The Honorable Janet Yellen
Secretary of the Treasury
October 31, 2023

The Treasury Advisory Committee on Race Equity (TACRE) is grateful for the opportunity to participate in the Biden Administration's historic whole-of-government racial equity effort. The Committee is pleased and proud to submit this report of recommendations to the Treasury Department on ways to advance that agenda.

President Biden formed this Committee in the fall of 2022 as one component of a broad and coordinated federal effort to root out the entrenched disparities that have historically locked out millions of families of color from full economic participation and inhibited our collective growth. The Committee, composed of twenty-four policymakers and practitioners from a range of backgrounds and industries, chose to embark on its work to further that mission by organizing into four Subcommittees: on Financial Health and Access to Capital, on Inflation Reduction Act (IRA) Implementation, on Internal Staffing and Culture, and on Research and Data Equity.

Over the last several months, these Subcommittees have been hard at work designing, deliberating on, and formalizing a slate of recommendations to advance a comprehensive racial equity agenda within the Treasury Department and its operations. On September 19, 2023, the full Committee came together in Washington DC, as it does each quarter, to discuss and vote to approve this slate of recommendations.

These recommendations—and the thoughtful and substantive discussions that precipitated them—make great strides toward solving the economic and social challenges of our time equitably. Racial equity is essential to building a strong and sustainable economy and society. We can only create greater financial security for families across generations and a greater shared prosperity for us all when we repair past racial harms and equitably invest in our collective future. Achieving that vision requires a systematic, affirmative approach to embedding fairness in decision-making processes, executive departments, and agencies.

In an Executive Order on race equity that preceded this Committee, President Biden wrote, "Our Nation deserves an ambitious whole-of-government equity agenda that matches the scale of the opportunities and challenges that we face." The work of this Committee, including the below slate of recommendations to the Department, advances that vision. We look forward to continuing that vital work in the year ahead.

Mayor Michael Nutter, Chair
Felicia Wong, Vice Chair
Members of the Treasury Advisory Committee on Race Equity

Recommendations from the Treasury Advisory Committee on Racial Equity
Approved September 19, 2023

The Subcommittee on Financial Health and Access to Capital offers the following recommendations to support the Treasury Department in ensuring that individuals from all backgrounds, including those with language and other barriers, are able to access capital and financial inclusion programs, and to identify ways to strengthen BIPOC led community institutions (including CDFIs, MDIs, other recipients), with a proven focus and track record of reach, trust, and impact in underserved target markets:

- In order to provide timely recommendations to the Treasury Department, particularly with respect to ongoing changes to CDFI certification requirements, the Committee recommends that Treasury adopt the following:

    - Require, as part of the CDFI certification update, at least 60 percent or more of capital deployed to be invested in BIPOC clients and communities (beyond the 60 percent low-moderate income threshold)

    - Attention, measurement, and accountability should be directed to equitable deployment of capital across various demographic groups in the service area

    - CDFI certification and recertification should be granted with consideration and accountability to geographical areas that are inclusive of BIPOC communities, disaggregated by specific racial and ethnic characterization, and

    - Include AANHPI within target markets per the President's racial equity executive order and AANHPI whole of government strategy.

The Subcommittee on Financial Health and Access to Capital offers the following recommendations on ways to improve demographic disaggregated data collection and analysis practices to provide increased transparency, and stronger baseline evidence to support inclusive policy making and program implementation; and allow a range of community-serving institutions to work with Treasury on the improved design and delivery of capital access programs and services:

- Require demographic and race disaggregated data collection, analysis, and reporting across financial inclusion and capital access programs at Treasury and improve access to, and leverage of, private partnerships and capital markets. With this improved collection, the impact of capital access programs can be more easily measured in order to ensure that they are reaching the most intended consumers and small business owners in low-income and communities of color . It will also increase transparency, allow community institutions to work with Treasury to improve the design and delivery of capital access programs and services going forward, and allow smaller and mid -size institutions, which don't currently have access to the private capital markets, to bundle portfolios in ways that could improve their liquidity and financial positions.

- In order to bolster robust secondary markets for CDFI-originated assets, the Treasury Department should support programs that provide credit enhancement or risk capital to securities backed by CDFI- or MDI-originated loans. For instance, the Treasury Department could create "qualified issuance" standards that, if met, would provide access to a government guarantee. In addition, Treasury could create definitions for transaction-level loan terms that the industry can coalesce around, and include those definitions in any federal programs that collect transaction-level data. These moves could make the practice of collecting transaction-level data more common to allow the industry to start building asset-by-asset datasets, reduce the complexity and administrative burden of loan-level guarantees that already exist, and dramatically drive down the cost of capital—savings that would be passed along to consumers of the community finance products and services.

