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DEPARTMENT OF THE TREASURY

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INTRODUCTION

The U.S. Treasury Department has a broad regulatory and policy reach. The next Administration should make major policy changes to: (1) reduce regulatory impediments to economic growth that reduce living standards and endanger prosperity; (2) reduce regulatory compliance costs that increase prices and cost jobs; (3) promote fiscal responsibility; (4) promote the international competitiveness of U.S. businesses; and (5) better respect the American people's due process and privacy rights.

These goals should be accomplished through: executive action (primarily treasury orders and treasury directives) and departmental reorganization; rulemakings; promoting constructive policies in Congress; actions in international organizations; and treaties.

The primary subject matter focus of the incoming Administration's Treasury Department should be:

- Tax policy and tax administration;
- Fiscal responsibility;
- Improved financial regulation;
- Addressing the economic and financial aspects of the geopolitical threat posed by China and other hostile countries;

- Reform of the anti-money laundering and beneficial ownership reporting systems;
- Reversal of the racist “equity” agenda of the Biden Administration; and
- Reversal of the economically destructive and ineffective climate-related financial-risk agenda of the Biden Administration.

BIDEN ADMINISTRATION TREASURY DEPARTMENT

The Biden Administration Treasury Department has failed badly in achieving every one of the agency’s core objectives. The financial affairs of the nation have seldom been in worse condition, with the national debt expanding by more than *$4 trillion* in Biden’s first two years in office. No President in modern times—perhaps ever—has been more fiscally reckless than has the Biden Administration.

The soundness and stability of U.S. currency, the dollar, has been put at risk because of the worst inflation in four decades. American families have been made poorer by Biden’s economic strategy of taxing, spending, borrowing, regulating, and printing money. The average family has seen real annual earnings fall about $6,000 during the Biden Administration.[1] In 2022, the average American’s 401(k) plan dropped in value from $130,700 to $103,900—more than 20 percent.[2]

Why has the Biden Administration failed to achieve virtually all components of its mission? Under the leadership of Treasury Secretary Janet Yellen, the department has made “equity” and “climate change” among its top five priorities. The next Administration must act decisively to curtail activities that fall outside Treasury’s mandate and primary mission. Treasury must refocus on its core missions of promoting economic growth, prosperity, and economic stability.

For a clear statement of Treasury’s mission drift, one need look no further than Secretary Yellen’s introduction in the Treasury Department’s *Fiscal Year 2022–2026 Strategic Plan*:

> We will have to address the structural problems that have plagued our economy for decades: the decline in labor force participation, income and racial inequality, and serious underinvestment in crucial public goods like childcare, education, and physical infrastructure. And then there are rising challenges, like climate change, which, left unchecked, will undermine every aspect of our economy from supply chains to the financial system.[3]

Treasury’s mission drift into a “woke” agenda, is exemplified in a comparison of Domestic Finance’s changed responsibilities from 2015 to 2023:

> [2015] Domestic Finance works to preserve confidence in the U.S. Treasury securities market, effectively manage federal fiscal operations, strengthen financial institutions and markets, promote access to credit, and improve financial access and education in service of America's long-term economic strength and stability.[4]

> [2023] Domestic Finance works to support equitable and sustainable economic growth and financial stability through policies to increase the resilience of financial institutions and markets and financial wellbeing of consumers, and to increase access to credit for small businesses and low-to-moderate income communities.[5]

TREASURY DEPARTMENT ORGANIZATION

The Treasury Department is one of the few executive agencies recognized in the U.S. Constitution. It states:

> No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.[6]

The Treasury Department was established by statute in 1789. Today, it is responsible for financing the federal government, promoting economic prosperity, and ensuring the financial security of the United States. In fiscal year 2022, Treasury received discretionary appropriations of approximately $16.4 billion.[7] It also has highly variable "mandatory" expenses (COVID-related CARES Act spending, for example).

In fiscal year (FY) 2022, Treasury employed approximately 96,000 full-time employees, including approximately 81,000 at the Internal Revenue Service (IRS).[8] Approximately four-fifths of Treasury's discretionary funds are used for IRS operations. The remaining amounts are for its offices, bureaus, and international assistance programs.

Treasury is organized into various departmental offices,[9] seven bureaus,[10] and four inspectors general.[11]

Departmental Offices. Departmental offices are composed of divisions headed by under-secretaries and assistant secretaries who are primarily responsible for policy formulation and overall management of the Treasury Department.

Domestic Finance is run by the Under Secretary for Domestic Finance, to whom the assistant secretaries for financial markets, financial stability, financial institutions and the fiscal assistant secretary report. Additionally, the Financial Stability Oversight Council (FSOC) Secretariat and the Office of Financial Research report to the Under Secretary for Domestic Finance.

Terrorism and Financial Intelligence. Terrorism and Financial Intelligence (TFI) was created in 2004 as part of the larger reorganization of the U.S. government to promote homeland security following the 9/11 terrorist attacks. TFI is charged with the mission of disrupting international financial support for terrorists, weapons of mass destruction proliferation, narcotics trafficking, money laundering, and other national security threats. It is also responsible for implementing and enforcing economic sanctions programs and supporting the wider law enforcement community in investigating financial crimes. It is led by the Under Secretary for Terrorism and Financial Intelligence.

