The Honorable Janet Yellen

Secretary of the Treasury

October 4, 2024

The Treasury Advisory Committee on Racial Equity (TACRE or the Committee) is pleased to submit their final recommendations in support of the Biden Administration's historic whole-of-government racial equity effort. The attached recommendations originated out of the Audit Disparities and Fairness in Tax Administration Subcommittee, the Research and Data Equity Subcommittee, the Financial Health and Access to Capital Subcommittee, and the Inflation Reduction Act Implementation Subcommittee. In addition, the full Committee originated one recommendation for Treasury consideration.

On September 9, 2024, the full Committee came together for the final meeting of this inaugural TACRE in Washington, DC to discuss, vote, and to approve these recommendations. These recommendations add to the slate of recommendations already submitted to advance a comprehensive racial equity agenda within the Treasury Department and its operations.

We believe the attached recommendations support the Administration's vision to advance equity in its policies and programs.

This was the final opportunity for the inaugural TACRE cohort to meet. We would like to thank you for the opportunity to serve on this historic Committee. It was an honor for us to serve as the inaugural Chair and Vice Chair, and while not all members will continue to serve, all members do look forward to seeing how Treasury continues this important work into the future.

Mayor Michael Nutter, Chair

Felicia Wong, Vice Chair

Members of the Treasury Advisory Committee on Racial Equity

Audit Disparities and Fairness in Tax Administration Subcommittee

RECOMMENDATIONS

1. Improve Data Collection on Taxpayers' Experience by Race

The Subcommittee recognizes that the IRS does not currently collect data on race, so the disparate impact of higher audit rates experienced by Black taxpayers, particularly those claiming the EITC, appears to be an unintended consequence of dated IRS systems and policies. Even if unintentional, the resulting treatment of Black taxpayers has been unfair and is unacceptable. Not having race-specific data has clearly disadvantaged the IRS from identifying and counteracting disparities in tax administration that have produced a range of harms to Black taxpayers, from higher volumes of audits and the costs and burden associated with them to a chilling effect on the Black community's willingness to engage with the IRS and the process of filing taxes altogether. The Subcommittee re-asserts and reinforces TACRE's December 2023 recommendation to increase the production of research on issues of racial equity, including issuing requests for research proposals on a range of topics, including racial disparities in tax administration. The concept that you can't manage what you can't measure applies here. The Stanford Study and the significant research that has followed clearly identified a problem of imbalanced and unfair tax administration, and we know that we've only uncovered the impacts on Black tax filers claiming the EITC, so the Subcommittee is concerned about what we don't know about the experience of Black taxpayers who don't claim the EITC, Latinx taxpayers who we've seen are audited at higher rates than other taxpayers (except Black taxpayers), and others. Collecting race data will enable the IRS to better measure and ultimately address inequities in tax administration by race.

2. Repair and Strengthen the Relationship Between the IRS and Black Taxpayers

a. Acknowledge and apologize for unfair treatment.

b. Engage with organizations and leaders serving the Black community and other marginalized communities to:

   i. Improve understanding of Black tax filers' experience

   ii. Create and support user-friendly programs and information campaigns to disseminate accurate, useful information about how to seek unclaimed tax credits available to eligible filers as a wealth-building mechanism, including utilizing trusted messengers to help convey this information

   iii. Identify "ghost preparers" and decrease their influence on Black tax filers

   iv. Increase representation of Black tax professionals interacting with Black taxpayers at the IRS and among volunteer income tax assistance (VITA) centers

c. Monitor future audits to ensure the IRS is not focusing on Black and Latinx taxpayers even after shifting focus to high-income taxpayers.

Commissioner Werfel and IRS leadership have shown a strong willingness to engage with trusted leaders who work in and represent the voices of Black communities across the United States. Commissioner Werfel's rhetoric about building a stronger relationship between the IRS and the Black community, and all marginalized communities—through his public and private communications—has been unprecedented by an IRS Commissioner, consistent, contrite, and committed to making a fundamental shift in fairness and equity in tax administration. These efforts to date have included acknowledging inequities in audits experienced by Black tax filers claiming the EITC in two letters to Congress, public speeches, appearing before TACRE, IRS press releases, meeting with groups of taxpayers and VITA workers in various communities of color and low-income communities, and meeting with the National Urban League's Board of Trustees. The Subcommittee acknowledges that this is a good start, but is just scratching the surface of the multifaceted, ongoing engagement necessary for the IRS Commissioner, IRS leadership, and other ambassadors for the IRS and Treasury to appropriately engage with the Black community to counteract generations of mistrust resulting from experiences like the audit inequities highlighted by the Stanford Study.