- In order to provide greater clarity into the CDFI Fund, and related access to capital and financial health programs at Treasury, the Treasury Department should release data and statistics that include information about the institutions (size, type, location) more or less likely to apply for—and receive—CDFI certification; the ways CDFI-certified institutions deploy their capital, specifically the race and demographic disaggregated transaction level records from all CDFI certified institutions; and, for CDFI institutions, information about the ways that project beneficiaries and project locations vary and why, including information about application and application success rates disaggregated by geographic location and types of institution.

- Request an annual report from the CDFI Fund and other access to capital programs. The report should assess the extent to which the programs and certification are being deployed so as to improve racial equity in financial access across the country.

- Treasury should make federal investments in market-tailored technology solutions, similar to how the Department of Energy invests in scaling new technologies that support the clean energy transition or the Defense Advanced Research Projects Agency (DARPA) invests in new technologies to support America's military. This would be game-changing. This public, non-dilutive source of funds—with a requirement to offer products and solutions back to the sector—would vastly accelerate the creation and adoption of technology across the industry.

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The Inflation Reduction Act (IRA) Subcommittee offers the following recommendations to promote equitable access to the tax system and ensure that modernization efforts positively impact low-income taxpayers in the near term; specifically, by ensuring that the 2024 Direct File pilot is assessed on and is successful on equity terms, so it can expand in future years:

- The Treasury Department should rigorously define what success means–as working well for those who need it most–for the 2024 Direct File pilot, in ways that are achievable, and defined with an eye toward equity, reaching those populations who need Direct File most. “Working well” should be defined defined collaboratively with the Direct File team, which is more familiar with technical details of the product; possible criteria could include a completion rate of at least 30 percent among taxpayers who start the process,[1] and at least 50 percent of taxpayers who use Direct File complete the entire return in a single sitting, in under an hour. “Those who need it most” should be defined as households below the poverty line, or households with irregular filing histories (taxpayers who did not file in one or more of the last three years). The Treasury Department should further define success for the Direct File pilot as providing a service that is equitable across demographic and socioeconomic strata; that is, key user experience outcomes (e.g., completion rates, completion times) are equivalent across axes of interest of demographic and socioeconomic variation (e.g. racial and ethnic groups, native vs non-native English speakers, income range).

- The Treasury Department should make all program decisions in light of the success metrics described above, ruthlessly prioritizing accessibility and access. This includes:

    - Paying particular attention to any barriers that disproportionately impact the target populations, and Direct File must ruthlessly remove barriers that are likely to block target populations from using the tool, including, e.g., overly rigorous identity verification.

    - Ensuring that the 2024 Direct File scope generally meets the needs of the target populations. While not all taxpayers will be in scope for 2024, the scope should disproportionately serve the taxpayers who need Direct File most—including the types of income they have and the types of credits they claim.

    - Tracking outcomes and making dynamic adjustments throughout 2024. The Direct File team should assess the success metrics dynamically throughout the pilot season, and make real-time adjustments. For example, if a particular page in the tool or aspect of the process is causing large numbers of target taxpayers to drop off, the team must quickly identify and address the barrier. This should include regularly scheduled reporting back to the Subcommittee.

    - As needed, using sub-pilots to experimentally assess the impact of removing particular barriers. If there are particular processes that may or may not be barriers, or onerous requirements that are mandatory at scale in the short term for compliance reasons, the Direct File team may consider establishing smaller

[1] “Start” should be defined as an action that shows an intention of going on to file. The standard is relatively low because of well-established comparison-shopping behavior by taxpayers.

sub-pilots within the 2024 pilot that rigorously and experimentally measure the impact of removing the particular barrier.

The Inflation Reduction Act Subcommittee offers the following recommendations to center equity considerations in the implementation of the IRA's green credits and tax provisions, including through proactively protecting communities and consumers from predatory activities and actors:

- The Treasury Department should ensure that non-profits, community-based organizations, state/local/tribal governments, and small businesses can take full and fair advantage of IRA green provisions by periodically publishing information about how much of each active tax credit's allotment remains available and the expected timelines for allocation, with clear details by location. This will help nonprofits, community based-organizations, and other small businesses that do not have dedicated legal and compliance teams to accurately assess and take advantage of their respective credit application opportunities.

