Hearing on the President's Fiscal Year 2018 Budget Proposals with U.S. Secretary of the Treasury Steven Mnuchin

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Hearing on the President's Fiscal Year 2018 Budget Proposals with U.S. Secretary of the Treasury Steven Mnuchin

U.S. House of Representatives,
Committee on Ways and Means,
Washington, D.C.

WITNESS

The Honorable Steven T. Mnuchin
Secretary, U.S. Department of the Treasury
Witness Statement

Chairman Brady Announces Hearing on the President's Fiscal Year 2018 Budget Proposals with U.S. Secretary of the Treasury Steven Mnuchin

House Committee on Ways and Means Chairman Kevin Brady (R-TX) announced today that the Committee will hold a hearing on President Trump's budget proposals for fiscal year 2018. **The hearing will take place on Wednesday, May 24, 2017 in 1100 Longworth House Office Building, beginning at 2:00 PM.**

Oral testimony at this hearing will be from the invited witness only. The sole witness will be the Honorable Steven Mnuchin, Secretary, U.S. Department of the Treasury. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, June 7, 2017**. For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at http://www.waysandmeans.house.gov/

THE PRESIDENT'S FISCAL YEAR 2018 BUDGET PROPOSALS WITH

U.S. SECRETARY OF THE TREASURY STEVEN MNUCHIN

Wednesday, May 24, 2017

House of Representatives,

Committee on Ways and Means,

Washington, D.C.

The committee met, pursuant to call, at 2:11 p.m., in Room 1100, Longworth House Office Building, Hon. Kevin Brady [chairman of the committee] presiding.

Chairman Brady. The committee will come to order.

Good afternoon, and thank you all for joining us. Today, our committee is honored to welcome Treasury Secretary Steven Mnuchin to testify on President Trump's fiscal year 2018 budget proposals for the Treasury Department.

Secretary Mnuchin, we are grateful for your time and thank you for your testimony.

As members of this committee know, our annual hearing with the Treasury Secretary on the President's budget plays an incredibly important role in our work. Today's conversation will help set the stage for collaboration between Congress, the White House, and the Treasury Department. Today's conversation will help us identify in advance efforts to grow our economy, create jobs, and increase Americans' paychecks. Today's conversation will help encourage a constructive, open dialogue, focused on addressing the challenges facing our businesses and workers, our communities, and our country as a whole.

Reading through President Trump's fiscal year 2018 budget proposal, it is a welcome change to see that this budget, unlike the Obama budgets of the past 8 years, balances in the next decade. The President's proposals take much needed action to grow our economy, create jobs, and help more Americans move from welfare to work. We are also pleased to have President Trump's leadership on tax reform.

Secretary Mnuchin, as you are aware, pro-growth tax reform is a top priority for our committee. In the past 6 days, we have held two full committee hearings on tax reform. We have heard from American businesses large and small. They are eager for a simpler, fairer, and more competitive Tax Code. They want to hire more workers. They want to increase paychecks, and they want to invest in the future of this great country. Today, we are eager to hear more of the President's proposals to create jobs, grow paychecks, and strengthen our economy for the long term.

America faces a number of significant policy challenges with the broken Tax Code, an unsustainable national debt, an economy that is performing well below its potential. These challenges do not impact only red States or blue States; they impact American workers and families in all areas. And they impact the constituents of every member of this committee, no matter if you are a Republican or a Democrat.

We are committed to working with President Trump and with you, Secretary Mnuchin, to solve them. Again, we are grateful for your time today. We look forward to hearing your testimony.

And I yield to the distinguished ranking member, Mr. Neal, for the purposes of an opening statement.

Mr. Neal. Thank you, Mr. Chairman. I might begin with a parliamentary inquiry.

Chairman Brady. Yes, sir.

Mr. Neal. Mr. Chairman, how will members be recognized for the purposes of asking questions to the witness? How does the chairman intend to implement what we know as the Gibbons rule?

Chairman Brady. Yes. So committee rule 14, which is often referred as the Gibbons rule, states that members who are present at the beginning of the hearing will be recognized in order of their seniority. Then other members arriving after the gavel will be recognized in order of their appearance. The rule goes on to provide the chairman discretion to adjust the order of recognition based on the ratio in the number of members from each side of the aisle so as not to disadvantage members of the majority. This is why we often go to a 2 to 1 ratio at some point during a hearing.

However, Mr. Neal, I am sensitive to the concerns that you raise about not disadvantaging members who were present at the start of the hearing, and will endeavor to use my discretion to adjust the time of when we go to a 2 to 1 ratio in a way that doesn't disadvantage the members who were on time. This may look slightly different at each hearing, depending on the circumstances, but I and my staff will work with you and yours to achieve a fair outcome.

Mr. Neal. Thank you, Mr. Chairman. There were some of us on the committee who were actually here when Mr. Gibbons was the acting chairman of the committee, and that rule has worked very well to prompt members to be here on time.

Chairman Brady. I agree.

Mr. Neal. Thank you, Mr. Chairman.

Chairman Brady. Mr. Neal, you are recognized.

Mr. Neal. Thank you, Mr. Chairman.

Mr. Secretary, it is a pleasure to see you again. We thank you for joining us today. A budget is a reflection of one's values, and President Trump's budget is no exception.

The President's budget cuts program after program that middle class families rely upon every day. You name it, the Community Development Block Grant program, Stafford loans for college students, all drastically cut or zeroed out. The budget also breaks the President's repeated promise not to cut Social Security and Medicare, cutting Social Security benefits by up to $64 billion. The budget also cuts Medicaid by more than $600 billion on top of more than $800 billion in cuts in the Republican healthcare bill. And it would also restrict healthcare coverage for children under the CHIP program significantly.

For Democrats, our values today reflect a strong commitment to the middle class. For every issue we consider here in Congress, the first question we will ask ourselves and the majority is the following: Will it help working families? And if the answer is no, we won't support it. Let's face it, for many American families this has not been an easy time to make ends meet.

You work hard every day, sometimes in multiple jobs, but it is still tough to earn enough money to make sure there is adequate food on the table and a roof over your head. It is in particular a struggle for many young Americans today. The front page of The Boston Globe this week included a story about how the loss of blue collar jobs is forcing young men to fall down the income ladder. This is a reason why working families sent a strong signal to Congress last November.

Many Americans were convinced that President Trump understood the importance of the middle class and that he would be a different kind of Republican who would work finally to make sure that they would have an edge and an opportunity. Unfortunately, the budget that we have witnessed in the last 48 hours is one that has let those people down in dramatic fashion. We were elected to help America's working families, and that is why our priority must always be the middle class.

So what are some Democratic priorities? A key priority is to provide affordable, quality healthcare for all Americans through programs like Medicare, Medicaid, and CHIP. More and more middle class families rely on Medicaid for long-term care. It pays for 60 percent of all nursing home residents nationwide.

As the baby boomers age into Medicare, it would be irresponsible to cut funds in this critical program. The reason mom and dad aren't living in your attic is because of Medicare and Medicaid. And 95 percent of the American children have insurance coverage thanks to Medicaid CHIP and previously, bipartisanship. It provides health coverage for working families struggling to make ends meet.

We know the Tax Code is broken, in desperate need of repair, and that is why we must continue to pursue reform. But we must reject ideology and move forward in a bipartisan manner to create a Tax Code that is fair for middle class Americans. Middle class families are frustrated by stagnant wages, a Tax Code that favors those at the top, and an uncertain financial future. Any tax reform plan must be about moving the dial to help middle class families grow and prosper.

Another priority for this side is very simple: ensuring that working families are financially secure in retirement. We are about to experience a retirement savings crisis in this country. According to Boston College's National Retirement Risk Index, about half of today's households are at risk of not being able to maintain their preretirement lifestyles once they stop working. Far too many Americans are not able to save enough for retirement.

We also will continue to support initiatives to help Americans save, like the auto IRA, making the Saver's Credit refundable, and as you know, I am a big supporter of tax incentives for retirement savings. We should be helping to rebuild and reinforce Social Security along the lines proposed by our colleague John Larson. This would allow Social Security to continue to be the foundation of middle class economic security for 171 million workers who contribute with every paycheck, knowing that Social Security will be there for them when they retire and if they become too sick to work and to protect their families in the event of their death.

Let me close by saying that we will continue our focus on this side to make sure the middle class is first. It is going to be true on every issue that comes before us, from healthcare to taxes to retirement.

And I yield back the balance of my time.

Chairman Brady. Thank you, Mr. Neal.

Without objection, other members' opening statements will be made a part of the record.

Today's sole witness is U.S. Treasury Secretary Steven Mnuchin. The committee has received your written statement, and it will be made part of the formal hearing record. You have 5 minutes to deliver your oral remarks.

Secretary Mnuchin, welcome, and you may begin when you are ready.

STATEMENT OF HON. STEVEN T. MNUCHIN, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary Mnuchin. Thank you. It is a pleasure to be here.

Chairman Brady, Ranking Member Neal, and members of the committee, it is an honor to be here today, my first time appearing before the House of Representatives. I am looking forward to working with Members of Congress and this committee on passing important legislation for the American people.

My number one priority as Treasury Secretary is creating sustainable economic growth for all Americans. The best way to achieve this is through a combination of tax reform, regulatory relief, and protecting taxpayers. This also includes making some difficult decisions with respect to our budget.

We are currently bearing the cost of excessive government commitments of previous years, and this has forced us into hard choices. But the remarkable thing about economic growth is that it builds upon itself. If we develop the right policies today, our children and grandchildren will reap the benefits of an ever-growing economy.

Indeed, in the next 10 years, if we return to the modern historic average of above 3 percent annual GDP growth, our economy will grow by trillions of dollars. This will be meaningful to every man, woman, and child in this country, and future generations.

Tax reform will play a major role in our campaign for growth. It has been more than 30 years since we have had comprehensive tax reform in this country. The administration is committed to working with you to change that. We have about 100 people working at Treasury on this issue now. We are working diligently to bring tax relief to lower- and middle-income Americans, as well as make American business competitive again. All of this comes as we simplify the Tax Code, and make it easier for hard-working Americans to file their taxes.

Finally, I would like to speak about the importance of free and fair international trade. Few doubt that free trade is a crucial component of economic growth. But trade deals that disadvantage American workers and business can hardly be considered either free or fair. In meetings with my international counterparts I have stressed this dual importance.

Just 2 weeks ago, I had productive meetings with the finance ministers of the G-7, and earlier I met with the members of IMF and World Bank. They understand our concerns, and we have approached our international dialogue with a renewed spirit of mutual understanding.

In the President's joint session to Congress, he spoke about the marvels that this country is capable of when its citizens are set free to pursue their visions. Fundamental to that freedom is removing imprudent regulation and uncompetitive taxes from blocking their way.

There has been a significant few months at Treasury. We have been studying, developing, and implementing policies that will put this country on the path toward sustained economic growth. In coming months, we will work with this committee and Congress, and we will look back on an important time for this Nation's economy and our history.

Thank you, and I look forward to answering your questions today.

Statement of
Steven T. Mnuchin
Secretary
United States Department of the Treasury
before the
Committee on Ways and Means
United States House of Representatives
May 24, 2017

Chairman Brady, Ranking Member Neal, and members of the Committee, it is an honor to be here today – my first time appearing before the House of Representatives. I am looking forward to working with members of Congress and this committee on passing important legislation for the American people.

My number one priority as Treasury Secretary is creating sustainable economic growth for all Americans. The best way to achieve this is through a combination of tax reform, regulatory relief, and protecting taxpayers; this also includes making some difficult decisions with respect to our budget. We are currently bearing the costs of excessive government commitments of previous years, and this has forced us into hard choices.

But the remarkable thing about economic growth is that it builds on itself. If we develop the right policies today, our children and grandchildren will reap the benefits of an ever-growing economy. Indeed, in the next ten years, if we return to the modern historic average of above 3% annual GDP growth, our economy would grow by trillions of dollars. This will be meaningful to every man, woman, and child in this country and future generations.

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Thank you and I look forward to answering your questions.

Chairman Brady. Thank you, Mr. Secretary.

First, thank you for your laser focus on jobs, especially those for the middle class. And certainly, the recipe for moving this country forward are lower taxes and a Tax Code built for growth, balancing red tape so our local businesses can thrive, and expanding our economic freedom of trade, because as we know, it is not simply enough to buy American, we have to sell American all throughout the world. You play a key role there.

Mr. Secretary, currently we have nearly $20 trillion in debt, and you are using extraordinary measures until Congress addresses the debt limit later this year. To its credit, the Trump budget cuts deficits by $5 trillion, but that still leaves increased and growing national debt of $4 trillion more. Absent in your testimony today is any reference to the debt limit, though I know that you continue to make the case for action by Congress.

As Treasury Secretary, you also serve an important role as managing trustee of the Social Security and the Medicare trust funds. Together, these two programs are the largest drivers of our debt. More than that, they are under financial duress for the long term, and I worry about them. Also absent from your testimony today is any mention of ways or even the need to improve the solvency of these critical programs, which I know we share.

As managing trustee, shouldn't we be working to make sure that our children and grandchildren can count on these important programs, just like seniors and individuals with disabilities do today? Mr. Secretary?

Secretary Mnuchin. Chairman Brady, thank you very much for your comments. And I appreciate your focus on both the national debt as well as Social Security and Medicare.

So first, let me just comment on the debt. We are very concerned that the debt has gone from $10 trillion to $20 trillion over the last 8 years. And we believe that the most important issue is economic growth. As I said in my opening remarks, the difference between 2 percent and 3 percent sustained GDP is trillions of dollars over the next 10 years. So that is our absolute focus.

I would also just comment in regards to the debt limit, as you have outlined, I have used my extraordinary powers, but I would also like to emphasize for this committee and for the rest of Congress, I urge you to raise the debt limit before you leave for the summer. We can all discuss how we cut spending in the future and how we deal with the budgets going forward. But it is absolutely critical that where we have spent money, that we keep the credit of the United States as the most critical issue. It is the reserve currency of the world, and we need to make sure that we can raise our debt ceiling to pay our debts.

Chairman Brady. As part of the upcoming dialogue on increasing debt limit, do you intend, or the agency intend to present solutions to preserving Social Security and Medicare for the long term as we go forward?

Secretary Mnuchin. As you have mentioned, I take my role as managing trustee very seriously. I have begun to look at and review with my staff the draft reports that we will be reporting on the trust funds, and I look forward to working with Congress as we work through that and look at it. Thank you.

Chairman Brady. Thank you. Thank you. Final point. As you work toward that end, so is your preference for Congress to pass a clean debt ceiling?

Secretary Mnuchin. That is my preference.

Chairman Brady. Thank you.

Mr. Neal, you are recognized.

Mr. Neal. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for the assertive manner in which you addressed that issue of raising the debt ceiling. And I was very happy that the chairman raised that question immediately. The debt ceiling used to be an issue that we used to address here in Congress in a bipartisan manner. So your emphatic support of raising that debt ceiling is much appreciated by all of us today.

Just a couple of points, if I could, again based on long service with the committee. In 2001 and in 2003, there were tax cuts that totaled $2.3 trillion. They were advertised, at the time, as the basis for promoting strong economic growth. And in fact, that economic growth not only did not occur, but it was the slowest growth since Herbert Hoover had been President. And yet the debt that we talk about today is conveniently suggested that somehow it happened during the last 8 years.