International Affairs protects and supports U.S. economic prosperity and national security by working to foster the most favorable external environment for sustained employment and economic growth in the United States. The most crucial functions of the Office of International Affairs relate to managing the U.S.–China Strategic Dialogue; representing U.S. interests in the World Bank, International Monetary Fund (IMF) and other multilateral development banks; and overseeing the Committee on Foreign Investment in the U.S. (CFIUS). It is led by the Under Secretary for International Affairs.

Tax Policy formulates and develops tax policies and programs and works with Congress to get them passed into law. It reviews and issues regulations drafted by attorneys from the IRS's Office of Chief Counsel to administer the Internal Revenue Code, negotiates tax information exchange agreements with the tax authorities of foreign governments, participates in international tax organizations, and provides economic and legal policy analysis for domestic and international tax policy decisions. This office also provides revenue estimates for the President's budget. It is led by the Assistant Secretary for Tax Policy.

Economic Policy reports on current and prospective economic developments and assists in the determination of appropriate economic policies. This office is responsible for the review and analysis of domestic economic issues and developments in financial markets.

The Treasurer of the United States is a statutory office that has been assigned varying duties in recent Administrations. In addition to performing public outreach, treasurers have at times headed Treasury's financial education program and overseen the U.S. Mint and Bureau of Engraving and Printing.

Four Inspectors General provide independent audits, investigations, and oversight of Treasury and its programs: The Office of the Inspector General of the Department of Treasury; Treasury Inspector General for Tax Administration; Special Inspector General for the Troubled Asset Relief Program; and the Special Inspector General for Pandemic Recovery.

Treasury Bureaus. Seven Treasury Department bureaus comprise 98 percent of the Treasury work force and are responsible for carrying out specific operations assigned to the department.

The Alcohol and Tobacco Tax and Trade Bureau collects federal excise taxes on alcohol, tobacco, firearms, and ammunition, and is responsible for enforcing and administering laws covering the production, use, and distribution of alcohol products.

The Internal Revenue Service is the largest of the department's bureaus, accounting for about 85 percent of Treasury's personnel and about four-fifths of its appropriated budget. It administers and enforces U.S. tax laws.

The Bureau of Engraving and Printing develops and produces U.S. currency notes.

The Financial Crimes Enforcement Network (FinCEN) is designed to protect the financial system from illicit use. It also administers the beneficial ownership reporting regime mandated by the Corporate Transparency Act.[12]

The Bureau of the Fiscal Service provides central payment services to federal program agencies, operates the U.S. government's collections and deposit systems, provides government-wide accounting and reporting services, manages the collection of delinquent debt owed to the U.S. government, borrows the money needed to operate the government through the sale of U.S. Treasury securities (including the state and local government series), and accounts for and services the public debt.

The United States Mint designs and mints U.S. circulating and bullion coins.

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks and federal savings associations (thrifts) to ensure that they operate in a safe and sound manner, provide fair access to financial services, and comply with applicable laws and regulations. The OCC also supervises federal branches and agencies of foreign banks and has rulemaking authority for all savings associations.

TAX POLICY

Tax policy has a powerful impact on the economy. The Treasury Department should develop and promote tax reform legislation that will promote prosperity. To accomplish this, tax reform should improve incentives to work, save, and invest. This, in turn, is accomplished primarily by reducing marginal tax rates,[13] reducing the cost of capital[14] and broadening the tax base to eliminate tax-induced economic distortions by eliminating special-interest tax credits, deductions, and exclusions. Tax compliance costs will decline precipitously if the tax system is substantially simplified.[15] The Treasury Department should also promote tax competition rather than supporting an international tax cartel.

Principles of Good Tax Policy. These are the principles governing good tax policy.

- First, the tax system should raise the revenue necessary to fund a limited government for constitutionally appropriate activities. It should raise this revenue such that it: (a) applies the least economically destructive forms of taxation;[16] (b) has low tax rates on a broad, neutral tax base; (c) minimizes interference with the operation of the free market and free enterprise; and (d) minimizes the cost to taxpayers of compliance with and administration of the tax system.

- Second, the tax system should minimize its adverse impact on the family and the core institutions of civil society.

- Third, the tax system should be applied consistently—with special privileges for none—and respect taxpayer due process and privacy rights.

The current tax system is inconsistent with these principles and needs to be reformed to promote prosperity, reduce compliance costs, and improve fairness. The incoming Administration should promote immediate intermediate reforms to the existing system. It should then pursue fundamental tax reform.

Intermediate Tax Reform. The Treasury should work with Congress to simplify the tax code by enacting a simple two-rate individual tax system of 15 percent and 30 percent that eliminates most deductions, credits and exclusions. The 30 percent bracket should begin at or near the Social Security wage base to ensure the combined income and payroll tax structure acts as a nearly flat tax on wage income beyond the standard deduction. The corporate income tax rate should be reduced to 18 percent. The corporate income tax is the most damaging tax in the U.S. tax system, and its primary economic burden falls on workers because capital is more mobile than labor.[17] Capital gains and qualified dividends should be taxed at 15 percent. Thus, the combined corporate income tax combined with the capital gains or qualified dividends tax rate would be roughly equal to the top individual income tax rate.[18] The system should allow immediate expensing for capital expenditures and index capital gains taxes for inflation.