Working closely with Treasury's Counselor for Racial Equity, the Subcommittee recommended a number of Black community leaders and organizations for the IRS to continue engaging with, in addition to the ongoing engagement with the National Urban League; as well as a consistent series of engagements, visits, and additional communication channels between the IRS and communities that have been hesitant to engage with the IRS for fear of negative consequences—such as being audited. In these engagements, the Subcommittee recommends that the IRS support the operationalization of two types of programs: first, programs that enable stronger mechanisms to identify and deter ghost preparers; and second, programs to increase tax credit claims, such as the ‘Claim Your Cash’ program led by the Economic Security Project.

The Subcommittee's various engagements with IRS leadership included acknowledgment of the lack of representation by Black and other people of color among the IRS employees who process the tax returns submitted by Black tax filers and taxpayers from marginalized communities and who interact with taxpayers themselves. In its ongoing efforts to build more bridges between marginalized communities and the IRS, the Subcommittee recommends that the IRS launch a concerted campaign to hire, retain, and promote more tax professionals from Black and other underrepresented communities. TACRE, including the Subcommittee on Internal Staffing & Culture, would be a valuable resource connecting the IRS to organizations and professionals to help socialize and source this ongoing search for talent to join the IRS.

3. Utilize Inflation Reduction Act Funds to Improve Equity in Tax Administration

a. Counteract algorithmic bias against Black tax filers.

b. Conduct additional research about audit disparities beyond Black tax filers claiming the EITC.

c. Fund opening and operating VITA Centers in geographic areas the IRS is aware taxpayers are being targeted by unscrupulous tax preparers including ghost preparers;

and expand Direct File into these same geographic regions so taxpayers are able to file their taxes for free with VITA assistance, reducing reliance on tax preparers.

d. Invite more external academics and researchers from outside the IRS to review the IRS's records and practices to validate the IRS's work and establish greater trust by increasing transparency. Engage minority-led think tanks, Historically Black Colleges and Universities, and Minority Serving Institutions in this work.

e. Establish proactive stress testing of IRS algorithms to ensure the IRS is, in fact, removing and eliminating bias against Black and other taxpayers from marginalized communities.

In 2023, the IRS received nearly $80 billion in funding to be spent over ten years from the Inflation Reduction Act (IRA), which the IRS emphasized it will focus spending on improving customer service and the scrutiny of high-income earners. The Subcommittee acknowledges that the IRS has already utilized some IRA funding to pilot new models intended to reduce unintended algorithm disparities in audit rates by race and hire appropriate staff to help taxpayers identify mistakes before filing, quickly fix errors that delay their refunds, and claim the credits and deductions they are eligible for in an effort to reduce the need for the IRS to contact taxpayers after filing through audits and other enforcement activities, according to a September 2023 IRS press release and Commissioner Werfel's September 2023 Letter to Congress. In the same letter, Commissioner Werfel also committed to substantially reduce the number of correspondence audits focused specifically on certain refundable credits, including the EITC, beginning in FY 2024. The Subcommittee calls on the IRS to level the playing field for all Black tax filers, not only those claiming the EITC.

The Subcommittee also reasserts the TACRE Inflation Reduction Act Subcommittee's September 2023 recommendations for the IRS to utilize IRA funding to ensure that outreach strategies for low-income tax credits reach populations who have historically been left behind; and to facilitate a strong and enduring focus on equitable outcomes for low-income populations, including publicly-available reports on IRA implementation.

Data and Research Subcommittee

Facilitate Data-Sharing from the Department of Education

Racial disparities in education are large and lie at the root of many other aspects of racial inequality. The largest focus of federal policy in this area is financial support for students attending higher education, where the government spends nearly $50 billion annually on tax credits and student grants to support 10 million students nationwide. Yet Treasury lacks critical information to analyze how these programs affect racial equity.

The Committee therefore recommended that Treasury enter into a Memorandum of Understanding with the Department of Education to gain access to data from the National Student Loan Data System (NSLDS), both for analysis at Treasury and in combination with IRS data being sent to and accessible within Census.

Background

The importance of higher education for the trajectories of students, not to mention their budgetary size, makes it crucial that Treasury analyze how these programs affect racial equity. Executive Order 13985 on advancing racial equity explicitly calls for this type of analysis in order to "assess whether, and to what extent, its programs and policies perpetuate systemic barriers to opportunities and benefits for people of color and other underserved groups."

