Hearing on the President's Fiscal Year 2019 Budget Proposals with U.S. Secretary of the Treasury Steven Mnuchin

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Hearing on the President's Fiscal Year 2019 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

WAYS AND MEANS
CHAIRMAN KEVIN BRADY

Chairman Brady Announces Hearing on the President's Fiscal Year 2019 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 2019. **The hearing will take place on Thursday, February 15, 2018 in 1100 Longworth House Office Building, beginning at 10:00 AM.**

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 Thursday, March 1, 2018**. 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/

HEARING ON THE PRESIDENT'S FISCAL YEAR 2019
BUDGET PROPOSALS WITH U.S. SECRETARY OF THE TREASURY
STEVEN MNUCHIN

Thursday, February 15, 2018
House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met, pursuant to call, at 10:02 a.m., in Room 1100, Longworth House Office Building, Hon. Kevin Brady [chairman of the committee] presiding.

Chairman Brady. The committee will come to order.

Before we get started today, I want to take a moment to offer our committee's deepest condolences to all those impacted by yesterday's tragic shooting in Florida. Our hearts go out to all the victims and their loved ones. Please know you are in our prayers.

Today, our committee is honored to welcome Treasury Secretary Steven Mnuchin to testify on President Trump's fiscal year 2019 budget proposals for the Treasury Department.

Mr. Secretary, we appreciate your time and look forward to your testimony. Our committee's annual hearing with the Treasury Secretary plays a key role in our work on behalf of the American people, and we have a lot of important work ahead of us.

Mr. Secretary, when you were here last year, you told us your number one priority was the economic growth for America. Then and now, we share that priority, especially on tax reform. Last year, working together with you, with President Trump and the Senate, we successfully overhauled our Nation's Tax Code for the first time in 31 years. With the Tax Cuts and Jobs Act, we now have a Tax Code that is specifically built for growth to deliver more jobs, fairer taxes, and bigger paychecks to Americans nationwide. With this law, families will be able to keep more of their hard-earned money to use as they see fit. In fact, a four-person family with no income tax under the new law until their income exceeds $61,000 -- will pay no income tax until their income exceeds $61,000.

In my district back in Texas, a typical middle-income family of four, parents with two kids, will see a total tax cut of over $2,600. This is real money. It will have a real impact for so many hardworking families. The benefits don't stop there. Since tax reform, utility companies are announcing lower rates, businesses are announcing more jobs and new investments here in America, and our companies are bringing home money from overseas to invest in our communities and in our workers. As encouraging as this is, it is only the beginning. There are still a lot of benefits to come for workers and families across the country as this new Tax Code unleashes the growth of jobs and paychecks in our economy.

At the same time, there is still more that we can do to advance tax reform. That is why today's hearing with you is too important. Looking ahead, we have a couple of specific areas we are eager to discuss today. First, as we all know, there is no such thing as a perfect tax system. And where imperfections may exist in the Tax Cuts and Jobs Act, we have responsibility to provide real workable solutions.

We are taking this approach right now as it relates to section 199(a) of the bill, which offers the first ever 20 percent deduction for passthrough business income. Incredibly important for our Main Street businesses, farmers, and ranchers. We know that certain parts of this provision are having unintended consequences for our farmers and our ranchers due to the treatments of farm co-ops. I am committed to working with our Ways and Means members, with Senator Hatch and the Senate Finance Committee, and the administration, and stakeholders to develop the right solution now, one that is thoughtful, carefully crafted, and successful in restoring balanced competition in the marketplace. The urgent objective is to make sure that all our farmers and ranchers can reap the benefits of tax reform, and we are committed to taking action on a solution as soon as possible.

Next, now that we have a new Tax Code built for a new era of American prosperity, this committee and the Treasury Department have a shared responsibility to ensure this new tax law is working on behalf of all Americans. This includes holding the IRS accountable, making sure the agency administers our Tax Code with a renewed focus on fairness, integrity, and taxpayer service. We also have the opportunity to build on the success of tax reform to ensure that America's economy continues to grow. Our local businesses told us the slow-growth status quo of 2 percent for the past decade simply isn't working. We decided to go bold and change that with the historic reform to help them grow and create jobs along Main Street.

Just in the last few days, in townhall meetings across our district, I have heard from local restaurant owners who are adding new workers, from an auto dealer who is adding two more employees, from a business that is increasing their purchase of American-made construction equipment by $2 million this year because of the Tax Code. And at a dinner the other night, the local -- in Navasota, Texas, ran into a business owner who has 160 workers. Every one of them got a 10-percent pay raise because of this new Tax Code.

