DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 7, 2023

MEMORANDUM

TO: Treasury Advisory Committee on Racial Equity

FROM: Janis Bowdler, Counselor for Racial Equity

SUBJECT: Treasury Actions Aligned with TACRE Recommendations

Over the past 12 months, the Treasury Advisory Committee on Racial Equity (TACRE or "the Committee") has presented 29 recommendations to the Treasury Department. All recommendations have been shared with Secretary Yellen and referred to the relevant offices for review and diligence. While review and deliberations are underway, Treasury has taken several actions that align with recommendations, advice, and insights offered by the Committee.

This memo provides a high-level overview of key actions Treasury has taken over the past several months that respond to and/or support the Committee's recommendations. As the Department's work moves forward, we continue to rely on your expertise to guide our efforts. We anticipate releasing a full report in early 2024 with working responses to recommendations received during the 2023 calendar year.

Data Collection, Disaggregation, and Reporting

Secretary Yellen's vision for "Modern Supply Side Economics" calls for boosting economic productivity and addressing inequality by making investments in people, places, and infrastructure that have been constrained by lack of resources and unequal access to opportunity. Achieving this vision would be assisted by disaggregated data collection and reporting to determine the impacts of our policy and programs and allow for robust accountability in our efforts to advance economic opportunity for underserved people and places.

In alignment with these objectives, several TACRE recommendations call for increased transparency and stronger baseline evidence to support inclusive policy making and program implementation. Though this work is ongoing, over the past few months, Treasury has taken several decisive actions to examine how to incorporate disaggregated data for reporting and/or analysis across the Department's capital access, American Rescue Plan Act (ARP), and Inflation Reduction Act (IRA) programs and tax provisions.

- **Interagency Community Investment Committee (ICIC) commitment.** In May, the ICIC announced a slate of new actions that will strengthen how federal community investment programs serve communities across the country that have historically lacked access to resources and capital. As part of this announcement, Treasury's Office of Community and Economic Development (OCED) committed to work with the Commerce Department's Regional Economic Research Initiative to lead a pilot to gather and utilize data from multiple ICIC agencies to analyze how federal community and economic development investments flow into and interact in specific urban neighborhoods and rural counties. This pilot has the potential to benefit communities by providing information on federal investments in their communities that could assist in local alignment or collaboration and a streamlined approach to community and economic development.

- **ARP programs.** Treasury continues to evaluate the impact of ARP programs on diverse communities across the country. For instance, Treasury released a report providing new evidence that the ARP effectively delivered resources and aid to historically underserved communities, enabling economic recovery far more quickly than in previous downturns. Specifically, the report finds that the speed and strength of the response by the Biden-Harris Administration helped to thwart the worst economic outcomes anticipated from the COVID shock for Black and Hispanic families, and that, across a broad array of economic indicators, the financial well-being of Black and Hispanic families have remained strong relative to recoveries in recent history. In June, Treasury released two fact sheets detailing how American Rescue Plan programs and other Treasury-led federal initiatives have impacted Black and Latino households, businesses, and communities.

- **CDFI certification.** On December 7, the CDFI Fund published a revised CDFI certification application and related materials that will promote responsible lending to financially underserved communities. The CDFI certification process had not been significantly updated since the founding of the CDFI Fund more than 25 years ago and there was a pressing need to update the Certification Application to reflect the evolution of community finance and to provide greater clarity about what it means to be a CDFI. Treasury and the CDFI Fund engaged extensively with stakeholders and listened carefully to feedback on a draft certification application that was made available for public comment in the fall of 2022. The revised certification application incorporates numerous updates that reflect the input of stakeholders. Moving forward, there will be further opportunities to hone this important certification process.

  Since the beginning of this Administration, Treasury has deployed a historic amount of funding to open access to capital for underserved borrowers and economically distressed geographies and has taken policy actions that have significantly shaped the field of community finance, with a focus on supporting equitable growth. The updates to the CDFI certification application represent an important step in Treasury's approach to community finance policy. Significantly, the revised CDFI certification application establishes, for the first time, responsible financing standards for CDFIs, which the CDFI Fund will use to determine whether an Applicant has a primary mission to promote community development. This is a major step in clarifying what it really means to be a mission-driven lender.