So not only was there subpar growth in those years, but the deficits began to mount, there was a war in Iraq and a war in Afghanistan with a million new veterans, who we are obligated to care for, and then there was the recession in which we were losing up to 800,000 jobs in some months.

So when you consider that social spending is formulaic and at the end of the Clinton years there were 23 million new jobs and an unemployment rate of 3.8 percent, the Clinton economic plan appeared to work. And not only did Federal revenue go through the ceiling, and Secretary Greenspan warned us that we were paying down the debt too quickly, but we had balanced the budget for 4 successive years. The unemployment rate of 3.8 percent meant that social spending, much of which is formulaic at the Federal level, also was reduced significantly.

And I am concerned that the model that is being offered and discussed, and I hope there will be a chance for us as we go forward, but I would urge you, based on long experience here for many of us on this committee, that ideology, as it relates to revenue, frequently doesn't square with revenue forecasts. And trying to project what the future might look like, suggesting that, for example, that automatically we are going to 3 percent growth during the Clinton years, which averaged 4.2 percent, and the Reagan years I believe 4.1 percent, that most economists think that is unlikely.

I think we would be supportive of what you would like to do, but getting there is very different than what we would all like to do. So I am mindful of the fact that even as you propose 3 percent growth, I think we need to argue and acknowledge that that will not be an easy task. And modeling a tax cut for people at the top based upon 3 percent growth that might not happen seems to me to be a bit of a risk. And you might want to respond to that.

Secretary Mnuchin. Well, I first just comment, I know we all share a common view of trying to create economic growth in this country. And I hope we will all work together to do whatever we can on those shared goals. So that is our number one objective.

We have been working very closely with Chairman Brady and others at the Senate on comprehensive tax reform. We think this is a critical component of economic growth. We fundamentally believe in dynamic scoring, which implies that when you change tax policies, you do impact behavior. There are many, many economists who believe this. Like anything else, there will be different models that come out. And when we present a combined tax plan, different people will have their views.

But I can assure you we are very focused on being able to pay for tax reform, and we are looking at policies that we are going to do everything we can to get to 3 percent growth.

Mr. Neal. Thank you, Mr. Chairman.

Chairman Brady. Thank you.

Mr. Nunes.

Mr. Nunes. Thank you, Mr. Chairman. I will be real quick.

Mr. Secretary, it was great to have you last week meeting with us, and I hope that that continues. You know, we want to work with the administration to come up with a pro-growth tax plan. As you probably know, this committee has been working for a decade at reforming the Tax Code. And so the amount of work and work product that we have here, and scoring, working with Joint Tax, is quite considerable. And I hope that you will continue to work with us as we move forward so that we can deliver the type of growth that you want to achieve.

Secretary Mnuchin. Thank you. We look forward to that, and look forward to building on all the work and expertise as you have been focused on this.

Mr. Nunes. Thank you, Mr. Secretary. I appreciate you being here.

Mr. Chairman, I yield back.

Chairman Brady. Thank you.

Mr. Levin, you are recognized.

Mr. Levin. Thank you.

Welcome, Mr. Secretary. I think it is important to look where there is common ground, also to acknowledge where there are some deep differences. That may be the only way we find common ground.

In February, you said there would be no absolute tax cut for the upper class. Are you willing to sit here today and say under the tax plan there will be no, absolutely no tax cut for the upper class?

Secretary Mnuchin. Yes, I did say that, and I think I was actually honored by some people at the Senate who nicknamed that the Mnuchin rule. So I feel like I am now in good company with the Volcker rule and the Buffett rule.

Mr. Levin. I am not sure it is the same company.

Secretary Mnuchin. Well, I will take it that way. In any event, the President's objective on the personal side of tax reform is to simplify the Tax Code. I think we would all agree the Tax Code is way too complicated. The IRS is too big on reviewing personal taxes.

Mr. Levin. Mr. Secretary, I agree with that. But if you would, would you answer the question?

Secretary Mnuchin. I am. I was going to get there. So I wanted to start with the President's objective is to have a middle income tax cut. And that is consistent with what I have said earlier.

Right now, what we are looking at is cutting the taxes on the high end and eliminating all deductions, other than mortgage interest and charitable donations. Let me just say that this was a short form for the administration's proposal. We are working very closely, as I said earlier, with Chairman Brady and others on trying to reach a consensus for tax. But the President's objective is to create a middle income tax cut.

Mr. Levin. Okay. But that really doesn't answer the question. In the one-pager that came out, it cuts the top rate, eliminates the estate tax, repeals the AMT, and repeals the ACA investment tax for those earnings over $200,000. So are you willing to sit here and say there will be no absolute tax cut for the upper class?

Secretary Mnuchin. Again, let me just say, this is going to be a collaborative process for tax reform to pass. Obviously, it is going to be something that has got to be a collaboration between the House, the Senate, and the administration. And when we come out with the tax plan, we will show the distribution, as you would expect, and you will see it.

I would just comment, again, our objective is to cut the high-end tax and get rid of lots of deductions that will offset that.

Chairman Brady. Thank you. All time has expired.

Mr. Tiberi, you are recognized.

Mr. Tiberi. Thank you, Mr. Chairman.

Thank you, Secretary, for being here today. I really appreciate your time. I was pleased to see in your budget request to fund the CDFI in order to maintain existing programs like the new markets tax credit program. I hope that is an indication that the administration is supportive of the program, which has been effectively targeting investments in low-income communities, both urban and rural, across the country. I have been a big supporter of it, and it is bipartisan.

I was unable to attend the hearing yesterday on international competitiveness that the chairman held, but I just want to associate myself with my colleagues who have expressed a concern with the current border adjustability tax proposal and its impact on consumers and workers. However, I have been one of the strongest proponents of reform, comprehensive reform. I know you are as well. And I look forward to working with you and the rest of the administration of implementing actual tax reform this Congress. Making our Tax Code more competitive, I think, is really important to economic growth.

And we are going to hear, and we already have heard a little bit about economic growth and data, regarding economic growth maybe being a little bit too optimistic. But I want to put it in perspective. A similar conversation we had 8 years ago, Mr. Neal, and I would like to compare, just for a moment, the President's budget with President Obama's first budget.

So in its first 4 years, the Obama budget projected average economic growth of 4 percent; the Trump budget, less than 2.8 percent. The Obama budget projected average growth of almost 3.2 percent over the first decade; the Trump budget, 2.9 percent. Obama's projections for the first year of his Presidency seemed pretty reasonable around here at the time, given historical economic growth levels following a recession. But it is not surprising, in my mind, that President Obama's projections never materialized because he pursued an anti-growth, increasing taxes, more regulation policy that left us $20 trillion in debt. This President and the Republican Congress, on the other hand, have already gone on record to not only try to reduce regulations and the regulatory burden -- the President signed now a dozen-plus bills -- as well as pursuing tax reform, lowering rates, and ultimately balancing a budget.

Mr. Secretary, just a quick thought on the border adjustability tax and on Mr. Nunes's point about economic growth.

Secretary Mnuchin. Well, I have had the opportunity, Chairman Brady and I have been meeting almost every week since I have been in office. I think we are working very closely together. I have discussed that there is some concerns we have on the border adjustment tax. But we are looking forward to potential changes that Chairman Brady may look at that. But we are working very collaboratively, and our objective is to get comprehensive tax reform done.

Chairman Brady. Thank you.

Mr. Lewis, you are recognized.

Mr. Lewis. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here today.

Mr. Secretary, I have often said that a budget proposal is a statement of values and priorities. This administration proposal makes it crystal clear that the hungry, the middle class, the elderly, and the struggling will be left out and left behind. This budget says more money for war, for guns, for weapons. This budget breaks promise after promise to the American people. It raids Medicaid and Social Security. It cuts funding for food assistance and support for those who have been left out and left behind, as I stated.

I said over and over again, and I believe it today, that we have a right to know what is in the food we eat, what is in the water we drink, and what is in the air we breathe. This budget cuts EPA. This is not right. This is not fair and it is not just. I have a strange feeling that this budget is not respecting the American people. The people are not top priority for this administration. I think we can do much better.

I have served for a long time as the ranking member on the Oversight Subcommittee. And we have been very, very concerned about how the IRS is being squeezed. We don't provide enough funding for the Internal Revenue Service to collect the dollars. I would like for you to respond. Why are we squeezing the IRS? Why do we continue to cut and cut?

Secretary Mnuchin. Well, first let me just comment that the budget does reflect the priorities of the President around the military. And you are correct, there has been some very difficult decisions made to fund increases to the military. The President thinks that the national security is of the utmost importance to the country and that we have underinvested in the military, and that there are other areas where we needed to make difficult decisions.

I would also just say that I do agree with you, and I know the President believes in clean air and clean water. As a matter of fact, I had the opportunity to visit Flint, Michigan, with him during the campaign. And that was quite concerning.

Particularly as it relates to the Internal Revenue Service, I am comfortable that we have preserved within the budget very significant commitments to increasing our technology.

Chairman Brady. Mr. Chairman, I apologize. The time has expired on this question. Perhaps we can pick it up later in the hearing.

Mr. Reichert, you are recognized.

Mr. Reichert. Thank you, Mr. Chairman. Welcome, Mr. Secretary.

In hearings over the past several years, we have heard testimony about how permanent tax policy drives investment, growth, business decision-making far more than temporary tax policy does. In fact, in our hearings just last week, a witness shared with us that permanent, permanent comprehensive tax reform is absolutely critical for him to make business decisions, and certainty in the Tax Code helps American workers.

Can you share the administration's views on temporary tax reform versus permanent, comprehensive tax reform, tax policy?

Secretary Mnuchin. Sure. I think our preference is to permanent over temporary. But I would just say permanent is better than temporary, and temporary is better than nothing.

Mr. Reichert. Well, if we want to go permanent, we want to go comprehensive, how does that help -- I am especially interested in small business. So how does that help small businesses? Can you describe what a permanent Tax Code might do to help businesses, help workers, create jobs, increase the GDP, whatever?

Secretary Mnuchin. Sure. I mean, I think, first of all, we have a very complicated business tax system that is one of the most uncompetitive in the world. We have a very high corporate tax rate. We tax on worldwide income. We have a concept of deferral. It is not a surprise that our companies have left trillions of dollars offshore. And as part of this, we want to make sure that money comes back on shore, is invested to create jobs.

And I think a big part of the engine of growth in this country is small businesses. We want to make sure that the business tax, not just the corporate tax, is something that benefits small- and medium-sized businesses as well. That is a big priority of ours.

Mr. Reichert. And at the end of your testimony you briefly mentioned trade. And I happen to be the Trade Subcommittee chairman. So I look forward to working with you and your team at the White House on upcoming trade issues.

Mr. Chairman, I yield back.

Chairman Brady. Thank you.

Mr. Doggett, you are recognized.

Mr. Doggett. Thank you, Mr. Secretary. Do I understand correctly that you do not believe we should finance tax reform by borrowing from abroad to pay for it? You think that this tax reform should be fully paid for with economic growth, changes in spending, and other tax policy?

Secretary Mnuchin. I do believe it should be fully paid for with changes to economic growth and with other ways of broadening the tax base.

Mr. Doggett. Great. And do you believe that in its current form, the border adjustment tax poses a significant risk to the American economy?

Secretary Mnuchin. Again, we have had conversations on the border adjustment tax.

Mr. Doggett. Sure. And I understand you are trying to be collaborative. But as it is proposed, you have stated that it poses a significant risk to the American economy.

Secretary Mnuchin. I have expressed in its current form I have concerns.

Mr. Doggett. And isn't it in such bad shape on the border adjustment tax that the administration does not plan to propose a way to fix it because it doesn't know of a way to fix it?

Secretary Mnuchin. Well, I don't think it is our job to fix it.

Mr. Doggett. You don't propose to.

Secretary Mnuchin. Again, we are working very closely with Chairman Brady, okay --

Mr. Doggett. You count on him to come up with the idea. The administration will not be bringing a border adjustment tax proposal here.

Secretary Mnuchin. I think the intent is Chairman Brady is going to look at changes.

Mr. Doggett. Okay. Now, as you know, the Republican colleagues here, like you, are very over-optimistic, in my opinion, but optimistic about the benefits that this tax reform will bring to economic growth. And they have included within their projections significant benefits from economic growth, dynamic scoring to which you referred, to pay for it. But they concluded that that was not enough. And $1.1 trillion of their paying for it comes from the border adjustment tax.

What specific changes in tax policy do you advocate? Can you identify any specifics, as distinguished from just generalized comment, to make up for that $1.1 trillion gap if the border adjustment tax goes?

Secretary Mnuchin. Well, let me just comment on we have a terrific career staff at Treasury. We have a lot of resources. We have over 100 people working on this. I have some senior advisers who are full-time focused. And there is lots of different scenarios we are running.

Mr. Doggett. Okay. As they look at that, will you also have them look at the $2 trillion hole in your budget that comes from double counting? Because you have counted the benefits of your budget of economic growth to both pay for the tax cut and to pay for other provisions in the budget. So I think we are really looking at an over $3 trillion and have yet to hear a specific change in tax policy you advocate.

Further, can you tell us whether the Mnuchin rule that Mr. Levin asked you about, is it your policy now or not your policy? Just yes or no. Is it in effect? I know you want to collaborate. But is it yes or no, the Mnuchin rule is what you advocate?

Chairman Brady. All time has expired.

Mr. Doggett. Can he just answer yes or no?

Chairman Brady. We will have to give the Secretary time to answer within your moments.

Mr. Roskam, you are recognized.

Mr. Roskam. Thank you, Mr. Chairman.

Mr. Secretary, two points. One is kind of a touch and go and one is a little more substantive. So touch and go, as it relates to border adjustment in particular, our committee has really struggled over the past several years dealing with the anti-base erosion rules. I mean really, really struggled in a very unsatisfying way. The Obama administration really struggled. Section 385, which you are very familiar with, redefining debt and equity doctrines that had been well placed for 40 years. None of them work. The attractive thing about border adjustment is that it works.

So if all we are doing is lowering the corporate rate and flipping to a territorial system, it creates a huge incentive to put IP out of the country. And therein lies the rub. I know you are on top of it, we are on top of it. But that is one of the things that we need to get to. So that is the touch and go.

Here is my real point. We have got to sort out, and you and I had a discussion last week, just to continue to highlight this, the capacity at Treasury and the U.S. Office of Foreign Asset Control as it relates to Iranian terror. Iran, as we know, is the world's largest state sponsor of terror. They don't repudiate it, they don't walk away from it.

We can reconcile the relationship if they came clean and stopped it, but they are continuing to do that. As you know, there is large commercial aircraft companies, Boeing and others, that are determined to sell to the Iranians, notwithstanding the bad activities of the Iranians. Can you speak to that, to your current review, your current understanding?

And from my point of view, and I think most on the committee, and most in the House, you have got the authority, you individually as the Secretary, have an incredible amount of authority to fix this and keep us safe and to make sure that the world's largest state sponsor of terror does not get access to commercial aircraft, which are fungible and can be used for military purposes.

Secretary Mnuchin. Well, let me just comment that one of the most important parts of my job is on anti-terrorist financing. And I am probably spending 50 percent of my time on what we call TFI at the Treasury, terrorist financing and intelligence. These tools are absolutely critical. They really work.