In addition, intermediate tax reform should repeal all tax increases that were passed as part of the Inflation Reduction Act,[19] including the book minimum tax, the stock buyback excise tax, the coal excise tax, the reinstated Superfund tax, and excise taxes on drug manufacturers to compel them to comply with Medicare price controls. The next Administration should also push for legislation to fully repeal recently passed subsidies in the tax code, including the dozens of credits and tax breaks for green energy companies in Subtitle D of the Inflation Reduction Act.[20]

Universal Savings Accounts. All taxpayers should be allowed to contribute up to $15,000 (adjusted for inflation) of post-tax earnings into Universal Savings Accounts (USAs). The tax treatment of these accounts would be comparable to Roth IRAs. USAs should be highly flexible to allow Americans to save and invest as they see fit, including, for example, investments in a closely held business. Gains from investments in USAs would be non-taxable and could be withdrawn at any time for any purpose. This would allow the vast majority of American families to save and invest without facing a punitive double layer of taxation.

Entrepreneurship. To encourage entrepreneurship, the business loss limitation should be increased to at least $500,000. Businesses should also be allowed to fully carry forward net operating losses. Extra layers of taxes on investment and capital should also be eliminated or reduced. The net investment income surtax and the base erosion anti-abuse tax should be eliminated. The estate and gift tax should be reduced to no higher than 20 percent, and the 2017 tax bill's temporary increase in the exemption amount from $5.5 million to $12.9 million (adjusted for inflation) should be made permanent.[21] The tax on global intangible low-taxed income should be reduced to no higher than 12.5 percent, with the 20 percent haircut on related foreign tax credits reduced or eliminated.[22]

All non-business tax deductions and exemptions that were temporarily suspended by the 2017 tax bill should be permanently repealed, including the bicycle commuting expense exclusion, non-military moving expense deductions, and the miscellaneous itemized deductions.[23] The individual state and local tax deduction, which was temporarily capped at $10,000, should be fully repealed. Deductions related to educational expenses should be repealed. Special business tax preferences, such as a special deduction for energy-efficient commercial building properties, should be eliminated.[24]

Wages vs. Benefits. The current tax code has a strong bias that incentivizes businesses to offer employees more generous benefits and lower wages. This limits the freedom of workers and their families to spend their compensation as they see fit—and it can trap workers in their current jobs due to the jobs' benefit packages. Wage income is taxed under the individual income tax and under the payroll tax. However, most forms of non-wage benefits are wholly exempt from both of these taxes.

To reduce this tax bias against wages (as opposed to employee benefits), the next Administration should set a meaningful cap (no higher than $12,000 per year per full-time equivalent employee—and preferably lower) on untaxed benefits that employers can claim as deductions. Employee benefit expenses other than *tax-deferred* retirement account contributions should count toward the limitation, whether offered to specific employees or whether the costs relate to a shared benefit like building gym facilities for employees.[25] *Tax-deferred* retirement contributions by employers should not count toward this limitation insofar as they are fully taxable upon distribution. Only a percentage of Health Savings Accounts (HSA) contributions (which are not taxed upon withdrawal) should count toward the limitation.[26] The limitation on benefit deductions should not be indexed to increase with inflation.[27] Employers should also be denied deductions for health insurance and other benefits provided to employee dependents if the dependents are aged 23 or older.

Fundamental Tax Reform. Achieving fundamental tax reform offers the prospect of a dramatic improvement in American living standards and an equally dramatic reduction in tax compliance costs. Lobbyists, lawyers, benefit consultants, accountants, and tax preparers would see their incomes decline, however. The federal income tax system heavily taxes capital and corporate income and discourages work, savings, and investment.

The public finance literature is clear that a consumption tax would minimize government's distortion of private economic decisions and thus be the least economically harmful way to raise federal tax revenues.[28] There are several forms that a consumption tax could take, including a national sales tax, a business transfer tax, a Hall–Rabushka flat tax,[29] or a cash flow tax.[30]

Supermajority to Raise Taxes. Treasury should support legislation instituting a three-fifths vote threshold in the U.S. House and the Senate to raise income or corporate tax rates to create a wall of protection for the new rate structure. Many states have implemented such a supermajority vote requirement.

Tax Competition. Tax competition between states and countries is a positive force for liberty and limited government.[31] The Biden Administration, under the direction of Treasury Secretary Janet Yellen, has pushed for a global minimum corporate tax that would increase taxation and the size of government in the U.S. and around the world. This attempt to "harmonize" global tax rates is an attempt to create a global tax cartel to quash tax competition and to increase the tax burden globally. The U.S. should not outsource its tax policy to international organizations.

Organization for Economic Co-operation and Development. The Organization for Economic Co-operation and Development (OECD), in conjunction with the European Union, has long tried to end financial privacy and impose regulations on countries with low (or no) income taxes. In fact, on tax, environmental, corporate governance and employment issues, the OECD has become little more than a taxpayer-funded left-wing think tank and lobbying organization.[32] The United States provides about one-fifth of OECD's funding.[33] The U.S. should end its financial support and withdraw from the OECD.