- **Tax credit and deductions uptake.** The IRS has committed to improving our understanding of the gap between the tax credits and deductions people are eligible for and the credits and deductions they claim. Concretely, the IRS has committed to using analytics to assess taxpayer uptake of credits, particularly those intended to benefit underserved communities and small businesses; publishing analyses of uptake, including overclaims and underclaims; and incorporating those findings into tax gap reporting.

- **Emergency Capital Investment Program (ECIP) reporting.** In its implementation of ECIP, Treasury required participating institutions to begin reporting their "qualified lending" activity, as well as their "deep impact lending" activity[1] on Quarterly Supplemental Reports (QSRs). This information will be used to determine the ECIP participants' qualification for interest or dividend rate reductions on their ECIP investments. At sufficient levels, it can also reduce participants' interest or dividend rates. In addition, these reports will collect data necessary for Treasury and other oversight bodies to evaluate program outcomes over time. Based on the QSRs that ECIP participants have already submitted, Treasury reported that in about six months of lending in the second half of 2022, one third of total originations – or $8.6 billion – were "deep impact" loans.

IRA Green Credits

Treasury is working with the IRS to implement the clean energy and energy security provisions in the Inflation Reduction Act (IRA), including by supporting a range of strategies to help underserved communities benefit from these credits. The IRA, in addition to focusing on improved service delivery through a major investment in modernizing the IRS, also provides the largest set of incentives for clean energy investment in the nation's history, including new mechanisms to monetize clean energy incentives.

- **48(e) Low-Income Communities Bonus Credit Program.** Treasury, IRS, and the Department of Energy recently announced that during the initial 30-day application window, the Low-Income Communities Bonus Credit Program received more than 46,000 applications for new energy facilities located in low-income communities, on Indian land, as part of affordable housing or directly benefitting low-income households from across the country, including 48 states and the District of Columbia. The applications represent more than 8 gigawatts of generation capacity, or the equivalent power used by 800 million LED light bulbs. This is more than four times the total capacity available for the 2023 program. The 2024 program, opening next year, will unlock additional capacity for this robust demand. Treasury designed the program to encourage participation by the institutions and communities most impacted by energy insecurity by setting aside 50% of the program's capacity for projects that meet additional criteria. Approximately one quarter of the applications in the first 30 days were for new solar and wind energy facilities meeting additional criteria, indicating they are located in low-income areas where households spend the highest percent of their income on energy, and/or have had the lowest levels of historical investment, or are owned by emerging market participants, such as: tribal enterprises; tax-exempt entities including non-profits, local or tribal governments; consumer or worker cooperatives; and emerging renewable energy companies. Treasury has also crafted program requirements to ensure applicants comply with existing consumer protection laws.
- **Elective pay and transferability.** Treasury and IRS have prioritized tax guidance to provide clarity on how communities, tax-exempt organizations, and businesses can take advantage of IRA's clean energy incentives through elective pay and transferability, with proposed and temporary regulations issued in June, followed by a public comment period, and final rules

[1] "Qualified lending" includes lending to minority, rural, and urban low-income and underserved communities, LMI borrowers, and other similar lending. "Deep impact" loans are made to the hardest-to-serve borrowers, including those that are low-income, residents on Tribal lands and in U.S. Territories, and owners of very small businesses.

forthcoming. In addition, Treasury is pursuing a series of targeted efforts focused on ensuring awareness and uptake by underserved communities. This includes collaboration with other Federal departments and agencies that are a part of the Thriving Communities Network, a whole of government approach to "coordinate strategy, collaborate across initiatives, and target deployment of a full range of Federal place-based technical assistance and capacity-building resources to urban, rural, and Tribal communities experiencing a history of economic distress and systemic disinvestment." Treasury has been working with organizations to identify tax exempt projects that can go through the elective pay pre-filing registration portal before it opens to the public. In addition to leading numerous webinars and speaking engagements hosted by nonprofit channel partners, Treasury, in coordination with the White House Infrastructure Implementation Team, is also leading an education and engagement campaign around IRA tax credits, utilization of State and Local Fiscal Recovery Funds (SLFRF) funding and opportunities for Bipartisan Infrastructure Law funding focused on high poverty (greater than 20 percent) and low capacity (historic population decline) cities.