In the case of Iran, there is no question the sanctions are what brought them to the table. I believe we could have gotten a better deal with them at the table. We will use everything within our power to put additional sanctions on Iran, Syria, and North Korea to protect American lives. And I can assure you that is a big focus of mine, and I discuss it with the President.

As it relates to the licenses that you are referring to, yes, it is correct that both in the case of Boeing and Airbus, there are licenses that will be required. And they are under review.

Mr. Roskam. Thank you. I yield back.

Chairman Brady. Thank you.

Mr. Thompson, you are recognized.

Mr. Thompson. Thank you, Mr. Chairman.

Mr. Chairman, I was heartened to hear the Secretary say that the debt ceiling issue was important. And I would suggest that we as a committee, in a good show of bipartisanship, send a letter, signed by the chairman and the ranking member and all the committee members, to Speaker Ryan and Leader Pelosi stating that we believe it is important to raise the debt ceiling and prevent the type of catastrophe that the Secretary has stated. And I could do that as a motion or whatever you think is appropriate. Would you be willing to do that?

Chairman Brady. So please present any draft letters to us, and we will certainly consider it.

Mr. Thompson. Mr. Secretary, thank you very much for being here today. It is good to see you again. I continue to be concerned about going down this road of we are all going to come together and do great tax reform. And I want to be there, and I want to be part of that. But there is a distinct difference between tax reform and just tax cuts. And I continue to worry that as time slips by, we may get into the mode where folks are just looking for a quote/unquote win, and we revert to just the tax cut. And if that happens, as you have explained, it is not tax reform, and it is highly likely that it won't be paid for. It is just going to add to the national debt.

So I want to make sure that I understand, you are committed to a revenue neutral bill. You don't want to borrow to do this. You want to do tax reform, not just tax cuts. Is that correct?

Secretary Mnuchin. It is correct that I want to do tax reform, and I want them to be paid for through broad-based changes to the Tax Code and economic growth. And that is what is critical.

Mr. Thompson. Thank you. On May 21, 2015, the President, then candidate, stated that: I am going to save Social Security without any cuts. I know where to get the money from. Nobody else does.

And then we see a budget with tens of billions of dollars of cuts in regard to Social Security disability insurance, despite the fact the President stated that he wasn't going to cut Social Security. The President does understand that the disability portion is Social Security. These are people who have paid into the system and have become disabled and can't work. And they rely on -- thousands of people throughout our districts rely on the fact that they have this disability insurance program to provide for them while they are disabled and out of work.

These cuts are going to hurt those folks, going to hurt those families and those communities. Is it the President's intention to make these cuts in Social Security and deliver this devastation?

Chairman Brady. Thank you all. Time has expired.

Mr. Buchanan, you are recognized.

Mr. Buchanan. Mr. Secretary, thanks for being here. Three quick points. You mentioned that we have been running trillion dollar deficits. Let me go back.

In terms of deficit spending, I have been here 10 years, we have run a $10 trillion deficit. There is plenty of blame to go around. But I want to make sure the administration is committed to moving towards a balanced budget at some point in the future.

A lot of the tough decisions have got to be made on a bipartisan basis. I look around this room, a lot of young people, and we are going to bury them in debt if we don't change it quickly. You are a business person. At some point this ends badly.

Secretary Mnuchin. I can assure you the President's very focused on the long-term impact of the debt.

Mr. Buchanan. Second point is just on passthrough entities. I know you refer to business, but 93 percent of the businesses formatted in Florida are passthrough entities. Last time we did tax reform, they were looking to a lower corporate rate. I want to make sure you guys are committed to also get parity with passthrough entities, small businesses. In some States it is as high as 50 percent when you add State and Federal together. I want to make sure you are committed to not just corporate reduction, but passthrough reduction as well.

Secretary Mnuchin. We are absolutely committed to what I would call the business tax passthroughs. But I also want to just say we will want to make sure that rich people can't use passthroughs to evade the personal tax system. But yes, we are committed that small and medium-sized businesses have the benefit of this.

Mr. Buchanan. And the other point is on the IRS reform. I chair the Oversight Committee. And we want to make sure something gets done in this space. It has been 20 years. We have talked about it briefly. But as we do tax reform, it makes a lot of sense to do IRS reform. And I just want to also get your commitment that you guys are thinking about that, because it is a real opportunity in terms of business disputes, in terms of being more customer friendly. What is your thoughts on IRS reform?

Secretary Mnuchin. We are very supportive of that. And as I mentioned earlier, we need to invest a lot of money in technology at the IRS. And we have preserved those investments as part of the budget.

Mr. Buchanan. Thank you. I yield back.

Chairman Brady. Thank you.

Mr. Larson, you are recognized.

Mr. Larson. Thank you, Mr. Chairman. And thank you, Secretary Mnuchin.

Let me start by applauding you and your staff. I really appreciate the conversations you have had with Mr. Neal, Mr. Courtney, and myself, and letters from the taxpayers associations about a God awful situation for people in the State of Connecticut facing crumbling foundations. And we sincerely appreciate your efforts to further look into this and help them.

Secretary Mnuchin. Thank you.

Mr. Larson. Let me also add with my colleagues, I think you are absolutely right about the debt ceiling. And we should have resolution before we leave here this summer. We cannot leave here in August and have the uncertainty that will result from this and the gaming and the politics that will take place. It could be a calamity for the country. We stand solidly behind you in this effort.

Now, Mr. Doggett asked you a question, yes or no on the Mnuchin rule.

Secretary Mnuchin. Again, what I have said is the President's objective is not to cut taxes on the high end. His objective is to cut middle-income tax cuts. But this is a process that will be both the House, the Senate, and the administration, and we are working together.

Mr. Larson. All right. That is not the answer, but let me also ask you what Mr. Thompson asked you. And that is whether or not you intend to follow through on these $64 billion cut out of Social Security.

Secretary Mnuchin. So let me just say, the President is absolutely committed that people who should be paid disability will be paid disability. That is what the trust fund is for, and we will honor those commitments. So the assumption for changes in disability, and again, I would just say these are assumptions that perhaps there are some places where people should be going back to work, but that for people who long term cannot go back to work, they will not see a cut in their disability.

Mr. Larson. Well, listen. I hope that this committee will go to regular order. We need a discussion on Social Security. Social Security is insurance. It is not an entitlement. People have paid for this. They understand it. We are going to debunk this myth once and for all. I appreciate what Sam Johnson had said, that he is going to have an open hearing on this. And the vitality of ideas and what we plan to do with Social Security ought to be out in the open.

I appreciate your invitation also to come down to the Treasury and talk about ideas that we have on both sides of the aisle to make sure that we strengthen this. But this hasn't been touched since 1983. Has anyone in this audience's insurance premiums gone up since 1983? Of course they have. And so we turn around and trick the elderly all the time and tell them they are greedy geezers? These people are depending upon this. They have contributed throughout their lifetime into a fund that is insurance, the most successful governmental program that has a 99 percent loss ratio. That is pretty good in the private sector, isn't it, Mr. Mnuchin

Secretary Mnuchin. Yes, sir.

Chairman Brady. Thank you, Mr. Larson.

Mr. Smith, you are recognized.

Mr. Smith of Nebraska. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for taking the time to be here and share your insight. I think that a lot of work is being done both here in Congress, in the House, and also at the White House. And I appreciate the fact that I think there is a lot more similarity between the details of perhaps what the White House would choose to do on tax reform as well as what we are with the blueprint. And a lot of thoughtful minds are working. And I would certainly invite even more folks to join the process as we do move through regular order, and how important it is to bring people together so that we can work together to solve the challenges that we are facing. We know that there are tradeoffs that need to be evaluated as we sort through the details.

I was wondering if you could talk a little bit about the process of deciding on how to move forward with various tradeoffs, and perhaps looking at finding the right base broadeners as we help achieve permanent tax reform. I certainly associate myself with the comments of Mr. Reichert, and how important permanence is for tax reform and how much more economically productive that would be as well. Can you speak to perhaps the tradeoffs?

Secretary Mnuchin. Well, again, I would just comment on the process. We have started conducting listening sessions. We have had the opportunity to be both here and at the Senate and meet with both Republicans and Democrats to get ideas. We have also had the opportunity to meet with many outside groups and many industry groups, comprising of business CEOs. And we are looking forward to, I am sure as the committee is, getting feedback on different ideas, doing that as well.

Mr. Smith of Nebraska. Okay. I thank you.

I yield back.

Chairman Brady. Thank you.

Mr. Kind, you are recognized.

Mr. Kind. Thank you, Mr. Chairman.

Mr. Secretary, thank you. I give you great credit for being here today.

The President in his first formal budget submitted to the American people conveniently released it during a week when he is out of the country. So in my mind, he either owes you a great apology or combat pay for coming up here and defending that proposal today. And there are problems with it. Not only was it dead on arrival, it was dead before arrival. And that is why so many Members on both sides of the aisle are running from it.

And I represent a large rural district in Wisconsin. There is not much to like in the President's budget proposal for rural Wisconsin. It guts funding for the rural economic development grant program, guts funding for the Farm Service Administration offices and technical assistance they provide family farmers. It guts the funding for USDA broadband extension programs in rural America.

The $900 billion that the administration is adopting in Medicaid cuts will put our rural hospitals in great jeopardy. Our BadgerCare and senior care programs in Wisconsin. Other than that, what is not to like for rural America? It just seems like a missed opportunity with the type of economic growth and the partnership that rural America is looking for the Federal Government today.

But I also appreciate that you and many of us are interested in taking a run at the Code for the first time in 30 years. And yet one of the linchpins of what is being discussed around here, the border adjustment tax, you have had some concerns about. In fact, you were recently quoted the other day, and I quote you, "One of the problems with the border adjustment tax is that it does not create a level playing field. It has very different impacts on different companies. It has the potential to pass on significant costs to the consumer. It has the potential of moving the currencies," end quote.

Would you care to amplify or express any of the concerns and whether there is things that could be addressed as we are working on tax reform?

Secretary Mnuchin. I think there is things that can be addressed to lighten those changes. And those are the types of things Chairman Brady is working on. And again, I think the most important issue is that we share common goals of making the business tax system competitive, middle-income tax cut, and simplifying personal taxes, and doing all these in a way that will create economic growth.

Mr. Kind. Finally, as Treasury Secretary, you are going to play an instrumental role in getting the President's trade agenda back on track. Don't give up on it and don't give up on walking away from multilateral agreements as well. I don't know if you caught the New York Times article about Harley, one of our iconic companies in Wisconsin, setting up a factory in Thailand now. And the main reason they are doing it is because of the failure of TPP for moving forward. And the 60 percent tariff that our bikes are facing as we are trying to export it into the Asian market, forcing them then to move a factory into Thailand to take advantage of the ASEAN markets and the lower tariffs that they are going to be able to gain market access.

This is one of the consequences of walking away from a robust trade agreement, where we need to be at the table establishing the rules and trying to level the playing field for our workers, our farmers, and our businesses back home.

Thank you. I yield back.

Chairman Brady. Thank you, Mr. Kind.

Ms. Jenkins, you are recognized.

Ms. Jenkins. Thank you, Mr. Chairman. And thank you, Mr. Secretary, for being here today.

I represent a district in Kansas where we have a great deal of commonsense. And I can't find many, if any, Kansans that support our current Tax Code. I think they are eager for lower rates for individuals and corporations, international reforms that will bring jobs home, simplification, and job growth, and economic benefits.

But I remember 30 years ago, the last time we did this, as a CPA, I was on the tax floor, and I watched the headlines. And it seemed like every day tax reform died a certain death. But it was able to be accomplished because we had a President at the time, President Reagan, who, along with his administration, breathed new life into this thing every stinking day that it died.

My frustration since my time on the committee has been that we have not had a President or an administration that was committed to rewriting the Tax Code. And now we have a President that ran on this. And so I am just curious, will this President be willing to get out in front and lead on this issue? Will he visit with the American people about the issues that are important to them, engage the stakeholders, work with Congress on this effort?

Secretary Mnuchin. Yes. I can assure you that once we have further details and we are a little bit further along, this is one of the President's highest items. I had the opportunity to work with him on the campaign over the last year on his economic plans. And the President has every absolute intention to be part of selling this to the American public.

Ms. Jenkins. Will we see any additional details to the plan that you are working on in the near future or are you going to rely on leaders on Capitol Hill to promote those ideas and work alongside you?

Secretary Mnuchin. I can assure you Chairman Brady, Chairman Hatch, myself, Gary Cohn at the White House, we are all working as fast as we can possibly be. This is our highest priority.

Ms. Jenkins. Thank you.

Mr. Chairman, I yield back.

Chairman Brady. Thank you.

Mr. Pascrell?

Mr. Pascrell. Mr. Chairman, I have been advocating this committee request President Trump's tax returns using section 6103 of the Code, the authority, so forth. I think my efforts have been no secret, so I will get right into the questions.

Section 6103 specifically states that the Treasury Secretary shall furnish copies of the President's tax returns for internal review by this committee upon request from the chairman of the Ways and Means Committee. Mr. Secretary, we don't have much time, so a yes or no answer would suffice, if and when this committee uses section 6103 authority to request Mr. Trump's returns, will you comply with the directive in the law?

Secretary Mnuchin. I am not familiar with that section, so I will have to review it with my internal legal department. But I can get back to you.

Mr. Pascrell. We need fundamental tax reform, but the Congress and the public have no way of knowing how this President stands to personally benefit. That is one of the problems we had back in 1924. And no way of knowing if he is getting special treatment from the IRS.

Secretary, if for no other reason than to eliminate a distraction from your agenda, will you encourage the President to release his tax returns?

Secretary Mnuchin. I am not having any discussions with the President. That is his decision what he does.

Mr. Pascrell. Secretary Spicer said on April 17 that the President will not release his 2016 tax returns because they are under audit. We know that tax returns can be released while under audit, and that every President's tax returns automatically are audited. Nevertheless, can you confirm that the President has indeed filed his 2016 tax return yet or has he filed for an extension?

Secretary Mnuchin. I am not aware of it. I don't have access to that information.

Mr. Pascrell. As the head of the Treasury Department, can you confirm to this committee that his returns from each of the past 10 years remain under audit?

Secretary Mnuchin. Again, I don't have access to that. That is within the IRS. I don't have access to specific taxpayer-level information.

Mr. Pascrell. We know that in the tax plan that is before us, we see a $200 tax break on the other side. It isn't going to cut it for the many folks in the middle class. If you do away with the doing away with the deduction for State and local taxes, that is about, on the average filer, $3,500 compared to the $200 that you are talking about in this particular -- let me be charitable -- budget that you presented.

Our State faces the highest property taxes in the country. Like many other States, we have a high cost of living. How do you justify this revenue grab from middle class homeowners from high-cost States like New Jersey?

Secretary Mnuchin. Again, I think fundamentally we think that the Federal Government should get out of the business of subsidizing the States. But we are sensitive to the transition and want to make sure that the middle income does have a tax cut.

Chairman Brady. Thank you. The time has expired.

Mr. Paulsen, you are recognized.

Mr. Paulsen. Thank you, Mr. Chairman.

And, Mr. Secretary, thanks for being here.