TAX ADMINISTRATION

The Internal Revenue Service is a poorly managed, utterly unresponsive and increasingly politicized agency, and has been for at least two decades. It is time for meaningful reform to improve the efficiency and fairness of tax administration, better protect taxpayer rights, and achieve greater transparency and accountability. A substantial number of the problems attributed to the IRS are actually a function of congressional action that has made the Internal Revenue Code ridiculously complex, imposed tremendous administrative burdens on both the public and the IRS, and given massive non-tax missions to the IRS. But the culture, administrative practices, and management at the IRS need to change.

Doubling the IRS? The Inflation Reduction Act contains a radical $80 billion expansion of the IRS—enough to *double* the size of its workforce.[34] Unless Congress reverses this policy, the IRS will become much more intrusive and impose still greater costs on the American people.

The Biden Administration has also sought to make the tax system's administrative burden much worse in other ways. For example, it has proposed creating a comprehensive financial account information reporting regime that would apply to all business and personal accounts with more than $600. Banks would be required to collect the taxpayer identification numbers of and file a revised Form 1099-K for all affected payees, as well as provide additional information.[35] This massive increase in the scope and breadth of information reporting should be unequivocally opposed.

Management. The IRS has approximately 81,000 employees.[36] Of those, only two are presidential appointments—the Commissioner and the Chief Counsel.[37] As a practical matter, it is impossible for these two officials to overcome bureaucratic inertia and to implement policy changes that the IRS bureaucracy wants to impede. That is why, notwithstanding decades of sound and fury, almost nothing has changed at the IRS.

For the IRS to change and become more accountable, more transparent, and better managed, there is a need to increase the number of Presidential appointments subject to Senate confirmation, and not subject to Senate confirmation, at the IRS. At the very least, Congress should ensure that the Deputy Commissioner for Services and Enforcement, the Deputy Commissioner for Operations Support, the National Taxpayer Advocate, the Commissioner of the Wage and Investment Division, the Commissioner of the Large Business and International Division, the Commissioner of the Small Business Self-Employed Division, and the Commissioner of the Tax Exempt and Government Entities Division are presidential appointees.[38]

Information Technology. Despite the investment of billions of dollars for at least two decades, IRS information technology (IT) systems remain deficient.[39] The IRS inadequately protects taxpayer information, its IT systems do not adequately support operations or taxpayer services, and its matching and detection algorithms are antiquated.

These problems are not primarily about resources. The IRS has spent approximately $27 billion on IT during the past decade, with $7 billion of that designated as "development, modernization and enhancement."[40] The problem is one of management. The bureaucracy is not up to the task, and neither Congress nor a long line of IRS commissioners has forced changes.

A Deputy Commissioner for Operations Support with strong IT management skills should be appointed by the IRS Commissioner or the President (once the position is made a presidential appointment). The various subordinates to the

Deputy Commissioner should be replaced. A thorough review of IT contracts should be conducted. The Integrated Modernization Business Plan[41] should be systematically reviewed and a version of it cost-effectively implemented. An oversight board composed of private sector IT experts should be established and given the authority to conduct meaningful, contemporaneous oversight.

TAXPAYER RIGHTS AND PRIVACY

Legal protections for taxpayer rights and privacy have improved during the past three decades, but they remain inadequate.[42] Congress should do more. For example, interest on overpayments should be the same as interest on underpayments rather than the government receiving a higher rate, the time limit for taxpayers to sue for damages for improper collection actions should be extended, the jurisdiction of the Tax Court should be expanded, and the tax penalty system should be reformed by rationalizing the penalty structure and reducing some of the most punitive penalties.[43]

The Office of the Taxpayer Advocate was created by Congress to assist taxpayers when the IRS bureaucracy is unresponsive or negligent. About 1.7 percent of the IRS budget goes to this function.[44] Each year, the Office handles more than 250,000 cases, helping taxpayers to deal with the IRS. Each year, it issues nearly 2000 taxpayer assistance orders, a form of administrative injunction, forcing the rest of the IRS to stop taking unwarranted actions.[45]

Congress should provide the Office of the Taxpayer Advocate with greater resources so that it may better assist taxpayers suffering from wrongful IRS actions. The office should also be strengthened by, among other things:

- Ensuring that the National Taxpayer Advocate can make his or her own personnel decisions to protect its independence;

- Ensuring NTA access to files, meetings, and other information needed to assist taxpayers or investigate IRS administrative practices;

- Requiring the IRS to address the NTA's comments in final rules and including the NTA in deliberations prior to the release of a proposed rule; and

- Authorizing the NTA to file *amicus* briefs independently.

Administrative Burden. In 2021, Americans filed 261 million tax returns and an astounding 4.7 billion information returns (such as Form W-2s, Form 1098s and Form 1099s).[46] Complying with tax law costs Americans more than $400 billion annually, or about 2 percent of gross domestic product.[47] Although the IRS administers these reporting programs, most of this expense is mandated by Congress, not the IRS.