- The Treasury Department should ensure that labor requirements, practices, and standards for green provision claimants are strong and promote equity across demographics, by requiring robust tracking and oversight with relation to labor standards from developers and other project sponsors, including data pertaining to the stated hiring goals, hiring and local hiring plans, and demographic details of resulting hires of the IRA's commercial credit beneficiaries. In addition, the Treasury Department should require entities receiving green commercial credits to coordinate with qualified pre-apprenticeship programs, in addition to apprenticeship programs, in order to strengthen existing labor standards and help workers forge pathways to permanent professional opportunities in trade and construction industries.

- The Treasury Department should protect communities and consumers from predatory activities and actors by:

    - Requiring corporations, developers, and project sponsors subsidized by IRA investment and production credits to provide plain language disclosure forms to consumers that clearly explain the subsidy received and the product being sold. These forms can be modeled on credit card statements, and should be designed in consultation with the Consumer Financial Protection Bureau (CFPB) and/or other regulatory agencies.

    - Requiring corporations, developers, and project sponsors to report information necessary to assess equity impact of credits—including but not limited to information about the project's impact to community energy resiliency; the quantity and quality of clean energy jobs generated; and demographic data on race, ethnicity, income, and geographic location

- Building consumer protections into market-based provisions, including the transferability provisions, to ensure low-income taxpayers, and democratically-controlled entities do not feel undue pressure to enter transactions that do not provide them with a reasonable value of the tax credits.

- Creating a joint task force with CFPB and/or other regulatory agencies to intake IRA-specific complaints and investigate fraud, operable for the entire length of the IRA funding period, and determining clawback authority, in consultation with the CFPB and other regulatory agencies, should fraudulent or nefarious behavior be determined.

The Inflation Reduction Act Subcommittee offers the following recommendations to ensure that outreach strategies for low-income tax credits and green credits reach populations who have historically been left behind:

- The Treasury Department should hire and empower a high-quality outreach team with a clear mandate to reach target populations—for both green credits and low-income worker/family credits. The outreach team should identify clear and measurable goals for what constitutes an equitable distribution of IRA benefits, and should drive an outreach and engagement strategy that builds backwards from concrete coverage targets. Metrics should prioritize beneficiaries that are from (in the case of individual credits) or serving in (in the case of commercial credits) low-income and historically marginalized communities. The Department should measure and report on the racial and demographic focus of various outreach activities to ensure outreach efforts are equitable; and make dynamic adjustments as needed to ensure equity.

- The Treasury Department, through its outreach team, must have regular and ongoing engagement with affected communities, as well as with a range of organizations and leaders that are led by and operate in communities of color. More broadly, Treasury should consider co-creating outreach and engagement strategies in concert with community organizers who are engaging in outreach strategies to ensure that Americans know and understand the Inflation Reduction Act and what it means for them. Treasury and IRS should require lived experience in marginalized and underserved communities as a key consideration in assembling the federal outreach team.

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- The Treasury Department should leverage existing government entities in a government-wide outreach push—especially for low-income worker/family credits. Based on successful pilots during the pandemic,[2] the IRS should continue to communicate directly with households who have not filed, based on its robust non-filer data. This should include direct mail with clear and simple calls to action; and pilot programs regarding the possibility of the IRS communicating directly via text message or other mediums. In addition, IRS should leverage interagency coordination with federal agencies that have

[2] For public data on the possible impact of these pilots, see GetCTC Report 2021, p. 61.

been expanding their outreach, including the Small Business Administration, Commerce, Energy, EPA, and Education. Consider leveraging existing federal resources in communities, such as Post Offices. In addition, based on the success of CTC and stimulus outreach via state benefits agencies, Treasury and/or IRS should run a comprehensive program to engage state agencies and support them in doing robust tax benefits outreach to their beneficiaries.

- The Treasury Department should ensure outreach messaging and strategy is inclusive—for both green credits and low-income worker/family credits. This requires designing outreach methods and materials—especially for green credits and Direct file—that center and authentically engage historically marginalized communities across income, race, and geographic location as well as civic organizations representing those constituencies; and co-create these methods and materials in concert with community power building organizations and organizers. The Department should target specific at risk populations, by creating materials and strategies that explicitly include populations, like low-income people who do not file taxes, who my not know or believe that they are intended beneficiaries of relevant programs, to reassure this population that they can and should file. In addition, the Department should create multilingual outreach materials, including at least the seven languages other than English prioritized by the IRS, as well as multi-format materials for differently-abled populations.