As you know, startups are young firms with little to no revenues, as they work to build a concept into successful companies. In fact, a medical device company and startup can go a decade without even taking in a dime of revenue while they invest millions of dollars trying to build a successful product and then get FDA approval. So tax policy tends to impact their business model in a different way than most industries that we speak about in tax reform conversations, but these entrepreneurs are clearly driving the future of the American economy, and their success has a huge impact on our economic competitiveness. And that is why I made modernizing the Tax Code to encourage entrepreneurship a priority.

For example, I am working hard to rationalize the tax treatment of stock options for startup employees, legislation that we actually got passed and through the House last year in Congress. I am also working to find a way to protect startups from being unfairly penalized by the Byzantine loss limitations and tax regulations which can then depress investment in capital-intensive companies. And discrete policy initiatives and issues like this will absolutely make a difference for the entrepreneurs out there that are seeking to go build the next Apple or the next Amgen.

So I am hoping that you will work with those of us on this committee. Mr. Crowley is another advocate for some of these concepts. Hoping you will work with us in some of these concepts in tax reform that encourages that new company formation. And, you know, can you share a few thoughts on that? Is that something you think there is an opportunity for forging ahead for the entrepreneurship component within the tax reform model?

Secretary Mnuchin. Yes, and we look forward to working with you on your ideas on that. Thank you.

Mr. Paulsen. Thank you, Mr. Chairman. I yield back.

Chairman Brady. Thank you.

Mr. Kelly, you are recognized.

Mr. Kelly. Thank you, Mr. Chairman.

Mr. Secretary, thanks for being here. I noticed that part of your plans as we go forward are whether it is public-private partnerships or private activity bonds, when it comes to addressing infrastructure and then government-owned properties -- Mr. Blumenauer and myself are engaged in a piece of legislation that would actually do that and along with Senator Heller in the Senate. So I think we have both bipartisan and bicameral agreement on this. If you can just for a little bit try to address some of the large problems we have. And we can use private and public bonds. We can do the activity bonds. We can do so many things that bring the public into this, and they see their investment taking place the right way. And just, if you can -- and I know you are on a tight schedule -- the administration's views going forward of how we are going to finance infrastructure and government-owned buildings that need repair.

Secretary Mnuchin. We are very supportive of public-private partnerships and look forward to working with you and your ideas on that. I think, as the President has said, that infrastructure investment is of critical importance to him and this country, and we are looking how we can fund a trillion dollars of infrastructure without just increasing the national debt. So we are looking for all different types of partnerships and incentive mechanisms.

Mr. Kelly. Well, we are looking forward to working with you. Thank you. I yield back.

Chairman Brady. Thank you.

Mr. Crowley, you are recognized.

Mr. Crowley. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. Great to have you here before us.

Secretary, I believe that a budget reflects a statement of the values that our country has for the aspirations, the hopes of the people. And I am frightened, quite frankly, of the values reflected by this budget presented by the President and by the Republican Party in this specific budget.

Mr. Secretary, don't you agree that protecting the homeland is the number one and ought to be the number one job of our Federal Government?

Secretary Mnuchin. I think that protecting the homeland is the number one job, and that is a combination of military, intelligence, and protection here.

Mr. Crowley. And reflected in that would be the Department of Homeland Security, correct?

Secretary Mnuchin. That is part of it, yes.

Mr. Crowley. Then why does this current budget cut funding for the Homeland Security programs for people living in areas at the greatest risk of terror after -- for instance, places like the city of New York?

Secretary Mnuchin. I am not familiar with the specifics of their portion of the budget, but I know that General Kelly is very focused on Homeland Security. I have enormous confidence in what he has done, although I am not familiar with the specifics of that part of the budget.

Mr. Crowley. Secretary, I hope that you do familiarize yourself with it because I know you are a New Yorker at heart as well, and I wouldn't want to see New York --

Secretary Mnuchin. I am a New Yorker at heart.

Mr. Crowley. -- wouldn't want to see New York disadvantaged in any way, especially because we know that New York was a target, is a target, and will always be a target.

I am also concerned about what I see happening to our Nation's vets, our veterans, by slashing $1.4 trillion in Medicaid funding that would leave at least 2 million vets without access to care. I am pleased that my friend and colleague from Nevada, Ms. Rosen, Jacky Rosen, is taking this issue of cuts to veterans' care head on. We ought to be encouraging taking care of our vets when they come home, not using the VA as a piggy bank for a budget or for this Congress' budget.

Finally, this budget cuts $64 billion from Social Security. Social Security is an earned benefit that workers pay their own money into and is not a pool of cash for Congress and the President to use for their own spending needs. So I don't delineate between Social Security and Social Security disability. Individuals, workers pay into Social Security. The average Social Security recipient with a disability worked and paid into Social Security for 22 years before becoming disabled on the job.

So, Mr. Secretary, you can spin it any way you like and the administration can, as well. A cut to Social Security disability is a cut to Social Security, especially those people who are disabled and can no longer work. Cutting them or making it more difficult for them to receive that benefit is cutting Social Security.

And, with that, I know my time is up, and I yield back the balance of my time.

Chairman Brady. Excuse me. Thank you.

Mr. Meehan, you are recognized.

Mr. Meehan. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being with us.

I was very grateful to hear your discussion in relation to the questions that Mr. Roskam asked about the time you are spending on looking at terrorist financing around the world. One legacy issue that we are still unclear on relates to the Iran nuclear deal that was struck by the previous administration. You are now in a powerful position to understand more about details that were not so clear previously.

One ambiguous question relates not to the small sum -- or the significant sum that was turned over to Iran, the $1.7 billion that they have been able to utilize by virtue of the release of the four hostages, but there have been great difficulty in actually calculating what other kinds of Iranian assets had been subjected to sanctions that were subsequently lifted according to the agreement.

It has been estimated in The New York Times, U.S. News and World Report, and other places that it is anywhere between $100 billion and $150 billion, dollars that could be released back into Iran to be utilized for numbers of purposes, but including the potential that it would be funneled back into the sponsorship of terrorism.

Is there any ability for the Treasury Department to identify what actually is out there in the form of assets, which had been previously frozen, which may still be in some status of being frozen still? Can we calculate if, in fact, $100 billion or $150 billion was returned to Iran because part of the agreement certainly reflects the idea that there are supposed to be snap-back provisions associated with that, as well as complete compliance by Iran, and some would question whether they have been.

I think you understand the tenor of my question, but the focus is, can the Treasury Department calculate what there is with respect to Iranian assets -- it seems like they are mostly oil proceeds and other kind of things that have been suspended in Asian banks and otherwise -- but where it is, what it is, and whether it still may be subjected to sanctions?

I close my comments by saying, in addition, there is about a $45 billion credit -- not credit -- to families of terrorism, which has been won in American banks, which I believe should be used against any assets before any dollars are turned over to Iran, but I am wondering if you could have Treasury calculate what is actually still potentially subjected to, you know, being held away from Iran?

Secretary Mnuchin. Yes. We have very good data and very good access to information, obviously, on a classified basis, but we are -- as I mentioned earlier, the sanctions are very effective. We continue to put sanctions on Iran, on their ballistic missiles, and on terrorism.

Mr. Meehan. Thank you.

Chairman Brady. Time is expired.

Mr. Renacci, you are recognized.

Mr. Renacci. Thank you, Mr. Chairman, and I want to thank you, Secretary Mnuchin, for being here. I am very excited to have someone leading the Treasury who is committed to getting our economy moving again. You cite three areas that can help our economy grow: tax reform, regulatory reform, and protecting taxpayers.

I am a strong supporter of getting tax reform done as soon as possible. I spent 30 years in the business world before coming here. So I understand we have to be able to compete. The U.S. likewise has to set its corporate rate to compete.

I am pleased that your tax reform outline included a 15-percent corporate income tax rate because, to borrow President Clinton's political strategist James Carville's line, "It is the rate, stupid." It is hard for U.S. companies to compete against Canada, where the Federal corporate income tax is 15 percent, or Ireland, where it is 12.5, or even the U.K., which will be 17 by 2020. So thank you for what you are attempting to do.

As history reminds us, 99 percent of temporary tax cuts in 2011 were eventually made permanent. Would you support a temporary corporate tax cut?

Secretary Mnuchin. Again, as I said earlier, permanent is better than temporary, and temporary is better than nothing. So these are tradeoffs we will have to make as we go through and score the various different alternatives.

Mr. Renacci. I understand, and I heard you say that earlier, and I agree.

Do you support eliminating the deduction for interest as part of the tax plan?

Secretary Mnuchin. Well, first of all, on the individual side, I support maintaining the mortgage interest deduction, and on the business side, my preference is to maintain interest deductibility, which is important for small- and medium-sized businesses, but we are looking at that like everything else that is on the table.

Mr. Renacci. Do you support extending the 10-year budget period to a longer period so that we can take a look at tax reform and maybe get some tax reform done? It fits within the reconciliation window?

Secretary Mnuchin. I have heard people suggest that, and I think that is a very good idea to consider strongly.

Mr. Renacci. Okay. Regarding 385 regulations, which went far beyond discouraging legitimate cross-border mergers, instead they cast a wide net that disrupts ordinary business transactions. You know, this is, of course, an issue. I want to thank you and the President for reviewing these regulations. Do you have a sense on when the review will be complete?

Secretary Mnuchin. I don't. It is under review, and it would be preliminary for me to give timing on that.

Mr. Renacci. All right. Again, I am working -- I am currently working on legislation to combat the problem that we have on fraud, waste, and abuse, but also tax reform issue regarding improper payments.

The legislation I am working on requires taxpayers to maintain books and records to support amounts reported as earned income -- this is the earned income tax credit -- clarifies taxpayers who self-report, must calculate the EITC based on all allowable deductions related to self-employment income, and permits the IRS to disallow the EITC and improper education credit payments without a formal audit. Will you commit to work with me on that legislation?

Secretary Mnuchin. Yes.

Chairman Brady. Well, time has expired.

Mr. Higgins, you are recognized.

Ms. Sewell, would you like to be recognized?

Ms. Sewell. Yes. Thank you, Mr. Chairman.

Secretary Mnuchin, I really think all of us in this room know that we need to do something to make our corporate tax rates more competitive for our industries. I think that the concern, though, is, how do we make sure that it is revenue neutral, that it is deficit neutral, that we also make distributional neutral, as well?

And so my concern is, how are we going to pay for it? What are your views about -- I mean, I know that the President issued his one-pager, and on that one page, it didn't say how he was going to pay for it.

So can you speak to how he is going to pay for it and what your views are about the blueprint that has been ushered out by the Republicans that say the border adjustment tax is the way to go?

Secretary Mnuchin. Well, let me just comment that many economic surveys show that over 70 percent of the cost on corporations are passed on to the workers.

Ms. Sewell. Is that trickle-down economics? Because I can tell you that the folks I represent --

Secretary Mnuchin. No, it is not trickle-down economics. This is absolutely -- there are multiple, multiple reports on who bears the economics of the tax. But, in any event, as we progress on the details, we will come out with more details on the plan and --

Ms. Sewell. So what is your view on the BAT, the border adjustment tax?

Secretary Mnuchin. Again, I think I have been explicit in saying that I think there are certain concerns with it in its current form, but we continue to work with Chairman Brady and others in looking at it.

Ms. Sewell. Well, I have to tell you that I found it quite offensive to hear that the OMB Director Mulvaney in his rollout of the budget yesterday redefined "compassion" to be a calculation of how many Americans you can kick off of social safety net programs. And I just I think that what I would like to hear from you is, what programs, what line items in the budget that was rolled out yesterday actually reflects this administration's commitment to working families and to those that are most vulnerable in our society?

Secretary Mnuchin. I think there are lots of programs, and, again, I think the biggest focus is economic growth and putting American workers back to work.

Ms. Sewell. Well, I think it is a misnomer to assume that people who are on SNAP are not trying to work. Most States have work requirements, and, in fact, 50 percent of the people who receive SNAP only have it for 10 months or less.

So I just think that in taking $190 million out of SNAP, for example, nutrition assistance, that is not showing compassion, and I just submit to you that a rising tide lifts all boats, that people who live in vulnerable communities are just as American as you and I, and they are looking for a hand up not a handout, and we all could benefit as Americans if we make sure that, as we rise, they rise, too.

Chairman Brady. Time has expired.

Mrs. Noem, you are recognized.

Mrs. Noem. Thank you.

Thank you, Mr. Secretary, for coming today. I appreciate you being here to answer some questions. I represent the entire State of South Dakota, which our number one industry is agriculture. So I have questions that would relate to that topic today.

You know, and I understand my colleagues on the other side of the aisle have been criticizing the President's budget, but we fought funding issues in President Obama's budget every single year. He cut agriculture dramatically. So this is something that Congress has the opportunity to provide funding for and put our budget together, and I am always hopeful that rural America will do well and continue to feed the world.

I wanted to talk to you a little bit because you mentioned in your opening statement about trade and what a critical component that is of the plan to get the economy growing again. And I appreciate that. NAFTA has been good for agriculture. We do have some fixes that need to be done, and I know the administration is renegotiating that agreement. I would just encourage that, as we go through that process, that we don't damage the market we have already created there. We have some issues with dairy and other commodities that need to be looked at, and so I am glad we have identified that and that the administration is going after it.

The other concern with agriculture, though, is that while we renegotiate trade agreements, that we miss out on market opportunities. Other countries are looking to negotiate with these countries, and we need to be aggressive going after them currently so that we don't lose that market access in the future. So I would just encourage speed as we negotiate free and fair trade with other countries so that we look lock up those markets for the United States.

And then also I want to touch on agriculture programs just and how it is impacted by tax reform.

Thank you -- thank the administration for looking at repealing the death tax. That hit my family personally. It is a double taxation. It is an unfair tax, and it should be repealed. So I want to thank the administration for identifying that in tax reform. But also interest deductibility, like-kind exchanges, expensing are all important to the agriculture industry, and I just wanted to ask you your thoughts on those issues and how we go forward.

Secretary Mnuchin. Well, again, let me just assure you that agriculture is one of our most important exports, and this administration is doing everything it can to make sure that more markets are open for our farmers to export things. In our recent negotiations with China, we are pleased that we have opened the market to beef. It has been over 9 years since our farmers have been able to sell beef, and that is something that was very important to the President.

Mrs. Noem. Thank you. And, again, just we do have other countries that are trying to access other markets that we are still in negotiations with. So speed is very helpful so we don't lose that potential in the future.

Secretary Mnuchin. Okay. We understand that. Thank you.

Mrs. Noem. And on tax reform, those are critical components that we are hoping that we get rates low enough that those small farmers that do feed the world and feed this country -- I always talk about agriculture as a national security issue. We need to grow our own food so other countries don't control us.

So thank you for being here today.

Secretary Mnuchin. Thank you.

Chairman Brady. Thank you.

Mr. Holding, you are recognized.

Mr. Holding. Thank you.

Mr. Secretary, thank you for being here. I want to compliment the professionalism of your staff. I have had an opportunity to meet with a number of them to talk about some discrete issues, and I look forward to working with you and them as we go forward.

I agree with you about growth. It is the key to solving our debt problems. It is the key to prosperity for future generations. I am not so sure I agree with you about temporary tax cuts being better than no tax cuts, because if we have temporary tax cuts, they rarely incent the growth that you want. They don't incent the behavior you want. And if we have temporary tax cuts that contribute to our debt problem, I am afraid this is not going to be as good as no tax cuts, but we will work through that. I think we agree that permanence is the best, and I believe we can get there.