One of the primary reasons that Congress mandates ever-increasing information reporting is that the Treasury Department and the Joint Committee on Taxation staff almost always overestimate how much revenue will be gained from still more burdensome information reporting, and they do not estimate or report private compliance costs. Congress and the Treasury Department must undertake a serious review of the information reporting regime and reduce the burden on the public—especially small businesses. Small businesses suffer disproportionately from complexity and administrative burdens. Costs do not increase linearly with size, so elevated administrative costs have an adverse effect on the competitiveness of small firms.

Budget. The operating budget of the IRS should be held constant in real terms. The resources allocated to the Office of the Taxpayer Advocate should be increased by at least 20 percent (about $44 million). The Office of Equity, Diversity, and Inclusion should be closed. Provided that IT management is changed; an effective, well-considered implementation plan is adopted; and serious oversight is put in place, additional resources dedicated solely to IT modernization may be warranted.

INTERNATIONAL AFFAIRS

The Treasury Department should withdraw from Senate consideration the Protocol Amending the Convention on Mutual Administrative Assistance in Tax Matters.[48] The protocol will lead to substantially more transnational identity theft, crime, industrial espionage, financial fraud, and suppression of political opponents and religious or ethnic minorities by authoritarian and corrupt governments, including China, Colombia, Nigeria, and Russia. Unlike the original multilateral convention, the amended convention is open to *all* governments—including many that are either hostile to the United States, have serious corruption problems, or have inadequate privacy protections. The new Administration should also oppose the multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information.[49]

International organizations such as the OECD, the World Bank, and the International Monetary Fund espouse economic theories and policies that are inimical to American free market and limited government principles. The global elites who operate the IMF regularly advance higher taxes and big centralized government. The IMF has intervened in American policy debates—and has even recommended that the U.S. raise taxes. The IMF's record of advancing global financial stability has been mixed at best. Its development assistance and lending programs in third-world countries have more often than not retarded growth rather than advancing it.

The Treasury Department plays an important role in these international institutions and should force reforms and new policies. The U.S., however, should withdraw from both the World Bank and the IMF and terminate its financial contribution to both institutions.

If the U.S. is to provide economic assistance or humanitarian aid to other nations, it should do so unilaterally—not through the pass-throughs of international aid organizations, non-governmental organizations, or other nations. These organizations and countries simply create expensive middle-men, while U.S. funds are intercepted before being distributed to those in need. Also, these foreign entities have interests that do not coincide with American national security and economic interests.

FISCAL RESPONSIBILITY

Treasury should make balancing the federal budget a mission-critical objective. The federal budget absorbs enormous resources from the economy, both in money taken from taxpayers and in money borrowed. The budget should be balanced by driving down federal spending while maintaining a strong national defense and not raising taxes.

To reduce interest payments on the debt, Treasury should lock in current relatively low interest rates by issuing longer duration bonds, and even consider creating a 50-year treasury bill. Most of the federal debt rolls over on average about every three to four years. But interest rates, even with the latest Federal Reserve rate increases, are still below the 5 percent historical average. Treasury would thus save taxpayers money during the next several decades by issuing fewer short-term notes that will probably have to be rolled over at higher rates in the future.

To promote transparency of finances, each year Americans should receive a financial statement of the U.S. government alerting citizens of the revenues, expenditures, deficit, and debt for the preceding fiscal year. The statement should also include this individual family's pro-rata share of the debt based on family size.

INTERNATIONAL COMPETITIVENESS

The Treasury must act more assertively in international financial institutions to protect and advance U.S. national interests—and oppose those that do not. It should employ a carrot-and-stick approach by increasing its activity and commitment to those financial institutions that are willing and able to adjust to this new approach and by zeroing out or potentially exiting those institutions that rely on U.S. capital while advancing agendas that run counter to U.S. interests.

- A major emphasis of effecting this change must be the addition of a large new cadre of U.S. professionals and contractors at these international financial institutions.

- The U.S. must insist on the hiring and support of this human capital as a condition to future funding.

- The U.S. should also examine increasing or decreasing its ownership levels in these institutions in order to achieve maximum leverage.

CHINA AND OTHER GEOPOLITICAL THREATS

Committee on Foreign Investment in the United States. The interagency Committee on Foreign Investment in the United States should realign its priorities to meet the United States' current foreign policy threats, especially from China.

On October 20, 2022, the Treasury Department, which chairs CFIUS, adopted the first-ever CFIUS Enforcement and Penalty Guidelines[50] on the committee's national security risk mitigation requirements. However, there are no clear rules that guide CFIUS on mitigation monitoring, nor is there a published penalty schedule to standardize accountability when CFIUS pursues a civil money penalty for violators. In addition, Treasury—as chair of the committee—runs an opaque process that biases committee procedure toward corporate interests and away from national security interests. Finally, the committee's jurisdiction does not extend over greenfield investments that Chinese state-owned enterprises have historically pursued in the United States, which leaves America vulnerable to an instrument of Chinese economic statecraft.

Given these issues, the next steps for CFIUS should be to develop a more coherent—and transparent—mitigation monitoring program to complement the enforcement guidelines, give CFIUS agencies in charge of national security concerns an equal voice at the table, and petition Congress to amend the law to cover Chinese greenfield investments.

