

**U.S. DEPARTMENT OF THE TREASURY
OFFICE OF DIVERSITY, EQUITY, INCLUSION, AND ACCESSIBILITY (ODEIA)
TREASURY ADVISORY COMMITTEE ON RACIAL EQUITY (TACRE)
September 19, 2023**

Minutes from the Treasury Advisory Committee on Racial Equity (TACRE) which convened at 9:00 AM on 19 September 2023 in the Cash Room, Department of the Treasury, with Michael Nutter, Chair, presiding.

Committee Members Present

MICHAEL NUTTER, David N. Dinkins Professor of Professional Practice in Urban and Public Affairs, Columbia University and former Mayor of Philadelphia, Chair
FELICIA WONG, President and Chief Executive Officer, The Roosevelt Institute, Vice Chair
NICOLE ANAND, Deputy Director, Inclusive Action for the City
JANIE BARRERA, President and CEO, LiftFund, Inc.
NICOLE BORROMEO, Executive Vice President & General Counsel, Alaska Federation of Natives
DOROTHY BROWN, Martin D. Ginsburg Chair in Taxation and Professor of Law, Georgetown University
WILLIAM BYNUM, Chief Executive Officer, Hope Enterprise Corporation, Hope Federal Credit Union, Hope Policy Institute
DAVID CLUNIE, Principal, Edward Jones
GARY CUNNINGHAM, Chair of the Board, Momentous Capital
NICOLE ELAM, President and Chief Executive Officer, National Bankers Association (NBA)
JOHN FRIEDMAN, PDBF Distinguished Professor of Economics and International and Public Affairs, Brown University
BULBUL GUPTA, President & CEO, Pacific Community Ventures
DARRICK HAMILTON, University Professor and Henry Cohen Professor of Economics and Urban Policy, The New School
GINA NISBETH, Founder and President, 9th & Clinton Advisory
LORELLA PRAELI, President, Community Change Action & Vice President, Community Change
JOSE QUINONEZ, Founding CEO, Mission Asset Fund
CARLOS RANGEL, Chief Investment Officer, W.K. Kellogg Foundation (WKKF)
AMANDA RENTERIA, Chief Executive Officer, Code for America
CHILLING TONG, President and Chief Executive Officer, National Asian/Pacific Islander American Chamber of Commerce & Entrepreneurship (National ACE)
BARIKA WILLIAMS, Executive Director, The Association for Neighborhood Housing & Development (ANHD)

Department of Treasury Staff Present

JANIS BOWDLER, Counselor for Racial Equity (CREO)
SNIDER PAGE, Acting Chief, Office of DEIA/Designated Federal Official (DFO)
LILY BATCHELDER, Assistant Secretary for Tax Policy
LAUREL BLATCHFORD, Chief Implementation Officer, IRA
ANNA CANFIELD ROTH, Assistant Secretary for Management
ADITI HARDIKAR, Deputy Chief of Staff
DIANE LIM, Equity Hub Director
GRAHAM STEELE, Assistant Secretary for Financial Institutions
KREG STEVEN BROWN, Assistant Designated Federal Official (ADFO)
KARNELIS GODETTE, Acting Deputy Director, Equity Hub

JOEL MICHAELS, Advisor, Office of the Deputy Secretary
MICHAEL SEBASTIANI, ADFO
ADITI SOMANI, ADFO
ANISHA STEEPHEN, Senior Advisor, CREO

Also Present

DANIEL WERFEL, Commissioner, Internal Revenue Service (IRS)
MELANIE KRAUSE, Chief Data and Analytics Officer, IRS

At 9:09 a.m., DFO Page called the meeting to order and requested introductions from all in-person and virtual attending members of the Treasury Advisory Committee on Racial Equity (TACRE).

Chair and Vice Chair Remarks

Chair Nutter welcomed everyone to the TACRE meeting before reviewing the following aspects of the meeting. Chair Nutter remarked that he anticipates receiving updates on the significant steps the IRS is taking regarding audit disparities and voting on the recommendations made in the subcommittees' progress reports. Chair Nutter recognized everyone as highly capable individuals as he expressed his appreciation for the work they've conducted.