We all agree that moving to a territorial system is key. The base erosion is a problem, and a territorial system for business tax is a solution. I also would like to point out that we are only one of two countries, Eritrea being the other one, that tax our citizens regardless of where they live, have worldwide taxation, rather than residency-based taxation. And, last week, we were hearing from executives, and I heard from a number of people that this makes our U.S. citizens extremely unattractive to hire abroad because it costs up to 40 percent more to hire a U.S. citizen for a position in another country. So, if we are going to make our companies more competitive worldwide, I hope we look at making our citizens more competitive worldwide by looking at a residency-based taxation for earned income. I think that would be an added benefit to tackle while we are tackling, you know, comprehensive tax reform.

We talk about companies leaving the country. We had over 5,000 citizens expatriate last year. That was a huge increase -- you know, it is over a 500-percent increase from what the expatriation rates were from over 10 years ago, 26 percent increase from just last year. So that is another area that we can work on.

And then, lastly, I want to pick up from something Ms. Noem brought up. We appreciate the President including in his budget the elimination of the inheritance tax. We hope that we will also look at the elimination of the gift tax, as well as the inheritance tax. You know, the two, in my mind, go very hand-in-hand, and to any extent that a gift tax elimination might cause some problems, you know, we can find rules to rein in any abuses of gift tax elimination, so I look forward to working with you on that.

Secretary Mnuchin. Thank you.

Mr. Holding. Thank you, Mr. Chairman.

I yield back.

Chairman Brady. Thank you.

Mr. Higgins, you are recognized

Mr. Higgins. Thank you, Mr. Chairman.

And thank you, Secretary, for being here. You are the principal economic adviser to the President. The tax policy that has been advanced to this House would provide 3 million wealthy Americans with about a $200,000 tax cut and about 250 million not-so-wealthy Americans with a $200 tax cut. The White House says that the -- or the nonpartisan Committee for a Responsible Federal Budget says that the White House budget will increase the national debt by $5.5 trillion. Economists in the right, left, and center say tax cuts don't pay for themselves; they never will, and they never have. You want 3 percent growth. I want 3 percent growth, as well. All of us do.

I just want to urge you to urge the President to do a robust investment in America's infrastructure. It won't pay for itself, but most economic studies indicate that you could reclaim about half of the money that you lay out for infrastructure, given the jobs that would be created and the resources in the private sector that that would unleash. It is very important, I think, to the growth of the economy because that is the way that you reduce debt and deficit.

You know, China is making a major move to displace America as the global economic leader. China just announced a $1 trillion infrastructure bill to open up China to 47 other Asian countries so that they can sell their stuff to 47 new markets more efficiently. We have a budget that wants to spend $1.5 billion to build a $40 billion wall that we were told we would never pay for. Your budget wants to spend $3 billion a month to continue a 16-year war in Afghanistan and responds to a $2 trillion need for America roads and bridges with a pathetically weak $200 billion investment in infrastructure, maybe.

I just think that, you know, the focus on tax cuts here should not be discussed in and of themselves. It has got to be something increasingly more, and that infrastructure investment is so critically important to the competitiveness of America, and I would urge you to please urge the President on behalf of the American people to advance a real infrastructure bill that will create real growth and unleash the resources of the private sector.

With that, I yield back.

Chairman Brady. Thank you.

Mr. Rice, you are recognized. Oh, excuse me, Mr. Smith, you are after Mr. Rice.

Mr. Rice. Thank you. Mr. Secretary, since 1986 was the last time we did tax reform, and at that time, our Code was pretty competitive, but in those last 30 years, the world has left us by in terms of the velocity of their tax system. Every industrialized country, all of our trading partners have border adjustment in some form.

Now, since 1990, our manufacturing base has declined precipitously. In 1990, 50 percent of the Americans were in the middle class. Today, 43 percent. In 1990, the median household income in 2013 dollars was $52,000. Today, it is $52,000. So the middle class has shrunk, and they haven't had a raise in 27 years. And I believe that is a direct and foreseeable result of our antiquated tax system.

Now, last week, Ambassador Lighthizer was here talking about renegotiating NAFTA, and I asked him, "How are you going to get around the advantage that Mexico has with their 16 percent value added tax, their border adjustment?" He said, "You know, that creates a real problem."

Yesterday, we had a hearing on the border adjustment, and the CEO of Archer Daniels Midland was talking about agricultural exports, corn, wheat, soy beans. We have lost 50 percent of our market share in the last 30 years, and our primary competitors are Russia and Brazil, both with 15 percent plus border adjustment.

So, when China, which has 6 percent of the world's land and 20 percent of the world's population, needs to buy grain, are they going to pay 15 percent more for American grain because of our antiquated tax system?

Now I hear you say, and I read about it in the periodicals, that you have got problems with border adjustment, but as a tax lawyer, I had doubts when I got into it, too, but the more I have learned, the more I have recognized this is a necessary component if we want to rebuild our middle class.

So what I want to know is, where are you on border adjustment? How can we solve your problems? And if you don't like it, what else can we do to rebuild our manufacturing base, rebuild our middle class, and give them a way overdue 27-year raise?

Secretary Mnuchin. Well, I can assure you our priority is to the middle class and is making sure that our businesses are competitive, and we absolutely share common goals on what we are trying to do to make American business competitive.

Mr. Rice. How can we do revenue neutral tax reform, how can we make our tax system competitive if we don't do border adjustment, which every other industrialized country has?

Secretary Mnuchin. Well, as you comment on other countries -- do I have time to continue?

Chairman Brady. So perhaps Mr. Schweikert could yield a moment for the answer because time has expired, and we are really staying tight on that.

Mr. Schweikert?

Mr. Schweikert. Thank you, Mr. Chairman. A moment.

Secretary Mnuchin. I was just commenting on the border adjustment. Many other countries do have a VAT tax system and a corporate tax system and use them in conjunction.

Mr. Schweikert. Thank you, Mr. Chairman, and Treasury Secretary.

Can I run through just a handful of things because we are supposed to be actually discussing the 2018 Presidential budget? And I will tell you one of the things I did appreciate is someone that actually believes compassion is actually also thinking about my 19-month-old little girl and the ocean of debt she will exist and live in and spend the rest of her life paying back for what we have spent today. So I hope there is some compassion for the young and what we are doing to their futures.

Could you actually walk me through, as I am looking at the budget line items right now, what you believe actually the 2018 borrowing is going to be?

Secretary Mnuchin. I don't have the 2018 borrowings in front of me.

Mr. Schweikert. If I look at some of the numbers right now, at least it looks like in the 2017, we have actually used an additional raise in the statutory debt limit of about $816 billion. That's obviously debt sold to the public and borrowing from internal accounts.

Looks like we are still going to actually need $740 billion of new borrowing capacity, both from internal accounts and outside borrowing, in the 2018 year. And I beg of our brothers and sisters here in the committee, you know, I have heard so much talk, but the GDP numbers actually look reasonable. I mean, for next year, you actually are saying for 2018, I think, what, 2.4?

Secretary Mnuchin. That sounds about right.

Mr. Schweikert. 2.4. And then 2.7 in 2019, and then 2.9. You don't actually start saying we are at 3 percent GDP until 2021?

Secretary Mnuchin. No. I think they look quite reasonable. We scale up to 3 percent. That is correct.

Mr. Schweikert. So I have heard this dance here and some of the publications saying, "Oh, it is crazy; we're going" -- you know, compared to some of the Obama budgets we look at where sometimes there was 4-plus GDP built into them instantly, the numbers here look actually fairly reasonable.

My great interest here is, as we actually get up against the debt ceiling, how do we work with you to also do a series of things that revolve around debt management? You know, look, we are going to continue to bathe in debt because of our demographics. How do we encourage you to actually do the full-throated look at the long-term bonds, the trills, other things of sweeping idle cash in accounts to do what is necessary for the debt management?

Secretary Mnuchin. I can assure you we are carefully studying all these issues. We are looking at ultra long bonds right now, both 50- and 100-year bonds.

Mr. Schweikert. Thank you, Mr. Chairman.

Chairman Brady. Thank you, and thank you for allowing the Secretary to finish that answer.

Ms. DelBene, you are recognized.

Ms. DelBene. Thank you, Mr. Chair, and thank you, Mr. Secretary, for being with us today.

Prior to Congress my work was as a businesswoman and entrepreneur, and I know how important it is that we have a responsible budget but also responsible fiscal policies. You brought up the debt ceiling, and earlier today Director Mulvaney was speaking with the House Budget Committee and talked about the need for, perhaps, addressing the debt ceiling earlier as revenues were coming in slower, and so this might be a more urgent issue.

Do you believe that this is a more urgent issue and that we need to make sure that we pass this by June, so we aren't waiting until the last minute in the need to provide certainty and stability as folks talked about going forward that we need to do this right away?

Secretary Mnuchin. I think it is absolutely important that this is passed before the August recess, and as far as I am concerned, the sooner the better.

Ms. DelBene. So you would support doing it right when we get back from Memorial Day and that this needs to be a clean, a clean bill addressing raising the debt ceiling?

Secretary Mnuchin. I am supporting that this is done as quickly as possible, yes.

Ms. DelBene. And that it is clean? I worry that people have played politics with this in the past. So are you on record as saying this needs to be a clean bill focused just on raising the debt ceiling?

Secretary Mnuchin. I mean, my preference is that it gets passed as quickly as it can however the House and the Senate want to pass it. My objective is to get this done quickly.

Ms. DelBene. And that would mean a clean bill, I would assume.

Secretary Mnuchin. That would be my preference.

Ms. DelBene. Thank you.

Also, when we talk about making sure we have our responsible budget, there are a lot of assumptions that have gone into this budget, many concerns that I have with the concept that tax cuts will automatically pay for themselves. But we look at assumptions, too. We really need to be assuming a future economy, and you have said publicly that job loss due to artificial intelligence and automation is not even on your radar and won't be real issues for another 50 to 100 years. But many technologists and industry experts estimate that, for example, by 2032, half the trucks on the road would not have human drivers or that the trucking industry's current size could transition to automation. That means that 1.75 million lost driver jobs over the next 15 years.

So, if we look at these issues that are upcoming, shouldn't we be looking at making assumptions and realizing the need for job training and making sure people have skills in a new economy, things that right now are not addressed in this current budget and would impact people's ability to have the jobs of the future?

Secretary Mnuchin. Yes, let me just comment, when I made the comment on artificial intelligence, and there is different views of artificial intelligence, I was referring to kind of like R2-D2 in "Star Wars." Robotics are here. Self-driving cars are something that are going to be here soon. So I am fully aware of and agree that technology is changing, and our workers do need to be prepared.

Chairman Brady. Thank you.

Mrs. Walorski, you are recognized.

Mrs. Walorski. Thank you, Mr. Chairman.

Mr. Secretary, thanks so much for being here, for taking the time. An issue that is resonating in my district, and I know, you know, as we talk about these big items, I look at this issue with the IRS, as somebody mentioned earlier, as like a logistics thing. The IRS is the face that most Americans are dealing with as we look at individuals and even corporations. And so this was part of the blueprint. And, you know, I spend a lot of time going around my district. I get a lot of feedback from folks who really want a fairer, simpler tax form, and they want to us assure them -- and I guess I am interested in your position here -- on this issue of a service-first IRS, because the American people deserve -- and one of the reasons that we have gotten so much feedback on this is because our blueprint says that the American people have a right to quality service, privacy, confidentiality, and a fair and just tax system. And I know you kind of alluded to this earlier, but I am just interested, I guess, to hear from you that this might be a little box that we are talking about logistically in here about how important this is to the American people who don't trust the IRS. So where is this on your priority list? Are we working together toward the same goal here?

Secretary Mnuchin. Absolutely. I can't read that box from this far away.

Mrs. Walorski. I just read it to you. I didn't skip a word.

Secretary Mnuchin. But based upon what you said to me, as I have said technology is very important to keeping taxpayers' information safe and secure in the world of cyber issues is of enormous importance to me. We support the idea of 95 percent of the American public should be able to fill out their tax form on a large postcard. We want to simplify this, and the American taxpayers deserve that they are treated fairly with the IRS and have appropriate service.

Mrs. Walorski. And I appreciate that. And I guess the other reason I am asking you this, Mr. Secretary, we had a subcommittee meeting with one of the IRS advocates, who do an incredible job. They have done a great job for my constituents in Indiana, but there has been such a hesitation on the side of the IRS to invest in commercially available technology that is being used around the world, but millions, multiple millions keeps getting shoved into the IRS with no new technology to show for it, some kind of a problem with commercially adaptive kind of things that are already working. Do you see that commercially competitive window opening finally with getting to be able to modernize this technology?

Secretary Mnuchin. I can assure you I have a technology background, and I will be spending lot of time with the IRS and other areas of the Treasury on upgrading our technology.

Mrs. Walorski. I appreciate that. Thank you so much.

Mr. Chairman, I yield back my time.

Chairman Brady. Mr. Smith, you are recognized.

Mr. Smith of Missouri. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here with us today. I a couple months ago had several tax policy roundtables throughout the five major cities of our congressional district, which is southeast Missouri. And at all five of those roundtables, I had people that showed up from all different backgrounds, farmers, small-business owners, families, big businesses, taxpayers, and some individuals that don't pay taxes.

My question is that the issues that came up at every one of those round tables were two, two that were consistent in all five. One is to simplify the Code, which you were just referring to, and very grateful to hear that. And I look forward to hearing more policies in the future of what the administration, how they would like to simplify a 70,000-page Tax Code.

The second one kind of follows on what Mr. Rice said, and everyone in our district said: We want the Tax Code to put a level playing field for the farmers and small businesses in southeast Missouri. Right now, we are not at a level playing field, and President Trump has said that numerous times, is that we need to make sure that we have a Tax Code that puts us on a level playing field. What is that approach?

Secretary Mnuchin. Well, again, I think that is an absolute priority, and whether it is through trade deals or whether it is through the Tax Code, the President has said, and I agree with, we need to have reciprocal trade, that free trade is reciprocal.

Mr. Smith of Missouri. I have read your statement of a reciprocal tax. Could you explain what that is?

Secretary Mnuchin. Well, again, I think the concept is, and how we get there, but the concept is that if we are charging somebody zero, and they are charging us 25 percent, that that is not free and fair trade.

Mr. Smith of Missouri. So would you be able to implement a tax just on individual basis, or how would you do that overall? Would it be in the Tax Code?

Secretary Mnuchin. We are happy to follow up with you on it. I mean, there are obviously technical issues and how we do this and whether we do it in our trade agreements or what we do, but the idea is reciprocal free and fair trade.

Mr. Smith of Missouri. I totally agree with you. I just would just be happy to get the details to try to help push those policies.

So I appreciate you being here. Thank you.

Chairman Brady. Thank you.

Ms. Chu, you are recognized.

Ms. Chu. Secretary Mnuchin, there are many questions I could ask, but I am compelled to comment on your administration's budget, which leaves all but the wealthiest few with horrific cuts.

Remember when this President said he would save Social Security without cuts? He loudly proclaimed, "Believe me," and many did. Well, it turned out not to be true. In fact, when asked if individuals receiving Social Security Disability Insurance would receive less from this budget, OMB Director Mulvaney said, "I hope so." Now, you, yourself, Secretary Mnuchin, said that this budget wouldn't touch entitlements.