CFIUS should publish a penalty schedule for violations of CFIUS reporting and mitigation requirements. Publishing a penalty schedule for CFIUS violations will reduce the discretion of the committee to waive penalties or impose mere "wrist slap" costs on violators of the law. Additionally, a standardized penalty schedule would likely increase the deterrence of CFIUS enforcement by reducing the perception among parties to covered transactions that they can avoid enforcement by the committee or secure special exceptions based on appeals to the committee's discretion.

As a legal matter—and in application by CFIUS—mitigation monitoring has developed as the Wild West. There are no clear rules that guide the entire committee on mitigation monitoring, nor is there the same level of oversight or accountability within and among the agencies as applies when CFIUS reviews a transaction or when it pursues a civil money penalty. Indeed, it is a credit to transaction parties and the professionalism of the governmental officials and contractors who conduct mitigation monitoring on behalf of the government that, by and large, mitigation monitoring has worked adequately during the last several decades. But dependency on the personality and capabilities of individuals creates unnecessary risk both for CFIUS and for transaction parties.

Congress should make the Department of Defense (DOD) a CFIUS co-chair with the Department of Treasury. Making DOD an official CFIUS co-chair along with Treasury will establish a balanced committee process by elevating national security interests to an equal stature. The committee is currently imbalanced toward the interests of corporate America because Treasury is the sole chair of CFIUS and, in practice, runs a process that is not fully transparent and which biases it from the national security interests represented by DOD and the Intelligence Community (IC).

For example, Treasury representatives will consult with the Commerce Department and the United States Trade Representative—which tend to favor permitting covered transactions to occur with little to no mitigation requirements—and these representatives will then obscure the results and purposes of such sidebar meetings from DOD and IC representatives. This hampers DOD, IC, and sometimes even State Department representatives from full participation in the process or from advocating national security interests as well as they should.

Greenfield Investments. Congress should close the loophole on greenfield investments and require CFIUS review of investments in U.S.-based greenfield assets by Chinese-controlled entities to assess any potential harm to U.S. national and economic security. In the 2018 Foreign Risk and Review Modernization Act (FIRRMA),[51] one important category of foreign transactions left out of the bill was greenfield investments, particularly by Chinese state-owned enterprises (SOEs). Greenfield investments by Chinese SOEs pose a unique threat, and they should be met with the highest scrutiny by all levels of government.

Greenfield investments result in the control of newly built facilities in the U.S., and they were not addressed in FIRRMA primarily because governors and state governments embrace them. That is understandable; they typically bring the promise of creating American jobs. However, the goal of such Chinese SOEs is to siphon assets, technological innovation, and influence away from U.S. businesses in order to expand the global presence of the Chinese Communist Party. While the Chinese government keeps its domestic markets largely insulated from foreign influence, it regularly invests in the U.S. and other countries under the "greenfield" model. Firms fully owned by China's Communist regime are increasingly buying land, building factories, and taking advantage of state and local tax breaks on American soil.

Treasury should examine creating a school of financial warfare jointly with DOD. If the U.S. is to rely on financial weapons, tools, and strategies to prosecute international defensive and offensive objectives, it must create a specially trained group of experts dedicated to the study, training, testing, and preparedness of these deterrents. Recent experience has demonstrated that the U.S. cannot depend on the rapid development and deployment of untested, academically developed financial actions, stratagems, and weapons on an *ad hoc* basis.

Treasury must also seriously evaluate U.S. foreign direct investment in China. Particular focus should be paid to investments in CCP or other state-owned enterprises, investments that result in technology transfers from the U.S. to China, investments that enhance China's military capacity, and investments that pose risks to critical U.S. supply chains by sourcing critical components or feedstocks in China. An enhanced reporting system is warranted, and greater legal authority and restrictions are appropriate.

IMPROVED FINANCIAL REGULATION

One of the priorities of the incoming Administration should be to restructure the outdated and cumbersome financial regulatory system in order to promote financial innovation, improve regulator efficiency, reduce regulatory costs, close regulatory gaps, eliminate regulatory arbitrage, provide clear statutory authority, consolidate regulatory agencies or reduce the size of government, and increase transparency.

Merging Functions. The new Administration should establish a more streamlined bank and supervision by supporting legislation to merge the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Federal Reserve's non-monetary supervisory and regulatory functions.

U.S. banking law remains stuck in the 1930s regarding which functions financial companies should perform. It was never a good idea either to restrict banks to taking deposits and making loans or to prevent investment banks from taking deposits. Doing so makes markets less stable. All financial intermediaries function by pooling the financial resources of those who want to save and funneling them to others that are willing and able to pay for additional funds. This underlying principle should guide U.S. financial laws.

Policymakers should create new charters for financial firms that eliminate activity restrictions and reduce regulations in return for straightforward higher equity or risk-retention standards. Ultimately, these charters would replace government regulation with competition and market discipline, thereby lowering the risk of future financial crises and improving the ability of individuals to create wealth.