- The Treasury Department should pay particular attention to developing an outreach strategy to enable renters to take maximum advantage of the benefits available under the Inflation Reduction Act. This is particularly important given the racist history of redlining and ongoing housing market discrimination, which has led to a persistent and growing 30-point gap between Black and white homeownership rates. Expressly attending to renters is necessary to help mitigate the potential for property owners to overwhelmingly benefit from green credits in ways that exacerbate this persistent racial inequity.

- The Treasury Department should engage organizations that have built trust in communities of color and other historically underrepresented communities, as partners in outreach design and implementation—for both green credits and low-income worker/family credits.(engaging community organizations with trust in communities of color). This should include the following:

    - Community based power building organizations. Example organizations include Color of Change, Working Families Party, Faith in Action, Center for Popular Democracy, Community Change.

    - BIPOC industry organizations that represent and promote BIPOC business leaders, and have access to a large network of such leaders across the country. Example organizations include the National Association of Black Accountants (NABA), Real Estate Executive Council, National Black MBA Association

(NBMBAA), National Urban League, U.S. Black Chamber of Commerce, U.S. Hispanic Chamber of Commerce, Asian American Chamber of Commerce, National Minority Supplier Development Council, National Black Nurses Association.

  - Culturally significant media outlets that speak to current issues in the Black community and have large followings. Examples include the ReidOut, The Breakfast Club, local radio stations.

  - Historically Black Colleges and Universities.

  - Fraternal and sororal organizations. Example organizations include Delta Sigma Theta, Alpha Kappa Alpha, Zeta Phi Beta, Omega Psi Phi, Kappa Alpha Psi, Phi Beta Sigma

  - BIPOC climate groups. Example organizations include the Chisholm Legacy Project, Black Owners of Solar Services.

  - Utility companies, which have detailed data on where LMI customers live

  - Alaska Native tribes, tribal nonprofits, and Native corporations, including organizations that enhance and advance the voice of the Alaska Native community, and have an unmatched network of tribal, tribal non-profit, and Native corporation leaders across Alaska. Example organizations include Alaska Federation of Natives (AFN), ANCSA Regional Association (ARA), Alaska Native Village Corporation Association (ANVCA), and the Alaska Tribal Administrators Association (ATAA).

  - Elected officials of color and their representative organizations, especially including elected officials of color at the local/municipal level.

The Inflation Reduction Act Subcommittee offers the following recommendations to facilitate a strong and enduring focus on equity-linked outcomes and outcomes for low-income populations, helping policymakers dynamically adjust program choices, and helping advocates identify important new areas of work, by providing regular, comprehensive, and publicly-available reports on critical outcomes of relevance to an equitable implementation of the IRA:

- The Treasury Department should prepare and publish an annual public report to Congress and other stakeholders on key coverage outcomes of relevance to an equitable implementation of the IRA. This should include the publication of reliable and robust coverage rates of key family and worker credits (including EITC and CTC), and characteristics of the uncovered populations.[3] Coverage should be reported along key

[3] Further details available in Code for America's proposal for Annual Report on Refundable Credits.

axes of heterogeneity, including households with and without children, households in phase-in, plateau, and phase-out income ranges of the credit, households who did versus did not file a return, and households who are versus are not required to file. Published data should be adjusted for the issue of children who are claimed by the "wrong" household, which could account for a majority of the reported EITC participation gap.[4] Published data should draw on data from IRS (including information returns), Census, and SSA (Numident).

- In addition, the Treasury Department should publish characteristics of the recipients of green credits, including demographic characteristics of the communities commercial recipients operate in, relative to the estimated universe of eligible claimants.

- The Treasury Department should publish robust data on IRS processing times for returns and other key processes (e.g., identity verification processes, or resolutions of duplicate dependent claims). In all data, the Department should examine and report heterogeneities by income band; race and ethnicity (using imputed data based on names and zip codes, as needed); and English proficiency (using imputed data and/or evidence from Schedule LEP filings).

- Finally, the Treasury Department should publish additional real-time reporting, as feasible. Real-time data publications are necessarily more limited, especially due to the risk of compromising taxpayer privacy with small-batch updates to aggregate data. Still, Treasury and IRS should seek to release headline statistics where possible, so as to help build momentum and drive outreach campaigns.