How does that square with the proposed $600 billion cut to Medicaid included in the President's budget released yesterday? This is not the time to mince words. This budget's assault on the 99 percent of average Americans will cost lives, and what is worse, the barebones Trump tax plan that slashes taxes for the wealthy and exacerbates inequality is used to justify the financing of this horrendous budget.

Essentially, the Trump tax plan combined with a Trump budget guarantees that many people will suffer so that those on the top can get richer. I am thinking of my people like my constituent Caitlin. Caitlin became disabled when she was 29, and despite what people like OMB Director Mulvaney will tell you, she did work. She worked for years until she couldn't anymore, but when her health meant she could no longer continue, she signed up for SSDI. This was not because she was lazy or because she wanted to live off the government. It was a tragic necessity that came at great cost to her. In fact, she now lives below the poverty line and makes so little that she didn't even meet the minimum income requirements for affordable housing projects in the area.

When Caitlin heard about the budget, she wrote to me on behalf of the one in five Americans who have a disability and who know they still have much to contribute to our country. What Caitlin needs is help, help to get out of poverty, manage her health problems, and know what it feels like to contribute again. She wants this, but it is being taken away from her thanks to the cuts in the budget needed to pay for Trump's tax cuts. And that is the rule of the Trump budget, which is that if you are doing well, you get more money through a tax cut. If you are struggling to work because of a disability, you get less. If you run a family business like, say, The Trump Organization you get a passthrough business tax break. If you have a family and lost your job, then too bad for you.

Well, people like Caitlin and the millions of Americans who work one, two, three, or four jobs deserve better than what this budget has to offer them.

I yield back.

Chairman Brady. Thank you.

Mr. Curbelo, you are recognized.

Mr. Curbelo. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for your presence here today. I would briefly like to associate myself with the chairman's comments at the beginning of this hearing where he discussed the importance of reforming and strengthening programs like Social Security and Medicare. I think it is critical that the administration work with this committee on not just making sure we keep our promises to today's seniors but also tomorrow's seniors, people in my generation, people younger than me who would like to see these programs around for us when we get a little older.

Mr. Secretary, the budget provides continued support for the Volunteer Income Tax Assistance Program as well as tax counselling for the elderly and low-income taxpayer clinics, or VITA, which provides assistance for low-income residents in underserved communities in filing their tax returns. We are dedicated to creating a service-first IRS.

Can you talk about the importance of these programs for the IRS and how they fit into that service-first mentality that we would like to see the agency adopt?

Secretary Mnuchin. Well, we are going to review all the different service areas at the IRS, and I think we are going to make sure that we bring a mentality of customer service, particularly there is a lot of things we can do online and make sure that we are responsive.

Mr. Curbelo. But specifically with regards to these programs that serve the least fortunate people who really struggle to file their tax returns and to comply with the law, can you make a commitment that the administration is going make sure that, as we look at reforming the IRS, making it more customer focused, that we will pay special attention to these services that help the least fortunate in our country?

Secretary Mnuchin. We absolutely want to make sure that we have the proper services for the least fortunate. I want to make sure that these are the right programs and they are working, but yes.

Mr. Curbelo. Thank you, Mr. Secretary.

Another issue, the budget proposes reducing improper payments by increasing the data-sharing capabilities between agencies and support for business systems modernization.

Can you discuss the importance of business systems modernization and data sharing to the IRS again in the context of this service-first approach?

Secretary Mnuchin. Well, again, I think it is just critical that we invest in the infrastructure at the IRS and make sure that we have the technology and that we look across agencies, and I would also just comment, you know, that our fiscal services area within Treasury touches almost every single receipt and payment, and that is something we will also continue to work on.

Mr. Curbelo. Thank you, Mr. Secretary.

And I will just say, speaking for myself, that as we reform the IRS and as it becomes that agency that is really on the side of American taxpayers, I truly believe that we should allocate more resources to the agency so that it can help us effectively administer the Tax Code in our country.

Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being here.

Chairman Brady. Thank you.

Ms. Sanchez, you are recognized.

Ms. Sanchez. Mr. Secretary, thank you for taking the time to appear before the committee today to discuss the administration's fiscal year 2018 budget. I hope that we can find ways to work together over the coming years.

But I have to begin by saying that I am profoundly disappointed and almost offended that you have been sent here today to sell us on the President's budget proposal.

In your testimony you said: If we develop the right policies today, our children and grandchildren will reap the benefits of an ever-growing economy.

I couldn't agree with you more on that sentiment, but where you lose me is on almost every single line item in this budget.

I continue to believe that budgets are a clear reflection of our priorities, and if these are the President's priorities, then I am pretty appalled. Our priorities should be pretty clear. Creating an environment for good-paying jobs that allow workers to support themselves and their families, offering our children a chance to achieve their dreams through higher education, and fostering an innovative business environment that allows domestic businesses to thrive. To me, the President's budget would be laughable on these points if it wasn't so sad. He guts student loan security, the social safety net, and retirement savings for hard-working Americans.

And with the few minutes that I have, I would like to dig in on a couple of specific items that are mentioned in the President's budget. I want to start with the paltry parental leave proposal. While the President's paid parental leave proposal may help spur a long overdue discussion on the issue, that is about all that I can see that it achieves. The President has said over and over again that we would be tired of winning under his Presidency. Well, if a proposal that keeps us dead last in parental leave policies among developed countries is winning, then I am afraid to see what losing really looks like.

The budget proposal also lists important items for tax relief for American families, citing an expanded standard deduction and helping families struggling with child and dependent care expenses as one of the priorities. Family care expenses are serious issues and present my constituents with some of the most difficult economic decisions they face. But in this budget, these issues seem to be reduced to little more than a sound bite.

Childcare costs in this country are staggering. In many States, families are spending more to send an infant to daycare than they are spending to send a child to college. My constituents deserve a serious proposal that addresses this issue, and I stand ready to work with anyone across the aisle on serious proposals that try to address those issues, but I remain profoundly disappointed by the dismal budget we are discussing today.

And, with that, I thank the chairman and yield back the balance of my time.

Chairman Brady. Thank you.

Dr. Davis, you are recognized for the final question.

Mr. Davis. Thank you, Mr. Chairman.

And thank you, Mr. Secretary.

Both conservative and progressive policy experts agree that the refundable earned income tax credit is an amazing pro-work success story with strong evidence of encouraging work and alleviating poverty. Indeed, the major expansion of the EITC was led by conservative Republicans. The earned income tax credit helped Chicagoans, Illinoisans, and Americans. Almost 14 percent of my constituents and 8 percent of Illinoisans benefitted from the EITC.

In my congressional district alone, just under 100,000 workers with children earning less than $50,000 received the EITC. Moreover, 5 percent of my constituents benefit from the refundable child tax credit. Given the high number of working poor in my district, it is alarming that only 15,000 of my constituents benefit from the childcare and dependent tax credit, showing that this tax credit fails to help the lowest income workers.

That is why I am introducing a bill today with Representative DelBene that makes the childcare and dependent tax credit refundable and increases the maximum credit per child to help middle class and low-income families.

I am deeply concerned about the Republican tax plan that appears to cut or at best restrict these critical supports for middle class families. When one-fifth of children in the U.S. live in poverty and in a time of stagnant wages and appalling wealth gaps, we should be expanding the refundable tax credits and increasing assistance to middle class families.

Could you clarify for me the administration's position on refundable tax credits, including the EITC, the CTC, the AOTC, as well as making the childcare and dependent tax credit refundable? Thank you.

Secretary Mnuchin. Thank you for your concern on those, and we believe many of those programs are critically important, as you have described, and we are reviewing them.

Mr. Davis. Thank you very much, Mr. Chairman.

I yield back.

Chairman Brady. Thank you, Dr. Davis.

Two thoughts. First, I would like to thank Secretary Mnuchin for appearing before us today. I look forward to working with you on all these growth, jobs, and opportunity issues.

Please be advised, Mr. Secretary, members of the committee have 2 weeks to submit written questions to be answered later in writing. These questions and your answers will be made part of the formal hearing record. I also would like to make note that we are standing in recess as far as the healthcare markup. We expect to reconvene this evening after the second series of floor votes.

With that, the committee stands adjourned.

[Whereupon, at 4:03 p.m., the committee was adjourned.]

MEMBER QUESTIONS FOR THE RECORD

HEARING ON THE PRESIDENT'S FISCAL 2018 BUDGET PROPOSALS WITH U.S. SECRETARY STEVEN MNUCHIN

Questions for the Record

Question from Rep. Johnson

Question:
Secretary Mnuchin, during the May 24 hearing, you mentioned that you have been reviewing the annual Social Security Trustees report. The report has a statutory deadline of April 1. When should Congress expect to receive the report?

The report has been late 9 out of the last 10 years, and this worrisome trend appears to be continuing. Why is the report late once again this year?

Answer:
As you note, the April 1 deadline has been difficult to meet, even in non-transition years. In transition years, meeting this deadline has been especially challenging because new leadership at the various agencies must be named and, in some cases, confirmed by the Senate before they may assume the responsibilities of their office.

Questions from Rep. Tiberi

Lead in:
The R&D tax credit has incentivized companies to conduct innovative research here in the U.S. and is largely a jobs credit with 70 percent of credit dollars being used to pay the salaries of high skilled R&D workers in the U.S. Making it permanent in 2015 was a huge step forward.

Question 1:
Secretary Mnuchin, as other countries move to both lower their tax rates and also provide generous R&D incentives to try to lure U.S. companies to invest research dollars in our country, do you think it is important that the U.S. have a robust research incentive to ensure that companies keep those high paying jobs here and continue to invest in innovative research in the U.S.?

Answer:
I agree that a robust incentive to encourage domestic research is important to promoting job and economic growth, and I look forward to working with Congress on this issue.

Lead in:
Many U.S. companies are transitioning away from a traditional defined benefit (DB) plan, and it is not unusual for companies to grandfather some or all of the existing employees under the benefit formula in effect in order to protect longer service employees. However, these plans are confronted with the prospect of failing nondiscrimination testing requirements over time. I have introduced, along with bipartisan colleagues in the House and Senate, legislation that would

modify the nondiscrimination rules to allow plan sponsors to protect current employees when transitioning from a DB to a defined contribution (DC) plan structure.

The IRS has issued a series of regulations providing temporary relief with respect to closed plans. While these regulations are responsive to concerns that plan sponsors and Members of Congress have, the regulations have a number of problems that will cause many employers to have to freeze unnecessarily, so more work is needed.

Question 2:
Secretary Mnuchin, will you work with Congress and stakeholders on resolving this longstanding issue to protect retirement benefits for these workers?

Answer:
We understand the importance of this issue to employers and are working to address the situation. In 2014, the Treasury Department and the IRS issued a notice providing sponsors of closed plans with temporary relief from certain of the nondiscrimination rules under section 401(a)(4) of the Code. This was followed by proposed regulations, issued in 2016, which provided broader, permanent relief. While stakeholders have generally supported the relief that was set forth in the proposed regulations, they have requested additional flexibility in several respects. As part of the regulatory process, we received a number of detailed comments on the proposed regulation in written submissions, in a public hearing, and in meetings with stakeholders. The Treasury Department and IRS are carefully considering these comments as we work on final regulations under section 401(a)(4).

Stakeholders have also requested that regulations provide relief from the requirements of the minimum participation requirements of section 401(a)(26) of the Code for closed plans; we would welcome an opportunity to work with Congress on this issue.

<u>Questions from Rep. Roskam</u>

Lead in:
Iran Air was designated by the U.S. Treasury in 2011 for providing material support and services to the Iran's Islamic Revolutionary Guard Corps (IRGC) and Ministry of Defense. The U.S. agreed to lift the designation on Iran Air last year as a political concession to Iran under the auspices of the Joint Comprehensive Plan of Action (JCPOA). There remains no indication that Iran Air has ceased ferrying weapons, military equipment and troops to Assad. Iran Air was not relieved from U.S. sanctions due to a change of its activity. Iran Air is instrumental in facilitating ongoing war crimes and atrocities against the Syrian civilian population; is supporting the policy of ethnic cleansing pursued by the Assad regime; and is helping exacerbate the already dire refugee crisis triggered by the ongoing civil war. The "Syrian airlift," fueled by Iranian commercial airlines, enables Assad to sustain his deadly war against the Syrian people. Boeing, Airbus, and other aircraft companies, including those that require U.S. Office of Foreign Assets Control (OFAC) licenses, are on track to deliver hundreds of militarily-fungible aircraft to Iran, bolstering Iran's ability to transfer weapons to rogue regimes and terrorist groups around the Middle East.

Question 1:
Has the Treasury Department conducted a review of all intelligence on Iran Air to determine whether the airline is engaged in illicit conduct?

Answer:
Treasury continues to carefully review and monitor the activities of Iranian airlines, including Iran Air. In particular, Treasury continues to carefully review any evidence that calls into question the civilian nature of Iran Air's flights, including to ensure that any aircraft licensed to Iran Air pursuant to the United States' commitments under the Joint Comprehensive Plan of Action (JCPOA) are used exclusively for commercial passenger aviation in accordance with the terms of the deal.

We will continue to implement U.S. commitments under the JCPOA and will enforce strictly Iran's adherence to the terms of the deal. While civil aviation licensing is a commitment under the JCPOA, our case-by-case licensing policy is intended to ensure that aircraft that are licensed to Iranian end users will be used exclusively for commercial passenger aviation.

Question 2:
Since the JCPOA was implemented, which financial institutions, foreign or domestic, have been involved in Iran's purchase or lease of aircraft?

Answer:
U.S. depository institutions are authorized to process funds transfers to or from Iran if the transfer is ordinarily incident to and necessary to give effect to an underlying transaction that has been authorized by specific license, such as the specific licenses issued pursuant to the Statement of Licensing Policy (SLP) issued to implement the U.S. commitment in the JCPOA to allow for the sale of commercial passenger aircraft and related parts and services to Iran. Separately, non-U.S. financial institutions do not necessarily require authorization to provide financial services in support of the export of aircraft licensed under the SLP. Accordingly, we may have limited visibility into financial institutions providing such services.

At this time, the only financial institutions that we understand have been involved in transactions for the export of aircraft to Iran pursuant to the JCPOA are non-U.S. financial institutions.

Question 3:
Have any entities for which sanctions were lifted under the JCPOA engaged in any sanctionable activity since the implementation of the deal?

Answer:
We continue to carefully review and monitor activity involving Iran, to include the activity of entities removed from the Specially Designated Nationals and Blocked Persons List on Implementation Day. We have made it clear that if we see evidence of activity that remains sanctionable, we will take action. Treasury is committed to aggressively using its

authorities to target Iran's activity outside the nuclear file, including Iran's regionally destabilizing behavior, support for terrorism, human rights abuses, and continued development of ballistic missiles.

Lead in:
I understand that certain foreign financial institutions believe they have identified a loophole in our sanctions laws through the use of "double book-entries." Through the use of this otherwise benign financial tool, countries such as Iran are able to generate income from assets located in the United States, but access and spend that income overseas. For example, in order to move the interest earned off of an Iranian asset secretly held in the United States, a foreign bank will accept the cash payment into one of its correspondent accounts in the U.S. Then, rather than wiring the funds back to Iran, the foreign bank simply assigns the dollars earned in the U.S. account to itself or to another of its U.S. clients by internal "book entry." Simultaneously, the foreign bank assigns dollars it has in its home country to Iran's account there.