Dodd–Frank Revisions. Congress should repeal Title I, Title II, and Title VIII of the Dodd–Frank Act.[52] Title I of Dodd–Frank created the Financial Stability Oversight Council, a kind of super-regulator tasked with identifying so-called systemically important financial institutions and singling them out for especially stringent regulation. The problem, of course, is that this process effectively identifies those firms regulators believe are "too big to fail."[53]

Title VIII of Dodd–Frank gives the FSOC similarly broad special-designation authority for specialized financial companies known as financial market utilities.[54] Title II of Dodd–Frank established the controversial provision known as orderly liquidation authority (OLA), the law's alternative to bankruptcy for large financial firms. OLA was based on the faulty premise that large financial institutions cannot fail in a judicial bankruptcy proceeding without causing a financial crisis. It gives such companies access to subsidized funding and creates incentives for management to overleverage and expand high-risk investments.[55] Congress should repeal each of these provisions to guard against bailouts and too-big-to-fail problems.[56]

Treasury plays a role in funding the conservatorships of Fannie Mae and Freddie Mac. It should work to end the conservatorships and move toward privatization of these massive housing finance agencies. This would restore a sustainable housing finance market with a robust private mortgage market that does not rely on explicit or implicit taxpayer guarantees.

Direct government ownership has worsened the risks that government-sponsored enterprises (GSEs) pose to the mortgage market, and stock sales and other reforms should be pursued. Treasury should take the lead in the next President's legislative vision guided by the following principles:

- Fannie Mae and Freddie Mac (both GSEs) must he wound down in an orderly manner.

- The Common Securitization Platform[57] should be privatized and broadly available.

- Barriers to private investment must be removed to pave the way for a robust private market.

- The missions of the Federal Housing Administration and the Government National Mortgage Association ("Ginnie Mae") must he right-sized to serve a defined mission.

ANTI-MONEY LAUNDERING AND BENEFICIAL OWNERSHIP REPORTING REFORM

The Financial Crimes Enforcement Network is a relatively small bureau within the Treasury Department with approximately 285 employees and a FY 2022 budget of $173 million.[58] Although FinCEN makes a significant contribution to law enforcement efforts, it also does demonstrable, substantial and widespread economic harm because it: (1) is largely oblivious to those adverse economic effects; (2) conducts almost no meaningful cost-benefit analysis or retrospective review of regulations; (3) has been subject to extraordinarily lax oversight by both Congress and the Treasury Department; and (4) demands total transparency by those it regulates but is itself disturbingly and purposefully opaque. For example, FinCEN no longer issues an annual report[59] and no longer publishes cash transaction report (CTR) data.

There were 2 .7 million suspicious activity reports (SARs) filed in 2021.[60] The number of CTRs filed were approximately *10 times* that number.[61] In 2014, FinCEN anti-money laundering/countering the financing of terrorism (AML-CFT) rules cost an estimated $5 billion to $8 billion per year.[62] Undoubtedly, this cost is now substantially higher both because of inflation and because the rules have become more onerous.[63] Yet there is little evidence that this massive expenditure of resources is doing much good,[64] and there is no evidence regarding which aspects of the AML-CFT regime are effective and which are not. The AML-CFT regime is a major contributing factor causing the decline in the number of small broker-dealers and the decline in the competitiveness of community banks.

Congress must require FinCEN to annually publish data regarding:

- The number of SARs filed;
- The number of CTRs filed;[65]
- The number of AML-CFT prosecutions, disaggregating those in which the AML-CFT prosecution is stand-alone and in which the prosecution is an add-on count connected to other predicate crime;[66]
- The number of AML-CFT convictions (similarly disaggregated);
- The number and aggregate amount of AML-CFT fines imposed and the type of institution upon which the fine was imposed; and
- Annual estimates of the aggregate costs imposed on private entities by the AML-CFT regime.[67]

Without this data, it is impossible for policymakers to make an informed judgment about the effectiveness of the AML-CFT regime. Congress should also require both FinCEN and the Government Accountability Office to undertake separate evaluations regarding which aspects of the AML-CFT regime are effective and which are not. FinCEN should be required to undertake a thorough retrospective review of its regulations and various statutory requirements and report to Congress on its findings in a publicly available report. Anecdotes and assurances from FinCEN staff that all is well—but that even more onerous requirements are needed—are not enough.

Congress should repeal the Corporate Transparency Act, and FinCEN should withdraw its poorly written and overbroad beneficial ownership reporting rule. Both are targeted at the smallest businesses in the U.S. (those with 20 or fewer employees) and will do nothing material to impede criminal finance.[68] The FinCEN beneficial ownership reporting rule will impose costs exceeding $1 billion annually and is exceedingly poorly drafted.[69] FinCEN itself estimates that more than 33 million businesses will be affected and that costs will be $547 million to $8.1 billion annually.[70]

THE "EQUITY" AGENDA

Under the Biden Administration, the Treasury Department has appointed a Counselor for Racial Equity, established an Advisory Committee on Racial Equity, and created an office for Diversity, Equity, Inclusion, and Accessibility. All these should be eliminated. Treasury has created several new offices to promote "equity" and has made this its first of five strategic goals in its *Fiscal Year 2022–2226 Strategic Plan*. "Equity" is identified as a cross-cutting theme in 15 of 19 of the plan's objectives.

The avowed purpose of these initiatives is to implement policies that deliberately favor some races or ethnicities over others. The casual acceptance and rapid spread of racist policymaking in the federal government must be forcefully opposed and reversed. The next conservative Administration should take affirmative steps to expose and eradicate the practice of critical race theory and diversity, equity, and inclusion (DEI) throughout the Treasury Department.