Vice Chair Wong recognized the TACRE meeting as a step in materializing a historic whole-of-government approach towards racial equity thanks to the substantive discussions throughout the Treasury and the leadership of President Biden and Secretary Yellen. Vice Chair Wong contextualized the displacement of resources available to the IRS during previous years and mentioned plans to use the IRS modernization to better the government's ability to support a low-carbon economy. Vice Chair Wong characterized the IRS modernization as rebalancing economic power within America by encompassing it within the meaning of Bidenomics and detailing how direct file will benefit low-income individuals.

Treasury Counselor for Racial Equity Remarks

Counselor Bowdler briefly reviewed how recommendations will be processed after the meeting. Counselor Bowdler highlighted that the committee's ability to hold the Treasury accountable will be essential towards driving progression and encouraged the IRS Commissioner's participation in future meetings.

Commissioner Werfel Remarks

Commissioner Werfel highlighted the importance of transparency in addressing audit disparities. He detailed recently announced plans to reduce the number of correspondence audits of refundable credits as part of a broader effort to align the IRS' resources along a new set of priorities for the IRS around equitable and efficient tax administration. He also summarized changes to improve earned income tax credit (EITC) audit selection processes. He described how both sets of changes will improve accuracy and reduce audit disparities. He also explained how the IRS is devoting additional resources provided by the Inflation Reduction Act to addressing unscrupulous tax preparers and improving customer service. In addition, IRS Commissioner Werfel provided an update on efforts to increase fairness in tax administration, including by rebalancing enforcement priorities toward high-income, high-wealth individuals, large corporations, and complex partnerships. Commissioner Werfel also discussed new efforts to pursue unscrupulous paid preparers who have targeted taxpayers across the tax system, including those who claim refundable credits like the EITC.

Questions for the Commissioner

Member Elam inquired about how the Direct File program will impact Individual Taxpayer Identification Number (ITIN) administration. Commissioner Werfel answered that he aims to receive feedback from various communities that will help the IRS prioritize the most impactful initiatives being discussed.

Member Brown questioned what remaining progress is expected towards eliminating racial bias in the audit process by the next tax-filing season. Commissioner Werfel stated that the IRS is working to better understand the causes of disparities within the tax system alongside some immediate changes in practice, such as dedicating more IRS enforcement dollars to high-income returns, because the full extent and sources of the audit disparities issue is not yet clear.

Member Hamilton had three queries: a) what mechanisms can be put in place to better understand disparities within the tax system that would signal greater transparency and accountability of the IRS to the public, b) what are the effects of class stratification when understanding racial disparities, and c) how can the IRS properly identify and crowd out bad actors who prey upon vulnerable tax filers. To which Commissioner Werfel stated that he aims to build a system of checks and balances in and outside of the IRS to better understand the issues and evaluate the work that's being done.

Member Cunningham questioned whether the people harmed by audit disparities would receive redress. Commissioner Werfel emphasized the importance of supporting communities in accessing the benefits they are eligible for.

Member Williams inquires how the IRS can ensure that the inequities within low-income audits aren't mirrored in other income brackets. She highlighted the importance of not negatively impacting trusted stakeholders throughout communities when disrupting bad actors, to which Commissioner Werfel agreed. Commissioner Werfel emphasized the change in how the IRS is evaluating tax administration on an aggregate level and the importance of being surgical in the IRS's "bad actor program."

Member Clunie questioned current efforts towards identifying unethical tax preparers working with higher net worth filers. Commissioner Werfel reiterated the importance of adequate funding when protecting taxpayers at all income levels, so the IRS can effectively prioritize its efforts.

Vice Chair Wong inquired about the tax gap that's been estimated at \$7 trillion over 10 years by the IRS. Commissioner Werfel stated that investing in taxpayer services and the IRS's ability to assess what's owed will be their first priorities.

Subcommittee Briefings

The Subcommittee Chairs/Co-Chairs preliminary discussed their proposed recommendations with the full Committee in morning session. The Committee members provided feedback, which was taken under advisement by the subcommittees before adjourning for lunch at 11:54 a.m.