- **Prevailing wage and apprenticeship requirements.** Treasury and IRS have prioritized tax guidance on prevailing wage and apprenticeship, working in close collaboration with the Department of Labor (DOL). Proposed regulations were issued in August, and Treasury and IRS are carefully considering public comments as we develop final regulations. The registered apprenticeship provisions specifically offer significant potential to diversify and grow the worker pipeline, which has historically been homogenous and siloed. Treasury is collaborating with BlueGreen Alliance and Climate Jobs National Resource Center (CJNRC) to amplify the connections between the IRA's pro-worker policies and inclusive workforce opportunities. On November 14, Treasury hosted and DOL joined a "how-to" session on prevailing wage and registered apprenticeship requirements relevant to the Inflation Reduction Act. The session had over 250 attendees and included an overview of the requirements, relevant tax benefits, and information on understanding wage determinations and how to request qualified apprentices.

Strengthening Program and Service Delivery

Consistent with your recommendations, Treasury is committed to delivering top-quality service to individuals, families, and businesses. For instance, the IRA focuses on promoting fair tax administration and to ensuring that IRS modernization efforts positively impact vulnerable and underserved taxpayers. The IRS Strategic Operating Plan, released in April, highlights how the agency will improve service to ensure taxpayers receive the credits and deductions for which they are eligible, test for and eliminate bias in audit selection, and expand digital services. They are also devoting resources to ensure tax compliance among high-income and high-wealth individuals, complex partnerships, and large corporations, while maintaining fairness. Through the Direct File pilot, the IRS is demonstrating their commitment to evaluating tax preparation and filing options that are more accessible for taxpayers. The Direct File pilot this year will particularly benefit low- and moderate-income taxpayers.

- **Direct File pilot.** This pilot will allow the IRS to learn and assess its ability to address critical challenges and opportunities including customer support, state integration, and technology needs. Consistent with standard industry practice with new modern technology service design, the IRS will execute the pilot in a phased manner, allowing access for increasingly more eligible taxpayers to access the service to file their 2023 tax returns.

Direct File will be available to taxpayers with Social Security numbers as well as ITINs. The service will work on mobile devices as easily as it does tablets, laptops, and desktop computers, and will include dedicated customer support from the IRS. The pilot will be available in twelve participating states in 2024: Arizona, California, Florida, Massachusetts, New Hampshire, New York, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming.

- **Addressing audit disparities.** As part of a broader effort to rebalance the IRS' enforcement activities, further the IRS' core objectives of equitable and efficient tax administration, and improve payment accuracy, IRS Commissioner Werfel announced that the IRS would be substantially reducing the number of audits specifically focused on refundable credits in Fiscal Year 2024. In addition, the IRS has announced a set of initial changes to EITC audit selection processes and two pilots examining potential further changes. The results of the pilots will be publicly reported and will be used to inform audit selection in the future.

- **Outreach and stakeholder engagement.** In addition to engagement via the TACRE, the Direct File pilot participant recruitment strategy includes forging partnerships with non-profit and stakeholder groups who interact directly with Direct File pilot eligible taxpayers. In November 2023, UST and IRS hosted a partner briefing, during which time partnering organizations learned about the Direct File pilot and were invited to join efforts to recruit participants for the invite-only phase of the pilot.

- **Financial inclusion strategy.** Consistent with congressional direction, Treasury is developing a national strategy on financial inclusion. The strategy will aim to ensure that consumers, in particular those from underserved populations, including low-income communities, communities of color, women and others, have equitable access to financial information, products, and services that support them in building financial security and assets and meeting other needs and goals. The strategy will also aim to define objectives for financial inclusion, set measurable benchmarks for tracking progress, and provide recommendations on how public policy, government programs, financial products and services, technology, and other tools can promote financial inclusion. Treasury is committed to a robust stakeholder engagement effort to inform the strategy, including a series of roundtables and bilateral meetings to gather insights from a diverse range of stakeholders across the financial ecosystem. In November, Treasury hosted an in-person convening of fifteen consumer advocate, civil rights, and research organizations. A Treasury Request for Information on financial inclusion is forthcoming and will be posted to the Federal Register to solicit additional public input.

