the debt limit debate and concerns about the economy. Republicans objected to the spending increases proposed in Biden’s fiscal 2024 budget and decried high inflation, lagging labor force participation and rising debt.

Budget Chairman Jodey C. Arrington, R-Texas, said House Republicans will produce a budget, but that given the Biden administration’s budget was a month late, the GOP will take its time to unpack that request.

He pressed Yellen on whether spending under the last few years contributed to current inflation. She pointed to the necessity of pandemic relief, the impact of supply chain disruptions and that the latest budget request is paid for by tax increases. Republicans largely oppose those levies.

Arrington objected to the White House request to increase spending in fiscal 2024 and said Biden’s spending levels in his budget proposals would be unsustainable if implemented.

“It’s bankrupting the country and it’s insulting that ... your proposal is more of the same,” he said.

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