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The Subcommittee on Internal Hiring and Culture offers the following recommendations to promote procurement systems, processes, and practices that afford a substantial return on investment for taxpayers and business owners over and above the material requirements of the product or service being procured, including opportunities for supply chain diversity, job creation, and opportunities to reduce the racial wealth gap:

- The Treasury Department should ensure that procurement systems, policies, and practices create a level playing field for small businesses and businesses owned by people of color and women, by:

    - Collecting relevant, reliable, disaggregated data on outcomes of the agency's procurement practices and compare outcomes for small businesses and businesses owned by people of color based on availability in the marketplace. Treasury can test the efficacy of the Office of Minority and Women Initiatives (OMWI) prototype approach to procurement equity analysis to compare

[4] See Code for America's proposal for Annual Report on Refundable Credits, page 4.

designated underrepresented business groups to the relevant government contracting market. This data collection and analysis level will better ensure that the internal procurement practices are narrowly tailored to address disparities around race, ethnicity, and gender, as required by the Supreme Court for race and gender-conscious procurement practices. This practice also maximizes Treasury's ability to respond to the governmental responsibility for socio-economic and geographic distributional equity in the delivery of the benefits of government spending. Moreover, a procurement equity analysis not only addresses barriers of intentional and unintentional discrimination in a legally defensible manner, but also provides an opportunity for Treasury to ensure the overarching value proposition of supply chain diversity, competitiveness, and job creation.

    - Providing interpretation and translation of materials, resources, and services to those with limited English proficiency (LEP) at the same level of services received by individuals who are not LEP.

    - Auditing a representative sample of procurement practices to determine and correct the impact of network exclusion on small businesses and businesses owned by people of color. Audit findings should identify if race-blind procurement practices result in unintended barriers for all businesses including businesses owned by people of color, women, and non-minority businesses. A level playing field must be a non-zero-sum game, and must ensure that all businesses, regardless of the race, ethnicity, or gender of the business owner, have the ability to compete in a fair procurement process.

    - Investigating the unintended impact of cumbersome compliance practices and identifying opportunities to simplify and streamline the compliance requirements for these businesses. This can include unbundling projects and offering procurement opportunities that are right-sized for the available small businesses, and creating a more streamlined onboarding process and compliance tools. The procurement systems and processes for the Treasury should not impose undue burdens on small businesses and businesses owned by people of color. Compliance with federal regulations is an important part of government contracting. Streamlining these practices through electronic tools and accessible specialized training (e.g., webinars, etc.) is much needed to support participation by small and diverse businesses with Treasury Department contracting opportunities.

- The Treasury Department should invest in new and leverage inter-agency resources for capacity building for small businesses and businesses owned by people of color to compete for opportunities to do business with the Department of Treasury by:

- Building out a comprehensive approach for capacity building that leverages the resources of the Office of Minority and Women Inclusion (OMWI) of the Federal Reserve, the Office of Small and Disadvantaged Business Utilization (OSDBU) of the Treasury, Small Business Administration (SBA), and the Minority Business Development Agency (MBDA) is recommended as a wrap-around capacity building approach for Treasury. A wrap-around approach that leverages the existing federal resources can be utilized to build the capacity of small and emerging businesses, providing the training and technical assistance that is available within the federal network. Treasury can catalog these resources and make them available through their outreach and education efforts, particularly for new market entrants.

- Maximizing the agency's Mentor/Protégé program, successfully deployed in the Treasury Bank by OMWI and the Bureau of Fiscal Services (BFS), as a mechanism for capacity building for small and diverse businesses and also for breaking down the barriers of exclusionary networks. This model, in which the protégé firm gets training, technical assistance, and business counseling from a prime contractor or large business that is already providing services to the government agency, offer the opportunity for new small and diverse businesses entering the federal contracting space to connect directly, or through their mentor, with procurement and contracting officers to demonstrate their capacity to deliver quality products and services and to build the network relationships needed that will ultimately enable these firms to compete as prime contractors on large projects.

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The Subcommittee on Research and Data Equity offers the following recommendation to ensure that all IRS programs operate in a manner that is free from bias and promotes racial equity, and that IRS publishes statistics such that it is transparent to the public whether this is the case:

- The Internal Revenue Service should revise Form 990 to request information on how, in the aggregate, board members of tax-exempt organizations self-identify by race and ethnicity in line with the Race of Principal Owners, Ethnicity of Principal Owners, and Middle Eastern or North African ancestry of Principal Owners, requirements under the State Small Business Credit Initiative. IRS has reported that, in 2019, nearly 300,000 tax-exempt organizations file under Section 501(c); these organizations manage more than $5.5 trillion of assets and spend more than $2 trillion annually (with the majority on program services). Unfortunately, the IRS lacks any data on racial disparities in the management of tax-exempt entities, making impossible the necessary transparency. Such information would enable the IRS to produce statistics that would increase transparency of the regulation of the tax-exempt sector. Researchers could also use such data to understand better how the tax-exempt sector serves communities and supports racial equity, at both the federal and state level.