At 2:18 p.m., DFO Page reconvened the Committee meeting and requested introductions from the TACRE members attending the afternoon session.

Chair Nutter provided opening comments for the afternoon session and asked the subcommittee to bring forth any recommendations to be voted on by the Committee beginning with the Internal Staffing and Culture Subcommittee.

- **Internal Staffing and Culture**

Member Cunningham summarized the priority of increasing the inclusion of small, minority, and women-owned businesses in Treasury's procurement processes.

Member Cunningham summarized four recommendations.

1. Collect disaggregated data on agencies' procurement practices to analyze how small businesses and businesses owned by people of color are impacted differently. Member Cunningham also requested that procurement materials be translated into other languages.
2. Audit procurement practices to determine and correct the impact of network exclusion on small businesses and businesses owned by people of color.
3. Develop the capacity to which the Treasury can leverage the resources of the Office of Minority and Women Inclusion of the Federal Reserve, the Office of Small and Disadvantaged Business Utilization of the Treasury, the Small Business Administration, and the Minority Business Development Agency.
4. Measure and disaggregate by race, ethnicity, and gender the number of small businesses competing for contracts and doing business with the Treasury, the number of contracts awarded to small businesses, and the number of jobs created.

There were clarifying questions and discussion on the language used in the recommendations and their corresponding amendments. There was a motion made, which was seconded, to receive the subcommittee report and approve the recommendations. The motion passed unanimously.

Assistant Secretary Canfield Roth thanked the Internal Staffing and Culture subcommittee and the full committee for the discussion and recommendations, as Treasury's Office of Management is also very focused on how to advance the Administration's goals around equity and procurement.

- **Financial Health Inclusion and Capital Access**

Member Gupta identified three forthcoming recommendations: Enhancing Equity in the Community Development Financial Institutions (CDFI) Certification Process, Data Disaggregation, and ITIN Holders.

1. Enhancing Equity in the CDFI Certification Process, including requiring that 60 percent or more of capital be deployed to Black, indigenous, and other people of color (BIPOC) clients and communities; that more attention, measurement, and accountability be directed to equitable deployment of capital; that CDFI certification and recertification be granted with consideration and accountability to geographical areas that are inclusive of BIPOC communities; and that Asian American, Native Hawaiian, and Pacific Islander (AANHPI) people be included within target markets.
2. Data disaggregation, specifically improving demographic and race disaggregated data collection on capital programs and services to better evaluate policy making and implementation.
3. ITIN Holders, focusing on strengthening access to ITINs.

Members discussed differing perspectives on the recommendations and their amendments. After discussion on an initial draft recommendation that the subcommittee had described as their "Inclusion" priority, the recommendation was reworked to produce the first one above focused mainly on the CDFI certification update. The subcommittee decided to pull the third recommendation, ITIN Holders, from voting, to hold for a future meeting. There was a motion made, which was seconded, to receive the subcommittee report and approve the two recommendations. The motion was passed unanimously.

Assistant Secretary Steele thanked the Financial Health and Access to Capital subcommittee and the full committee for the discussion and recommendations, explaining that his office (Financial Institutions) has been focusing on updates to the CDFI certification process and the broader financial inclusion strategy, and tracking and measuring how the entire financial ecosystem is contributing to wealth building.

- **IRA Implementation**

The subcommittee summarized five recommendations.

1. Member Renteria identified the first priority: Define the success criteria and periodically evaluate the equability of the Direct File pilot.
2. Vice Chair Wong introduced the second: Increase transparency regarding the amount of tax credit funds available.
3. Vice Chair Wong continued with the third: Supervise the use of tax credits to prevent misuse and predation.
4. Member Renteria identified the fourth: Develop an outreach team that can utilize Treasury resources and specific avenues to promote Direct File and various tax credits to intended beneficiaries in underserved communities.
5. Member Renteria identified the fifth: Publicly provide data on the administration and recipients of key equity initiatives across the IRS to increase clarity on where investment is needed.

There was a motion made, which was seconded, to receive the subcommittee report and approve the recommendations. The motion passed unanimously.

Chief Implementation Officer Blatchford thanked the IRA Implementation subcommittee and the full committee for the discussion and recommendations. She said the recommendations would be especially helpful as Treasury works towards getting the Direct File pilot ready for filing season 2024.