Yet Treasury is sharply limited in its ability to do so due to a lack of information on college-attendance patterns. Specifically, Treasury only observes college attendance for students when their college files Form 1098-T on their behalf. A recent OTA analysis estimates that 14% of college students – mostly low-income students attending two-year public institutions – do not receive this critical form, meaning that these students would be absent from any Treasury analysis of racial equity in higher education. Treasury also lacks information for all students on any federal grants or loans that they receive alongside tax credits.

Details on Recommendation

Treasury should enter into a Memorandum of Understanding (MOU) with the Department of Education to gain access to data from the National Student Loan Data System (NSLDS). These data include all federal student grants and loans, as well as the college attended by the student receiving the support – in other words, exactly the information Treasury currently lacks. There is precedent for such data-sharing in a MOU that allowed Treasury access to the NSLDS during roughly 2013-2017.

Treasury can also enhance its on-going efforts to provide more data to Census by working with the Department of Education to make the NSLDS available at Census as well.

Financial Health and Access to Capital Subcommittee

Supporting Aging ITIN-holding Taxpayers

Background

Individual Tax Identification Number (ITIN)-holding taxpayers are paying into the economy but are not being fairly paid out. However, there are opportunities to create, adjust or expand benefits programs that could acknowledge the "pay in" of these taxpayers with a fair "pay out."

As ITIN-holding taxpayers age, they struggle to exit the workforce and enter retirement because they lack access to a social safety net, such as support from family or formal retirement benefits. According to a Federal Reserve study, "87% of the lowest-earning fifth of households did not hold retirement accounts in 2022." Additionally, "in a recent Federal Reserve study, 32% of households said they could not cover a sudden expense of less than $500 in full using cash, suggesting many lack the financial capacity to save." ITIN-holders are not eligible for savings or retirement benefits that other taxpayers are, leaving them in dire situations as they enter old age and often affecting their entire families.

Recommendations

To ensure that ITIN holders are acknowledged for their contributions to the American economy and their efforts to be taxpayers, we want to explore the following possibilities to support them as they age out of the workforce and enter retirement:

(1) **Increase availability of benefits and fairness in access to them by ITIN-holding taxpayers.** There are commonly-held assumptions that ITIN-holding taxpayers are a drain on the economy, however, in a recent study, the Institute on Taxation and Economic Policy (ITEP)'s estimates "that undocumented immigrants [including ITIN holders] paid $96.7 billion in U.S. taxes in 2022, including $59.4 billion in payments to the federal government and $37.3 billion in payments to states and localities." We recommend that the US Department of Treasury expand retirement-focused tax benefits and make them more easily accessible to ITIN holders.

(2) **Write a letter to Congress recommending that the childless worker Earned Income Tax Credit (EITC) be extended to people 65 and older, and ITIN-holding taxpayers.** Currently, people 65 and older do not qualify for EITC. AARP has been advocating with Congress to remove the age caps from the EITC permanently to reflect the rising retirement age and that many workers are feeling the need to continue working beyond the current retirement age. For the 2021 tax year, the American Rescue Plan (ARP) temporarily expanded the childless worker EITC, including raising the maximum benefit from $540 to nearly $1,500, and included eligibility (for the first time) for young adults age 19-24 and to people age 65 and older. According to the Center on Budget and Policy Priorities (CBPP), the changes in ARP provided relief to more than 17 million people. We recommend that the Treasury write a letter to Congress to make the EITC age increase a permanent policy, building on the inclusion of this recommendation in this year's Greenbook. We also recommend that the Treasury include in their letter to Congress inclusion of ITIN holders to be eligible for EITC.

(3) Partner and collaborate with existing and future State infrastructure to ensure that ITIN-holding taxpayers have retirement accounts to benefit from the Saver's Match. One example of an existing benefit that is intended to serve this population is the "Saver's Credit." The Saver's Credit is available for ITIN holders, however according to numerous empirical studies, the Saver's Credit has not encouraged taxpayers to save. Today, it exists as a nonrefundable credit that low-income, ITIN-holding taxpayers are unable to access since typically they owe little to no income tax. (Congressional Research Service, December 15, 2023).To address this issue, Secure 2.0 has redesigned the "Saver's Credit" to become the "Saver's Match" starting in 2027; Section 103 "repeals and replaces the credit with respect to IRA and retirement plan contributions, changing it from a credit paid in cash as part of a tax refund into a federal matching contribution that must be deposited into a taxpayer's IRA or retirement plan."