Racial Equity Research and Policy Priorities

The establishment of the Treasury Equity Hub, with several interdisciplinary research and policy/program staff to be hired into career positions under Director Diane Lim, serves to expand Treasury's contribution to racial equity research in significant and lasting ways. The Equity Hub brings together workstreams across Treasury policy and program offices with a coordinated and collaborative focus on economic equity, and immediately increases Treasury's overall capacity to do equity-focused research. The Equity Hub will have filled its four most senior roles by the end of December and will be on track to fill the remaining four roles in the first quarter of 2024. As the Hub's own capacity is still growing, they will continue to steer, collaborate, and advise on ongoing equity-focused work across Treasury offices, including the following.

- **Equitable recovery research.** An analysis by Treasury's Office of Economic Policy on the Equitable Recovery connected the benefits from an equitable and inclusive economic recovery to the Treasury mission of maintaining a sustainably strong overall (macro)economy. For instance, the report shows that gaps between Black and white, and Hispanic and white unemployment rates have closed to near historic lows in 2023. Despite interest rate increases beginning in early 2022, Black and Hispanic homeownership rates rose 2.9 and 1.2 percentage points between 2019 and 2022. Finally, from 2019 to 2022, median wealth, adjusted for inflation, rose 60 and 47 percent for Black and Hispanic families respectively.

- **Small business report card.** Treasury released a report card to demonstrate how Americans have used the funds made available to them via the State Small Business Credit Initiative (SSBCI), SLFRF, and Emergency Capital Investment Program (ECIP) to strengthen small business creation. The SSBCI alone provides nearly $10 billion to support small businesses and promote entrepreneurship and includes $2.5 billion in funding and incentives to support underserved businesses and jurisdictions that successfully reach those businesses. SLFRF data show that through the first half of 2023, jurisdictions receiving those funds have budgeted over $5 billion for over 1,400 projects in support of small businesses and small business development. In addition, ECIP has invested over $8.5 billion in CDFIs and minority depository institutions (MDIs) that can use the funds to increase lending to small businesses, among other targeted communities and purposes.

- **Blog series.** Treasury has launched an economic policy blog series that details the origins of racial economic disparities and their implications for the national economy. Future efforts in collaboration with the Equity Hub will focus on combining data analysis with storytelling examples as a way to reach a broader audience.

- **Racial equity analysis of tax policies**. Office of Tax Analysis staff developed and continues to refine and validate an imputation method to predict race/ethnicity based on observed relationships in U.S. Census Bureau (Census) data between race/ethnicity and specific (first and last) names and (small area) geographic locations supplemented with additional tax information. A version of this imputation method made possible research on audit disparities (Elzayn et al. 2023) and another version was used in a study of the distribution of a set of tax expenditures by income and race/ethnicity categories (Cronin, DeFilippes, and Fisher 2023). In a collaboration with IRS and Census staff, OTA staff also studied the demographics of recipients of the first round of Economic Impact Payments in 2020. OTA staff have organized a session on "Advances in Imputing Race and Ethnicity to Administrative Data" to be held at the 2024 annual meeting of the Allied Social Sciences Associations, which will feature refinements to some of this work, new work by Treasury staff that measures marriage penalties and bonuses for different groups (Lin et al. 2023), and work by other researchers.

Opportunities for Small Businesses

Treasury recognizes the potential for the federal government procurement practices to support small and underrepresented businesses and to help them grow. New investments via the IRA have created an opportunity for the Department to influence such opportunities.

- **SSBCI technical assistance.** Treasury recently announced a new $75 million competitive grant program, the SSBCI Investing in America Small Business Opportunity Program, to support technical assistance for very small and disadvantaged businesses.

- **IRS procurement commitment.** The IRS has committed to exceeding the Administration's goal by dedicating 19% of its FY 2024 spending to small and disadvantaged businesses. Because the IRS represents a significant portion of the Treasury budget, this commitment is an important milestone in advancing equity in Treasury procurement for underrepresented communities.

- ***Investing in America* (IIA) companies.** At the Treasury Department's Freedman's Bank Forum in October 2023, Vice President Harris announced a call to action for companies in growing sectors such as semiconductor manufacturing and clean energy manufacturing to commit to spend at least 15% of their U.S. procurement dollars with small and underserved businesses by 2025. Micron, Excel Energy, and Air Products joined this call to action as first movers, representing billions of dollars in business diversity spending. The Economic Opportunity Coalition is working to expand on these commitments.