Assistant Secretary Batchelder echoed the thanks for the IRA Implementation Subcommittee's recommendations, particularly how they will inform Treasury's outreach and guidance on green tax credits.

- **Research and Data Equity**

Member Brown summarized one recommendation.

1. Collect information on the race and ethnicity of board members within tax exempt entities on the form 990.

There were no questions for the subcommittee. A subsequent motion was made to receive the subcommittee report and approve the recommendation. There was a motion to second, and the motion passed unanimously.

Assistant Secretary Batchelder thanked the Research and Data Equity subcommittee for this new recommendation. She then provided some remarks on the recommendations from the subcommittee that had been received in prior quarterly meetings. She said that Treasury has a once in a generation opportunity with the resources of the Inflation Reduction Act to modernize the IRS and make sure the tax system works more equitably, and that Treasury has been prioritizing research on structural barriers to opportunities in historically underserved communities and trying to better understand the impact of the tax system along a lot of different demographic characteristics.

Next, Assistant Secretary (AS) Batchelder provided a response to specific past recommendations from this subcommittee:

- (i) **Distributional analysis in the Treasury Greenbook:** AS Batchelder explained Treasury has been investing very heavily in its distributional analysis to move directionally towards understanding the distributional implications of more of the proposals published in the Treasury's Greenbook.
- (ii) **Data sharing between IRS and Census Bureau:** AS Batchelder explained that Treasury shares the objective of encouraging more research on racial disparities that would be facilitated by the sharing of additional IRS data with Census, and that the imputation models that Treasury has been using to study distributions by race is no substitute for the actual data on race that Census has. She reported that Treasury and Census are engaging on what variables from the tax data would be most valuable to add to Census files to facilitate analyses of economic disparities by race.
- (iii) **Racial disparities in audits:** AS Batchelder pointed to the key enforcement changes that the IRS Commissioner spoke about earlier, in particular the plan to substantially reduce the number of correspondence audits of refundable credits as part of the IRS's broader enforcement reset. She noted that this change will make the tax system more equitable and more accurate as many people facing correspondence audits ultimately do not claim credits they are eligible for.
- (iv) **Increase independent research into racial disparities in tax administration:** AS Batchelder explained that Treasury shares this goal, as well and is supporting research internally as well as looking for ways to expand research opportunities for external researchers, including through the IRS Joint Statistical Research Program.
- (v) **Equalizing reporting on tax non-compliance between refundable credits and underpayment of other taxes:** AS Batchelder explained the role of longstanding Office of Management and Budget (OMB) guidance that treats overclaims of refundable credits as "improper payments" that are reported annually, in contrast to high-income underpayment of taxes that only gets measured and reported in the "tax gap" with a substantial, multi-year lag. She also noted that the IRS has committed to releasing tax gap projections on an annual basis going forward.

Member Brown asked AS Batchelder to clarify her comment on the Greenbook analysis – that although it is not feasible to do distributional analysis on every proposal contained in the Greenbook, that it will be possible to do such analysis on some policies described in the book. AS Batchelder confirmed that some progress can be made on conducting further distributional analyses of more of the tax expenditures, but such work will need to be prioritized given current staffing constraints.

Member Hamilton underscored the importance of the data aspect of the subcommittee's proposals to date, and that it is important for Treasury to respond in a transparent and complete manner so that the public can hold Treasury to their high desires in accountability. AS Batchelder agreed on this point and acknowledged Treasury is very actively working on this issue.

Public Comments

Chair Nutter briefly described the public comments the Committee received for this meeting. The Research and Data Equity Subcommittee had received the Form 990 public comments and took it into account when making their recommendation.

New Business/Next Meeting (December 7th)

Vice Chair Wong indicated that the next Committee meeting is scheduled for December 7th. The Committee discussed no new business. Next, Director Lim provided a brief on Treasury's process to

review and respond to the Committee's recommendations. Director Lim also discussed the timeline in which Treasury plans to respond to the Committee's recommendations.

Chair Nutter adjourned the meeting at 5:33 p.m.