This is happening all over America. For first time in years, there is a renewed sense of optimism and confidence along Main Street. Now, it is our job to help make sure this growth continues for years to come.

Reading the President's budget, we are pleased to see proposals that accomplish this economic growth. We are eager to work together to find common ground, keep our economy moving forward, not only leapfrog America to the lead of the pack around the world but, more importantly, keep us there. Today, we have accomplished a lot of important things together on behalf of our communities. And right now we have a strong economy that is growing stronger with the help of tax reform.

We are looking forward to always continuing to work to fine-tune our Code for America. We are excited to move forward with President Trump and especially with you as well, Secretary Mnuchin. Again, thanks for being here. We look forward to your testimony.

With that, I yield to the distinguished ranking member, Mr. Neal, for the purposes of his opening statement.

Mr. Neal. Thank you, Mr. Chairman.

And welcome, Secretary Mnuchin.

A budget is a reflection of America's values, and President Trump's budget is no exception. As we have seen time and again, the administration is focused on the needs of the wealthy and the powerful instead of middle class families. From attacking America's healthcare and Social Security to dismantling protections for struggling families, we have seen the trend. For example, the Trump budget cuts Medicare by over $500 billion, jeopardizing this important program for older Americans. We saw these same priorities last year when the President and Republicans rammed through a $2.3 trillion tax cut for the wealthy and corporate America and sowed confusion across the country, as noted in the chairman's opening comments about what needs to be corrected.

While Republicans claim that their bill will benefit average Americans, the evidence is clear: 83 percent of the benefit goes to those directly at the very top. Let's be clear. The Republican's priority with tax legislation is wealthy and big corporations and not the middle class. While big companies and the most well off and well connected reap massive benefits, tens of thousands of workers are being laid off, and middle class families are not seeing the gains that Republicans have promised. I saw this myself back home in Massachusetts when the legislation first passed. Their tax plan limits the SALT deduction to $10,000. However, the bill allowed for taxpayers to prepay their 2018 property taxes before the close of 2017. In Massachusetts, there was a tremendous amount of interest in doing this, and we saw an influx of lines at city halls and town halls across the State. In fact, in an attempt to help my constituents find their way through the maze of confusion, I asked the IRS to issue guidance to help taxpayers make these payments. However, instead of issuing taxpayer-friendly guidance, the IRS issued guidance that complicated matters further and even limited middle class families' ability to take advantage of this tax benefit. That is not putting the middle class first, in my book.

The Republican tax law also was fiscally irresponsible. The law adds at least $2.3 trillion to the Nation's debt while giving massive tax cuts to people at the top. Republicans claim these massive tax cuts will pay for themselves. Even the Budget Director, Mick Mulvaney, has noted that is simply not true.

However, tax cuts don't pay for themselves. We all pay for those tax cuts. The White House Budget Director essentially admitted that yesterday, as I noted. And to pay for these handouts, Speaker Ryan and the Trump budget are clear in their intentions to cut funding for programs like Medicare, Medicaid, and Social Security, vital benefits that hardworking Americans have paid into and earned.

We can do better. Instead of cutting programs that middle class families rely on, I call on my colleagues to work on a bipartisan basis now to fix the many problems that the tax bill has created. One example, Mr. Secretary, and I want to thank you for your kindness on that matter. We addressed the issue of the multi-employer pension plan dilemma that the country confronts. And you were attuned to that, and we talked about it. So I am hoping this year that these American workers who plan for their retirement and year after years choose to contribute to their pensions instead of taking wage increases will be in the position to seek some relief.

After working for those 30-plus years as ironworkers, truck drivers, and auto workers, their planned retirements were taken away from them and taken away at time when they no longer have the ability to prepare for retirement because they are already living in retirement. We need to help these Americans whose retirements are at risk by no fault of their own. This is a bipartisan issue, and I am hopeful that the new Joint Select Committee on Solvency of Multiemployer Pension Plans will be successful in developing solutions.

Secretary Mnuchin, I also asked the administration to help us with these efforts. Our goal is to work on this committee with these families and to put them first and act together to create opportunities for the middle class.

I do want to acknowledge your staff and you for your work on what is known as the crumbling foundations issue across Connecticut and Massachusetts, and the staff reacted very swiftly, and the IRS was aligned with the position you took. And many families will receive and derive that benefit.

So, on that basis, I yield back my time.

Chairman Brady. Thank you, Mr. Neal.

Today's sole witness is Steven Mnuchin, Secretary of the U.S. Department of Treasury.