These steps will include:

- **Identify** every Treasury official who participated in DEI initiatives and interview him or her for the purpose of determining the scope and nature of these initiatives and to ensure that such initiatives are completely ended.

- **Make** public immediately all communications relating to the work of the Treasury's critical race theory and DEI initiatives.

- **Treat** the participation in any critical race theory or DEI initiative, without objecting on constitutional or moral grounds, as *per se* grounds for termination of employment.

- **Expose and make public** all training materials and initiatives designed to single out any race, ethnicity, or sex for special treatment.

The Administration should eliminate the 25-member Treasury Advisory Committee on Racial Equity.

CLIMATE-RELATED FINANCIAL RISK

Treasury has created a new departmental office, "Climate Hub," and has made "combating climate change" one of the Biden Treasury Department's top five principal goals. The next Administration should eliminate the Climate Hub Office and withdraw from climate change agreements that are inimical to the prosperity of the United States.

The Climate Hub office "coordinates Treasury's work to inform, guide, incentivize, and mobilize financial flows for climate mitigation and climate adaptation and supports the broader alignment of the financial system with a path to net-zero emissions by mid-century."[71] According to the Biden Administration's *Fiscal Year 2022–2026 Strategic Plan* for Treasury, the fourth of five Treasury strategic goals reads:

> Combat Climate Change
>
> The United States and the world face a climate crisis and a narrowing window of action to avoid the worst impacts of climate change. At the same time, the transition to a low carbon economy represents a historic economic opportunity for the U.S. and global economy. The U.S. federal government must work alongside our domestic and international partners to respond ambitiously to tackle the challenges of climate change, adapt to an already changing climate, mitigate the risks, and position the global economy for clean and sustainable growth.[72]

Yet history shows that economic growth and technological/scientific advance through human ingenuity are by far the best ways to prevent and mitigate extreme weather events. Moreover, virtually all of the initiatives that the Biden Administration has adopted would, even if successful, have a *de minimis* impact on changing global weather patterns, in part because most nations—notably China—are not cooperating with climate summits and international agreements. Virtually all nations, for example, that signed the Paris Agreement[73] have not met their treaty obligations. Such routinely violated treaties weaken the U.S. economy with no offsetting societal benefits. To that end, the next conservative Administration should withdraw the U.S. from the U.N. Framework Convention on Climate Change[74] and the Paris Agreement.

The next Administration should use Treasury's tools and authority to promote investment in domestic energy, including oil and gas. It should reverse support for international public- (and private-) based efforts promoting Environmental, Social, and Governance[75] and Principles for Responsible Investment,[76] both of which have badly damaged U.S. energy security.

OTHER REFORMS

U.S. Coast Guard and the Bureau of Alcohol, Tobacco, Firearms, and Explosives. Congress should examine whether to return the Treasury's former in-house law enforcement capabilities via the return of the United States Coast Guard and the Bureau of Alcohol, Tobacco, Firearms, and Explosives. Bringing these agencies back from the Department of Homeland Security and the Department of Justice, respectively, would allow Treasury, in the case of U.S. Coast Guard, to increase border security via a vigilance with respect to economic crimes (for example, drug smuggling and tax evasion).

U.S. Trade and Development Agency. Congress should eliminate the U.S. Trade and Development Agency (USTDA). The USTDA is intended to help companies create U.S. jobs through the export of U.S. goods and services for priority development projects in emerging economies. The USTDA links U.S. businesses to export opportunities by funding project planning activities, pilot projects, and reverse-trade missions while creating sustainable infrastructure and economic growth in partner countries.

These activities more properly belong to the private sector. The best way to promote trade and development is to reduce tariff and non-tariff trade barriers. Another way is to reduce the federal budget deficit, and thereby federal borrowing from abroad, freeing more foreign dollars to be spent on U.S. exports instead of federal treasury bonds.

Other Issues. Many Treasury Department issues cut across multiple parts of Treasury or other governmental agencies. Several are discussed in this chapter, but not all can be covered here in depth. Other issues of concern include China, cybersecurity, digital assets, digital services taxes, international debt defaults, Iran, Social Security and Medicare Trust Funds and private sector pensions, sanctions policy, and treasury auction and debt issuance.

AUTHORS' NOTE: The preparation of this chapter was a collective enterprise of individuals involved in the 2025 Presidential Transition Project. All contributors to this chapter are listed at the front of this volume, but Monica Crowley, Tom Dans, John Berlau, Austin Bramwell, Preston Brashers, Alexandra Harrison Gaiser, Nathan Hitchen, Adam Korzeniewski, and Jonathan Moy deserve special mention. The authors alone assume responsibility for the content of this chapter, and no views expressed herein should be attributed to any other individual.

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24. Bonus depreciation provisions applied to specific industries should be maintained.
25. Employer-provided childcare expenses should also count toward the limitation on benefit deductions.
26. HSAs are flexible and portable, and they help contain costs by giving health care consumers skin in the game.
27. For additional revenue to fund pro-growth tax cuts, lawmakers could gradually phase down the limitation on benefit deductions.
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