Question 4:
Under your leadership, will the Office of Foreign Assets Control clarify that this application of double book-entry violates U.S. law?

Answer:
The economic sanctions administered by OFAC extend, in relevant part, to transactions that are processed to or through the United States. An internal "book" or "ledger" entry, such as you describe in your question, is generally preceded by funds transfers processed to or through the United States and credited to an account. As such, a subsequent or "downstream" book entry does not affect OFAC's ability to take an enforcement action against transactions that were processed to or through the United States in violation of OFAC's regulations. Consequently, we do not believe there is a book entry loophole in the U.S. sanctions regimes administered and enforced by OFAC. Instead, as we have said before, internal "book" or "ledger" entries are a standard practice in the financial sector by which financial sector entities can allocate on their books, for instance, the value of payments associated with accounts receivable to various customer accounts.

Question 5:
How will the Treasury focus on hindering terrorist money laundering in the United States?

Answer:
Cutting off the flow of funds to terrorists and terrorist organizations and protecting the U.S. financial system from abuse by terrorists and their supporters is central to the mission of Treasury's Office of Terrorism and Financial Intelligence (TFI). TFI can use its own authorities, such as financial sanctions and other financial measures, to identify, disrupt and dismantle terrorist financial networks that seek to move funds through the U.S. financial system. TFI also supports our domestic and international partners, including law enforcement, in their efforts to investigate and prosecute criminal activity that supports terrorism and confiscate the proceeds of that illicit activity. We also engage and share information with U.S. financial institutions to enhance their ability to identify and detect terrorist financing activity.

Given the interconnectedness of the international financial system and the global nature of terrorism, action by U.S. authorities alone cannot effectively protect the U.S. financial system from abuse. In recognition of this, senior Treasury officials regularly engage foreign governments whose financial systems and institutions can be exploited by terrorist organizations or other illicit actors to raise or move funds and share information about particular terrorist financing threats. We also work to systemically improve transparency in the international financial system, primarily through the development of robust international anti-money laundering/combating the financing of terrorism standards so that terrorists and other criminal actors cannot anonymously raise, move, and use funds in support of their illicit activities without detection by law enforcement.

Questions from Rep. Reed

Lead in:
Dating back to the beginning of the Internal Revenue Code, tax policy has been used as a means to further U.S. energy objectives, which has often been the production of U.S.-sourced energy supply. In recent years energy tax policy has taken up countless hours spent by staff, members, and lobbyists fighting over whether particular technologies should get access to tax benefits while negotiating others out of the law.

During the Protecting Americans from Tax Hikes (PATH) Act of 2015 negotiations, we were able to successfully negotiate an extension of some credits for certain renewable technologies. Not all technologies that were previously supported by the investment and production tax credits were extended, however, which leads to my priorities for tax reform.

It is critically important for parity to be a part of the code, and the expectation, as we move forward in this tax reform process. My bill, H.R. 1090, the Technologies for Energy Security Act of 2017, will provide the necessary parity for various technologies that weren't part of the agreement reached during the 2015 PATH Act negotiations.

And as we enter tax reform discussions, it is important to recognize the opportunity we have to establish policies across the tax code that take Congress out of the equation. I will fight for policies that move America toward a more sustainable energy production future.

I will make it a priority to promote tax policies that incentivize U.S. energy production in an all-of-the-above manner. New energy technologies are a major driver of jobs in my district and other rural areas like Western New York, with a significant percentage of new jobs in renewable technologies being in rural areas of the country. It only makes sense that we support this fast growing, and critically important, industry.

Question 1:
Secretary Mnuchin, can you tell me what the Administration's plans are for the role that the tax code can fill in our energy policy and how it can be leveraged for the benefit of the American people?

Answer:

It is a priority of the Administration to promote U.S. energy sources and we recognize the important role that new technologies play in the promotion of U.S. energy sources, both in terms of energy production and job creation. We will continue to work with Congress to support energy solutions while also reviewing the tax code's role in the development and deployment of new technologies.

Lead in:
In December 2015, Congress successfully passed a law requiring the Internal Revenue Service to use private debt collectors to reach out to delinquent taxpayers to work with them to establish voluntary repayment plans for extremely past due tax liabilities that the statute deems inactive due to a lack of resources and bandwidth to track down these delinquent accounts.

It is important to keep in mind that under the Internal Revenue Code, private debt companies are limited to calling taxpayers and working out voluntary payment agreements. The IRS, and the IRS alone, can seize property, garnish wages, or freeze bank accounts. Additionally, private debt companies are bound by a strict set of rules regarding what type of taxpayer they can set up a voluntary agreement with, which includes not being able to establish a repayment plan with minors, victims of tax-related identity theft, innocent spouses, etc. The Fair Debt Collection Practices Act also applies to contractors, ensuring that taxpayers will not be subject to illegal debt collection practices.

While making these calls the contractors must abide by a stringent set of rules to ensure taxpayer protections. They are "prohibited from committing any act or omission which employees of the Internal Revenue Service are prohibited from committing in the performance of similar services." And when a taxpayer cites hardship, companies are required to refer the case to the Taxpayer Advocate Service and cease any contact with the taxpayer.

Finally, the statute allows the IRS to keep 25 percent of all amounts collected and dedicate these funds to hiring additional IRS collection personnel. The Joint Committee on Taxation estimates that approximately $125 million additional revenue will go directly to the IRS and be devoted to hiring employees when the program is fully implemented.

Question 2:
Despite the stopgaps and benefits to the IRS, the IRS is only releasing about 4,000 cases a week out of the potential 14 million possible unrecovered debts. Secretary Mnuchin, can I get a commitment that the IRS will honor the requirements of the statute and assign all inactive debts in an orderly fashion without arbitrarily picking and choosing cases, and that the IRS will implement the program at full capacity as quickly as possible?

Answer:
The IRS is committed to fully implementing the private debt collection program while at the same time ensuring the protection of taxpayer data. The IRS has indicated there are potentially 1.5 million to 2 million cases that meet the statutory definition for assignment to the private collection agencies. In April 2017, the program was initiated with a limited number of cases being assigned to private debt collection agencies to ensure that the technology systems were operating as planned and that taxpayer data was secure and protected. Initially, 400 accounts per week were released to the private collection agencies and volumes have been steadily increasing

and the IRS has indicated that the volume will increase to 8,000 per week in July. By the end of the fiscal year, about 140,000 accounts in total will be delivered to the private collection agencies. By implementing the program in this methodical way the IRS is better able to ensure that the program is working effectively and efficiently while at the same time ensuring the protection and security of taxpayer data.

Questions from Rep. Smith (MO)

Lead in:
Mr. Secretary, one thing that is agreed to by everyone is that the tax code is too confusing and needs to be simplified. Average families and small businesses want to do the right thing and comply, but they are confused with what they are eligible for and what certain terms mean in the code. As we take on tax reform, we must also tackle true simplification as well.

Question:
What are your thoughts on simplifying terms and language? Have you thought about universal definitions to help reduce confusion?

Answer:
Simplification of the tax code is an important priority for the Administration. As we continue to work with Congress to reform the tax laws, we will focus on opportunities for further simplification of terms and language.

Questions from Rep. Pascrell

Lead in:
Secretary Mnuchin, the Administration and the Congress agree that our country needs fundamental tax reform. However, due to President Trump's unprecedented decision to keep his tax returns secret, the Congress and the public have no way of knowing how this President stands to personally benefit. We also have no way of knowing if he is being treated fairly by the IRS. Furthermore, we need to examine the profits incurred from the President's investments in the United States and around the world to better understand potential conflicts of interest in Administration policymaking.

Question:
As you know, I have been advocating this committee request President Trump’s tax returns using Section 6103 authority in the Internal Revenue Code. Section 6103 specifically states that the Treasury Secretary “shall furnish” copies of the President’s tax returns for internal review by this committee upon request from the Chairman of the Ways and Means Committee. If and when this committee uses Section 6103 authority to request Mr. Trump’s returns, will you comply with the directive in the law?

Answer:

The Treasury Department is committed to responding to congressional requests in accordance with applicable law.

PUBLIC SUBMISSIONS FOR THE RECORD

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Hearing on the President's Fiscal Year 2018 Budget Proposals with U.S. Secretary of the Treasury Steven Mnuchin
Wednesday, May 24, 2017,2:00 P.M.
1100 Longworth House Office Building

By Michael G. Bindner
Center for Fiscal Equity

Chairman Brady and Rankin Members Neal, thank you for the opportunity to submit these comments for the record to the Committee on Ways and Means on the FY 2018 Budget. As usual, we will preface our comments with our comprehensive four-part approach, which will provide context for our comments.

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure very American pays something.
- Personal income surtaxes on joint and widowed filers with net annual incomes of $100,000 and single filers earning $50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25%.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

News reports indicate that the Administration proposes deep cuts in entitlement programs benefiting the poor. We agree that these programs are non-functional and should be replaced by a $15 minimum wage or a literacy and job training program paying the same wage to participants, a $1000 child tax credit per month per dependent through the net business receipts tax described above and health coverage mandated through the employer or training program provider. Medicaid for the disabled and elderly should be entirely federalized. Don't just make smalls, which is torture. Go big or go home.

These proposals are identical to what we have stated previously, but they bore highlighting. Let us return to the usual details and analysis.

We have no proposals regarding environmental taxes, customs duties, excise taxes and other offsetting expenses, although increasing these taxes would result in a lower VAT. American competitiveness is enhanced by enacting a VAT, as exporters can shed some of the burden of taxation that is now carried as a hidden export tax in the cost of their products. The NBRT will also be zero rated at the border to the extent that it is not offset by deductions and credits for health care, family support and the private delivery of governmental services.

The proposed Destination-Based Cash Flow Tax is a compromise between those who hate the idea of a value-added tax and those who seek a better deal for workers in trade. It is not a very good idea because it does not meet World Trade Organization standards, though a VAT would. It would be simpler to adopt a VAT on the international level and it would allow an expansion of family support through an expanded child tax credit. Many in the majority party oppose a VAT for just that reason, yet call themselves pro-life, which is true hypocrisy. Indeed, a VAT with enhanced family support is the best solution anyone has found to grow the economy and increase jobs.

Some oppose VATs because they see it as a money machine, however this depends on whether they are visible or not. A receipt visible VAT is as susceptible to public pressure to reduce spending as the FairTax is designed to be, however unlike the FairTax, it is harder to game. Avoiding lawful taxes by gaming the system should not be considered a conservative principle, unless conservatism is in defense of entrenched corporate interests who have the money to game the tax code.

Our VAT rate estimates are designed to fully fund non-entitlement domestic spending not otherwise offset with dedicated revenues. This makes the burden of funding government very explicit to all taxpayers. Nothing else will reduce the demand for such spending, save perceived demands from bondholders to do so – a demand that does not seem evident given their continued purchase of U.S. Treasury Notes.

Value Added Taxes can be seen as regressive because wealthier people consume less, however when used in concert with a high-income personal income tax and with some form of tax benefit to families, as we suggest as part of the NBRT, this is not the case.

The shift from an income tax based system to a primarily consumption based system will dramatically decrease participation in the personal income tax system to only the top 20% of households in terms of income. Currently, only roughly half of households pay income taxes, which is by design, as the decision has been made to favor tax policy to redistribute income over the use of direct subsidies, which have the stink of welfare. This is entirely appropriate as a way to make work pay for families, as living wage requirements without such a tax subsidy could not be sustained by small employers.

The income surtax is earmarked for overseas military, naval sea and international spending because this spending is most often deficit financed in times of war. Earmarking repayment of trust funds for Social Security and Medicare, acknowledges the fact that the buildup of these trust funds was accomplished in order to fund the spending boom of the 1980s without reversing the tax cuts which largely benefited high income households.

Earmarking debt repayment and net interest in this way also makes explicit the fact that the ability to borrow is tied to the ability to tax income, primarily personal income. The personal or household liability for repayment of that debt is therefore a function of each household's personal income tax liability. Even under current tax law, most households that actually pay income taxes barely cover the services they receive from the government in terms of national defense and general government services. It is only the higher income households which are truly liable for repayment of the national debt, both governmental and public.

If the debt is to ever be paid back rather than simply monetized, both domestically and internationally (a situation that is less sustainable with time), the only way to do so without decreasing economic growth is to tax higher income earners more explicitly and at higher rates than under current policy, or even current law.

The decrease in economic class mobility experienced in recent decades, due to the collapse of the union movement and the rapid growth in the cost of higher education, means that the burden of this repayment does not fall on everyone in the next generation, but most likely on those who are living in high income households now.

Let us emphasize the point that when the donors who take their cues from Americans for Tax Reform bundle their contributions in support of the No Tax Pledge, they are effectively burdening their own children with future debt, rather than the entire populace. Unless that fact is explicitly acknowledged, gridlock over raising adequate revenue will continue.

CBO projections on the size of the debt and the role of Net Interest are troubling, however, in that they show that while most discretionary and entitlement spending are projected to remain flat while net interest is due to explode. It is helpful to explore the reasons for this. This explosion essentially fuels the growth of the growth of the Dollar as the world's currency. Essentially, this means that we pay our expenses with taxation (even without adopting the Center for Fiscal Equity Plan) while we roll over our debt without repaying it. This seems like a wonderful way for American consumers to continue to live like imperial Rome, however it cannot last.

There are two possible ends to this gravy train. The first is the internationalization of the Dollar, the Federal Reserve and our entire political system into a world currency or government and its concurrent loss of national sovereignty or the eventual creation of rival currencies, like a tradable Yuan or a consolidated European Debt and Income Tax to back its currency. In the prior case, all nations which use the Dollar will contribute to an expanded income tax to repay or finance the interest on the global debt. In the second case, the American taxpayer will be required to pay the debt back – and because raising taxes on all but the wealthy will hurt the economy, it will be the wealthy and their children who will bear the burden of much higher tax levies.

To avert either crisis, there are two possibilities. The first is the elimination of deductions, including the Charitable Deduction itemized on personal income taxes – especially for the wealthy. If the charitable sector, from the caring community to the arts, industrial and education sectors, convince wealthier taxpayers to fight for this deduction, then the only alternative is higher rates than would otherwise occur, possibly including a much more graduated tax system.

Unlike other proposals, a graduated rate for the income surtax is suggested, as at the lower levels the burden of a higher tax rate would be more pronounced. More rates make the burden of higher rates easier to bear, while providing progressivity to the system rather than simply offsetting the reduced tax burden due to lower consumption and the capping of the payroll tax for Old Age and Survivors Insurance.

One of the most oft-cited reforms for dealing with the long-term deficit in Social Security is increasing the income cap to cover more income while increasing bend points in the calculation of benefits, the taxability of Social Security benefits or even means testing all benefits, in order to actually increase revenue rather than simply making the program more generous to higher income earners. Lowering the income cap on employee contributions, while eliminating it from employer contributions and crediting the employer contribution equally removes the need for any kind of bend points at all, while the increased floor for filing the income surtax effectively removes this income from taxation. Means testing all payments is not advisable given the movement of retirement income to defined contribution programs, which may collapse with the stock market – making some basic benefit essential to everyone.