Mr. Secretary, the committee has received your written statement, and it will be made part of the formal hearing record. We have reserved 5 minutes to deliver your oral remarks.

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

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

Secretary Mnuchin. Thank you. I would also like to express my condolences for the tragic shooting and also thanks to the many first responders and teachers that saved so many people's lives.

Chairman Brady, Ranking Member Neal, and members of the committee, it is good to be here with you today. As Treasury Secretary, I am focused on advancing the President's policies that will bring prosperity to the American people through economic growth. This is a core focus of the President, and he is delivering. Last year, the economy had two straight quarters of 3 percent or higher GDP growth, and the growth rate was higher than the average of the previous 20 years. The cornerstone of returning to more robust growth is deregulation and the Tax Cuts and Jobs Act. This law is already providing relief to middle-income families by putting money directly back into the pockets of hardworking American families.

Since the law was enacted, over 350 companies have announced bonuses, wage increases, higher 401(k) matches, new hiring, benefiting more than 4 million employees. We are seeing the fastest wage growth since 2009. This is a meaningful difference to the lives of millions of American families. Our reforms are making American companies competitive again, which is having an effect on the economic success of the Nation. The act lowered the statutory corporate rate from 35 percent, one of the highest in the industrial world, to 21 percent, below the average. It also encourages companies to bring back profits that have been sitting overseas by eliminating the tax incentive to keeping that money offshore.

Turning to the budget, the fiscal 2019 budget reflects last year's tax reform legislation which reduces the burden on taxpayers and sets the country for long-term growth. The policies in the budget will drive down spending and grow the economy, which are both critical to putting the Nation on sound fiscal path over the long term and reducing the budget deficit as a share of GDP. This past year has been an important step forward for the country. We will continue to progress by enacting policies that enable American people to succeed. And I look forward to continuing to work with Congress and this committee to make it happen.

Thank you very much.

Statement of
Steven T. Mnuchin
Secretary
United States Department of the Treasury
before the
Committee on Ways and Means
United States House of Representatives
February 15, 2018

Chairman Brady, Ranking Member Neal, and members of the Committee, it is good to be here with you today.

As Treasury Secretary, I am focused on advancing the President's policies that will bring prosperity to the American people through economic growth. This is a core focus of the President, and he is delivering. Last year, the economy had two straight quarters of three percent or higher GDP growth, and the growth rate was higher than the average over the previous twenty years.

The cornerstone of returning to more robust growth is deregulation and the *Tax Cuts and Jobs Act*. This law is already providing relief to middle-income families by putting money directly back into the pockets of hardworking American families.

Since the law was enacted, over 350 companies have announced bonuses, wage increases, higher 401(k) matches, and new hiring, benefiting more than 4 million employees. We are seeing the fastest wage growth since 2009 at 2.9%.

This is a meaningful difference in the lives of millions of American families.

Our reforms are making America's companies competitive again, which is having a demonstrable effect on the economic success of the nation. The Act lowered the statutory corporate tax rate from 35% – the highest in the industrial world – to 21%, below the industrial average. It also encourages companies to bring back the profits they have sitting overseas by eliminating the tax incentive for keeping that money offshore.

Turning to the budget, the Fiscal Year 2019 Budget reflects last year's tax reform legislation, which reduces the burden on taxpayers and sets the country up for long-term growth. The policies in this budget will drive down spending and grow the economy, which are both critical to putting the nation on a sound fiscal path over the long term and reducing the budget deficit as a share of GDP.

The past year has been an important step forward for our country. We will continue this progress by enacting policies that enable the American people to succeed, and I look forward to continuing to work with Congress to make this happen.

Thank you very much.

Chairman Brady. Thank you, Mr. Secretary, for your excellent testimony.

So, given that the last votes of the week are scheduled around 11:30, to make sure as many members have an opportunity to question the Secretary, we will put question time at 3 minutes, and I will lead off with a very brief question.

You know, one of the key pillars of tax reform is letting Americans keep more of their hard-earned dollars. Once tax reform was enacted, the administration acted quickly to update the withholding tables to reflect the new Tax Code, which means, this month, over 90 percent of Americans will see a reduction in their taxes and bigger paychecks and take-home pay.

Can you briefly talk about Treasury's development of the recently released wage withholding guidance and your plans for putting out additional information that will allow families to fine-tune further their withholding provisions?

Secretary Mnuchin. Thank you, Mr. Chairman.

So we are very pleased both the -- the work at the Office of Tax Policy within Treasury is working very closely with the IRS. And they have successfully updated the withholding tables. So, as you mentioned, over 90 percent of Americans will see tax cuts.