The effectiveness of the Saver's Match is dependent on recipients of the match holding pre-tax retirement accounts, but ITIN-holding taxpayers do not commonly hold these accounts. As such, it is critical that the US Department of Treasury acknowledge this gap and partner with States to offer retirement programs. In the case of the State of California, there is existing legislation and a related program, CalSavers, that exists, albeit in its current form offering post-tax (RothIRA) retirement accounts. Additionally, "in 2024, at least 25 states introduced legislation to establish new programs, amend existing programs, or form study groups to explore their options to establish state-facilitated retirement savings programs." A partnership should be created with state-facilitated programs to promote and demonstrate how Saver's Match can work when retirement accounts are created for ITIN-holding taxpayers.

(4) Partner and fund community-based organizations to help the "Saver's Match" reach and support ITIN-holding taxpayers.

In Section 104, "Promotion of Saver's Match" directs the Treasury Department to increase public awareness of the Saver's Match. However, there are very few details about how the Treasury Department should create this awareness. We recommend partnering with community lenders, CBOs and VITA hosts and funding them to manage culturally-competent public awareness campaigns and assistance for the "Saver's Match." This includes:

i) creating a funding mechanism for community lenders, CBOs, and VITA hosts to conduct outreach about what the Saver's Match is and what it offers;
ii) partner with community lenders, CBOs and VITA hosts to expand marketing and outreach through paper or digital notices, delivering this information to ITIN-holding taxpayers in their native languages and using culturally competent practices;
ii) integrate the Saver's Match into Direct File and make it clearly available on the digital platform.

Given that the Saver's Match will require taxpayers to have retirement bank accounts to access the matching funds, we recommend providing community lenders, CBOs and VITA hosts with opportunities to boost their technical assistance to ITIN-holding taxpayers to create these accounts. This support would also be for partnerships between community organizations and traditional financial institutions to ensure that retirement accounts can be created and accessed by ITIN-holding immigrant taxpayers.

Financial Health and Access to Capital Subcommittee (continued)

<u>To center restorative capital that leads to measurable wealth-building outcomes and economic mobility</u>

Specifically, the recommendations are:

(1) to increase availability of restorative capital for low-income and minority-owned small businesses which includes recommended amendments to assess what current product and fund innovations exist among capital providers;

(2) to increase flexibility and inclusiveness in lending to minority borrowers;

(3) to increase the amount of technical assistance, business counseling, and networking support as part of lending processes to increase the ease of borrowing application submission and potential for borrowing businesses to succeed emphasizing technical assistance through trust-based partnerships, community-rooted organizations to support the identification and outreach to businesses most in need of technical assistance; and

(4) to focus restorative capital and technical assistance efforts on small businesses, particularly those owned by underestimated and low-income founders employing under 100 workers, and in creating good quality jobs with living wages, basic benefits, career and wealth-building opportunities including shared ownership options.

A couple of specific recommendations within those recommendations that are worth pointing out are to integrate the U.S. Treasury into the Job Quality and Impact Measurement Council work of Department of Commerce and Labor, and to integrate Labor into the ICIC work with the data sharing working group, specifically to be able to leverage some of these best practice resources that exist around good jobs and financial health and well-being.

IRA Implementation Subcommittee

The Inflation Reduction Act is a once-in-generation policy that can change the economic potential of our communities around the country and begin to build healthy, trusting relationships with communities that have been harmed or left behind.

The IRA Implementation Subcommittee made 22 recommendations in 4 areas over the last two years. We have seen substantial movement toward these efforts, whether that's building first-ever stakeholder groups and outreach efforts for Direct File and Green Credits, pushing for staff working on implementation to be more representative of the country's demographics, or their ability to gather, track, and report important data that improves our understanding of the outcomes of IRA implementation.

Given this incredible progress, our recommendation in this final meeting is a message to the Treasury and the future of TACRE:

To continue a subcommittee on IRA implementation focusing on institutionalizing the changes and direction we've seen happen over the last two years.

There are three areas of work we especially want to name:

- **Data gathering and research**: The urgency of ensuring data gathering is central to the discussion as new backend systems are built and modernized cannot be overstated. This is a critical aspect of the foundational phase of policy implementation, as adding data fields later is much more complex in more established programs.
- **Outreach and engagement**: We have started to bring new voices to the Treasury, and it only happens with intentionality and accountability. Outreach is a new skill for this department compared to many other federal departments. There's an opportunity to adopt the best practices of those other departments and deploy them here as the Treasury builds its outreach team and strategy.
- **Enforcement after implementation**: Our communities are often some of the most targeted groups for fraud and scams. So, as these new policies get implemented, it is essential to institutionalize the concept that there must be feedback loops to ensure the safety of our communities.

Final Recommendation of the Full Committee

The Committee (TACRE) recommends that the Treasury Department implement with haste all of the recommendations that the inaugural TACRE has made during the last two years.