Moving the majority of Old Age and Survivors Tax collection to a consumption tax, such as the NBRT, effectively expands the tax base to collect both wage and non-wage income while removing the cap from that income. This allows for a lower tax rate than would otherwise be possible while also increasing the basic benefit so that Medicare Part B and Part D premiums may also be increased without decreasing the income to beneficiaries.

If personal accounts are added to the system, a higher rate could be collected, however recent economic history shows that such investments are better made in insured employer voting stock rather than in unaccountable index funds, which give the Wall Street Quants too much power over the economy while further insulating ownership from management. Too much separation gives CEOs a free hand to divert income from shareholders to their own compensation through cronyism in compensation committees, as well as giving them an incentive to cut labor costs more than the economy can sustain for purposes of consumption in order to realize even greater bonuses. Employee-ownership ends the incentive to enact job-killing tax cuts on dividends and capital gains, which leads to an unsustainable demand for credit and money supply growth and eventually to economic collapse similar to the one most recently experienced.

The NBRT base is similar to a Value Added Tax (VAT), but not identical. Unlike a VAT, an NBRT would not be visible on receipts and should not be zero rated at the border – nor should it be applied to imports. While both collect from consumers, the unit of analysis for the NBRT should be the business rather than the transaction. As such, its application should be universal – covering both public companies who currently file business income taxes and private companies who currently file their business expenses on individual returns.

In the long term, the explosion of the debt comes from the aging of society and the funding of their health care costs. Some thought should be given to ways to reverse a demographic imbalance that produces too few children while life expectancy of the elderly increases.

Unassisted labor markets work against population growth. Given a choice between hiring parents with children and recent college graduates, the smart decision will always be to hire the new graduates, as they will demand less money – especially in the technology area where recent training is often valued over experience.

Separating out pay for families allows society to reverse that trend, with a significant driver to that separation being a more generous tax credit for children. Such a credit could be “paid for” by ending the Mortgage Interest Deduction (MID) without hurting the housing sector, as housing is the biggest area of cost growth when children are added. While lobbyists for lenders and realtors would prefer gridlock on reducing the MID, if forced to chose between transferring this deduction to families and using it for deficit reduction (as both Bowles-Simpson and Rivlin-Domenici suggest), we suspect that they would chose the former over the latter if forced to make a choice. The religious community could also see such a development as a “pro-life” vote, especially among religious liberals.

Enactment of such a credit meets both our nation’s short term needs for consumer liquidity and our long term need for population growth. Adding this issue to the pro-life agenda, at least in some quarters, makes this proposal a win for everyone.

The expansion of the Child Tax Credit is what makes tax reform worthwhile. Adding it to the employer levy rather than retaining it under personal income taxes saves families the cost of going to a tax preparer to fully take advantage of the credit and allows the credit to be distributed throughout the year with payroll. The only tax reconciliation required would be for the employer to send each beneficiary a statement of how much tax was paid, which would be shared with the government. The government would then transmit this information to each recipient family with the instruction to notify the IRS if their employer short-changes them. This also helps prevent payments to non-existent payees.

Assistance at this level, especially if matched by state governments may very well trigger another baby boom, especially since adding children will add the additional income now added by buying a bigger house. Such a baby boom is the only real long term solution to the demographic problems facing Social Security, Medicare and Medicaid, which are more demographic than fiscal. Fixing that problem in the right way definitely adds value to tax reform.

The NBRT should fund services to families, including education at all levels, mental health care, disability benefits, Temporary Aid to Needy Families, Supplemental Nutrition Assistance, Medicare and Medicaid. If society acts compassionately to prisoners and shifts from punishment to treatment for mentally ill and addicted offenders, funding for these services would be from the NBRT rather than the VAT.

The NBRT could also be used to shift governmental spending from public agencies to private providers without any involvement by the government – especially if the several states adopted an identical tax structure. Either employers as donors or workers as recipients could designate that revenues that would otherwise be collected for public schools would instead fund the public or private school of their choice. Private mental health providers could be preferred on the same basis over public mental health institutions. This is a feature that is impossible with the FairTax or a VAT alone.

To extract cost savings under the NBRT, allow companies to offer services privately to both employees and retirees in exchange for a substantial tax benefit, provided that services are at least as generous as the current programs. Employers who fund catastrophic care would get an even higher benefit, with the proviso that any care so provided be superior to the care available through Medicaid. Making employers responsible for most costs and for all cost savings allows them to use some market power to get lower rates, but not so much that the free market is destroyed. Increasing Part B and Part D premiums also makes it more likely that an employer-based system will be supported by retirees.

Enacting the NBRT is probably the most promising way to decrease health care costs from their current upward spiral – as employers who would be financially responsible for this care through taxes would have a real incentive to limit spending in a way that individual taxpayers simply do not have the means or incentive to exercise. While not all employers would participate, those who do would dramatically alter the market. In addition, a kind of beneficiary exchange could be established so that participating employers might trade credits for the funding of former employees who retired elsewhere, so that no one must pay unduly for the medical costs of workers who spent the majority of their careers in the service of other employers.

Conceivably, NBRT offsets could exceed revenue. In this case, employers would receive a VAT credit.

In testimony before the Senate Budget Committee, Lawrence B. Lindsey explored the possibility of including high income taxation as a component of a Net Business Receipts Tax. The tax form could have a line on it to report income to highly paid employees and investors and pay surtaxes on that income.

The Center considered and rejected a similar option in a plan submitted to President Bush's Tax Reform Task Force, largely because you could not guarantee that the right people pay taxes. If only large dividend payments are reported, then diversified investment income might be under-taxed, as would employment income from individuals with high investment income. Under collection could, of course, be overcome by forcing high income individuals to disclose their income to their employers and investment sources – however this may make some inheritors unemployable if the employer is in charge of paying a higher tax rate. For the sake of privacy, it is preferable to leave filing responsibilities with high income individuals.

Dr. Lindsey also stated that the NBRT could be border adjustable. We agree that this is the case only to the extent that it is not a vehicle for the offsets described above, such as the child tax credit, employer sponsored health care for workers and retirees, state-level offsets for directly providing social services and personal retirement accounts. Any taxation in excess of these offsets could be made border adjustable and doing so allows the expansion of this tax to imports to the same extent as they are taxed under the VAT. Ideally, however, the NBRT will not be collected if all employers use all possible offsets and transition completely to employee ownership and employer provision of social, health and educational services.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Contact Sheet

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Committee on Ways and Means
Hearing on the President's Fiscal Year 2018 Budget Proposals with
U.S. Secretary of the Treasury Steven Mnuchin
Wednesday, May 24, 2017,2:00 P.M.
1100 Longworth House Office Building

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.

Statement for the Record
Hearing on the Fiscal Year 2018 Budget Proposals
for the Department of Treasury and Tax Reform

U.S. House Committee on Ways & Means
Wednesday, May 24, 2017
1100 Longworth House Office Building

Submitted by the
Sports & Fitness Industry Association

The Sports & Fitness Industry Association (SFIA) applauds the House Ways & Means Committee for holding its hearing on budget proposals issued by the Department of Treasury and Tax Reform. As the Committee explores bipartisan solutions for tax relief related to individuals and families, we encourage policymakers to broaden the use of health savings accounts and other flexible spending arrangements to promote preventative health care.

The Internal Revenue Service (IRS) currently uses an outdated definition of qualified medical expenses, precluding the use of physical activity as a form of prevention. Given the volume of medical research over the years, legislation has been introduced by Congressmen Jason Smith (R-MO) and Ron Kind (D-WI), titled the *Personal Health Investment Today Act (H.R. 1267)*, to update the definition and ultimately, put consumers back in control of their personal health aimed at disease prevention.

The legislation, which is commonly referred to as the "PHIT Act," allows consumers to use their contributions in pre-tax medical accounts, such as health savings accounts (HSAs) and flexible spending accounts (FSAs), for the purpose of physical activity expenses. Not only does this allow Americans the opportunity to actively decide where they spend their hard earned dollars, it also promotes physical exercise as a form of preventive medicine to help reduce the prevalence of many chronic, preventable diseases.

Each year, our country spends billions of dollars on treating the health consequences that result from chronic medical conditions, many of which could be mitigated through physical activity. Research has consistently indicated substantial, positive health benefits are disproportionately attributed to individuals in a more physically active population. Likewise, better health status also results in positive economic benefits to both individuals, as well as our health system at large.

More specifically, a recent Cooper Institute study that utilized Medicare claims data found individuals who are physically fit at the mid-life point showed a 40 percent reduction in subsequent annual healthcare costs, as compared with those of their peers who were less physically active. These findings could mean an average annual cost savings of $5,242 for men and $3,694 for women. In addition, the Robert Wood Johnson Foundation issued a study finding that children who remain inactive are more likely to be inactive adults, whom are then six times more likely to have inactive children. The statics are staggering and alarming considering we have the least active generation of children ever. With the help of the PHIT Act, however, we can reverse the cycle.

According to the Employers Council on Flexible Compensation (ECFC), the medium household income for an FSA participant is $57,060 and $57,860 for an HSA participant. Despite these average income levels, most participants are within 300 percent of the Federal Poverty Limit (FPL) and eligible for health care subsidies. HSAs and FSAs are valuable tools. Implemented effectively, they can help hard working families across America and in all income categories save for their health care needs.

Under the PHIT Act, contributions to FSAs, HSAs and other pre-tax arrangements would be limited to $1,000 for individuals and $2,000 for families annually. The current contribution caps on such accounts remain in place.

For families across America incurring increased sports and recreation fess associated with their children's activities, an updated definition of medical care would offer important financial relief. Similarly, a revised definition offers individual working adults wider consumer choice over one's pre-tax medical account as they too practice good preventative health care by staying physically fit.

Finally, the World Health Organization also has weighed in on the subject, finding that for every one dollar spent on physical fitness in the U.S., more than three dollars are saved in the health care delivery system. The PHIT Act will help realize these savings and significantly reduce the incidence of costly and preventable disease needed to reverse the current healthcare crisis.

As the esteemed members of the House Ways & Means Committee strive to improve our nation's tax system, now is an important time to review existing definitions with an eye toward current health trends. SFIA looks forward to working with the Committee on efforts to improve our nation's health status, including the PHIT Act and other vital tax relief initiatives.

We respectfully submit the enclosed statement. If you have any questions or need additional information, please feel free to contact Tom Cove, SFIA President, at tcove@sfia.org, or visit our website at www.sfia.org.

May 24, 2017

The Honorable Kevin Brady
Chairman
House Ways & Means Committee
U.S. House of Representatives

Dear Chairman Brady,

Thank you for the opportunity to share my thoughts on your May 24 hearing. My name is Arlen Drof, and I am President of the Tax Avoidance Research Center, a nonpartisan, independently-funded organization devoted to purging our nation's tax code of wasteful and costly provisions.

Last year marked the 30th anniversary of the passage of the last major tax reform package, signed into law by President Ronald Reagan in 1986. In the three decades since then, the once-streamlined tax code has become oversaturated with unneeded expenditures, many of which are beloved by special interests but cost taxpayers billions each year. Put simply, it's once again time to trim the fat.

To this point, I would like to focus my comments on legislation that is being supported by Rep. Dave Reichert, the Promotion and Expansion of Private Employee Ownership Act of 2017, H.R. 2092 (henceforth PEPEOA).

PEPEOA would take steps to boost the prevalence of employee stock ownership plans (ESOP). ESOPs are, ostensibly, an effective means of boosting workers' retirement savings, which at the same time offer them a literal stake in the company. Starbucks is a perfect example of how they can be legitimately deployed -- as a publicly traded C corporation, the company gains little to no tax advantage by offering an ESOP to its employees, but does so anyway to ensure workers are rewarded in retirement for their years of service to the company.

However, for the majority of businesses with an ESOP, the motivation behind establishing their plan is not a sense of altruism or concern for their employees' welfare, but rather sheer greed. These companies cunningly utilize their status as a pass-through entity and pair it with an ESOP to exploit an enormous tax loophole, ultimately avoiding payment of taxes altogether. These firms wrap themselves in the flag of "boosting retirement savings"; "employee-ownership"; and giving their employees a "piece of the rock" (along with myriad other trite phrases), but fail to mention that they are ultimately shifting their tax burden from the business entity level to their own employees.

The loophole works like this: a pass-through company (generally an S Corporation, whose income is taxed at the individual, rather than corporate, rate) will create an ESOP. The ESOP is actually a tax-exempt trust, which in the case of an S corporation means that every penny of a firm's income is "passed through" to the trust, allowing the company to pay no tax altogether. Employees become shareholders of the trust, and when it comes time to retire must bank on the fact that the company will buy them out of their shares (and still exist altogether).

To be sure, in the real world, executing this maneuver requires more than a little tax evasion ju-jitsu, and is generally facilitated by high-priced accountants and tax attorneys (the fact that the loophole is available only to firms with the resources to hire such experts should be enough to raise eyebrows). But explain the scheme to any layman and they invariably will agree that there is an inherent unfairness to it all.

Special interest groups like The ESOP Association and the Employee-owned S Corporation Association (ESCA) like to argue that the tax is eventually paid, and in this regard they're at least partially correct. What they conveniently leave out, though, is that the tax is paid by employees, rather than the business itself. When employees "cash out," and their employer buys back their shares in the tax-exempt trust, they face 100 percent of the tax burden. In other words, while their competitors are facing effective tax rates of over 50 percent (when state and local taxes are tallied up), S Corporation ESOPs enjoy tax-free status by making their workers bear the full brunt of the tax burden, and putting it squarely on their shoulders.

Beyond the inherent unfairness of granting a few select businesses the privilege of not having to pay any tax whatsoever, S Corporation ESOPs carry serious risks that cannot be ignored. There is nothing quite as ugly in the employee benefits world as an ESOP gone bad. In fact, many companies with an ESOP do not consider the future repurchase obligation, mentioned above, that makes the whole retirement ecosystem function properly.

This creates a situation where employees place all their "retirement eggs" in one basket; if the company is unable or unwilling to buy back their shares when it comes time to exit the workforce, that employee will have no way to access the funds they thought they would be entitled to. This tragic scenario was most poignantly exhibited in the downfall of the one-time energy giant Enron, which promised employees a secure retirement investment vehicle, yet was unable to deliver on its commitment when the company went down in flames. In other words, an ESOP is only as good as the company's stock; at one point, Enron was considered a Blue Chip firm, of the same caliber as the established Microsofts and IBMs of the world. Given the high percentage of businesses that fail -- not to mention natural fluctuations in the economy and in markets -- tying employees' long-term retirement savings to a firm's success over a 30-plus year period is unwise, at best.

The employee stock ownership plan is the epitome of bad tax policy. In particular, 100 percent employee-owned S Corporation ESOPs are an example of an egregious tax loophole that needs to be closed. Members of Congress owe it to their constituents to not use hard-earned taxpayer money to prop up a small cadre of businesses who, ironically, are the ones who have the resources and ability to exploit this loophole.

H.R. 2092 would effectively double down on a failed, unfair tax policy. I therefore urge you, Chairman Brady, as well as members of the Committee, to oppose the Promotion and Expansion of Private Employee Ownership Act of 2017, and to end the unfair tax treatment enjoyed by S Corporation ESOPs.

Thank you for your consideration,

Arlen Drof
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