We also expect to release next week -- the IRS will put up a calculator that will allow families to go and double check their withholding based upon the new tax law and update their forms, if necessary. So we are very pleased with the work that is being done at the IRS on this.

Chairman Brady. Great. And families will be able to fine-tune according to their unique situations --

Secretary Mnuchin. Yes.

Chairman Brady. -- going forward.

Great.

Mr. Neal, you are recognized.

Mr. Neal. Thank you, Mr. Chairman.

Mr. Secretary, following World War II, labor unions negotiated with employers to create industrywide multi-employer pension plans. In exchange for their hard work, workers were promised long-term financial security in retirement. While that system worked well for many years, deregulation and industry insolvencies have led many plans into trouble. Today, more than a million Americans are in multi-employer pension plans that are now facing insolvency. It is critical that we address this crisis and help those retirees and the retirement plans that are still at risk.

In November, I introduced legislation that would offer troubled multi-employer pension plans, and those who were not in unions as well, low interest rate loans to pay retirees' benefits. The loans would be funded through money from the private sector through the issuance of bonds. My bill does not allow for benefit cuts. Your Department has a critical role in the pension regulation and oversight of the Nation, and a large number of experts in the field are on your staff providing resources and other support to develop a solution. Could you speak for a moment to what is about to become another part of the crisis that America is facing in retirement security?

Secretary Mnuchin. So thank you very much. And we agree that there are significant issues here. The Treasury does play a significant role around the multi-employers but has limited ability to approve certain changes. And we look forward to working with the bipartisan committee. And as I mentioned yesterday at the Senate, we would be more than pleased to provide technical assistance to the committee as Congress looks at solutions.

Mr. Neal. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman Brady. Thank you.

Mr. Johnson, you are recognized.

Mr. Johnson. Thank you, Mr. Chairman.

Mr. Secretary, welcome. I see the budget includes a proposal to stop individuals who are not authorized to work from claiming the child tax credit. I have long had a proposal to require the Social Security number or the refundable child tax credit. It is especially relevant now given the ongoing debate on immigration.

Mr. Secretary, for the record, can an individual claim the refundable credit with just an individual taxpayer identification number? Yes or no?

Secretary Mnuchin. Yes.

Mr. Johnson. Thank you.

Doesn't this mean the individuals who aren't allowed to work can get this? Yes or no?

Secretary Mnuchin. Actually, I just want to modify my last statement and just be clear. The IRS has allowed -- that is an issue that we are looking at, the legal issues associated with. So I just want to clarify it that I am not making a commitment going forward. We are looking at the legal issues associated with this.

Mr. Johnson. Well, I am glad you are getting into it. Thank you.

By the way, I just had a Joint Tax score on my bill. It saves $13.3 billion. To address another issue, as you may know, the 2016 NDAA included significant retirement reforms, such as a new match for the servicemembers' retirement contributions. However, due to an inadvertent error, some Guard and reservists who have a civilian retirement account won't be able to get the match, and I think that is wrong. Why is that? Because the IRS caps the amount an individual can save for their retirement through work each year.

Mr. Secretary, the IRS allows State and local government workers to contribute the maximum to both government and civilian retirement accounts. Don't you think our brave men and women in uniform should be allowed to do the same?

Secretary Mnuchin. Thank you very much. And my staff has raised this issue with me, and we are looking at it carefully and figuring out what we can do. Obviously, we want to do everything we can to support the military and the men and women who are supporting this country.

Mr. Johnson. Thank you. I appreciate that effort. Keep it up.

I yield back.

Chairman Brady. Thank you.

Mr. Levin, you are recognized.

Mr. Levin. Welcome.

Your statement talks a lot about tax cuts for the middle class. When you were here last year, you said there would be no absolute tax cut for the upper class. And we now have Joint Tax Committee data, and it shows that those with income over $1 million or more would receive an average tax cut of over $64,000 next year under the tax law.

Do you disagree with that?

Secretary Mnuchin. I have no reason to disagree with the numbers. I don't have them in front of me, but I will assume what you are citing is correct.

Mr. Levin. Well, that -- I think that makes your glasses kind of rose-colored.

Secretary Mnuchin. No. Again, and I want to clarify this, because what I said at the beginning of last year, which was the case, it was the President's objective to offset any tax cuts with the eliminations of other deductions. We worked closely with the House and the Senate. And, you know, this was an issue we looked at very carefully.

Mr. Levin. I understand that. But you said last year, there would be no absolute tax cut for the upper class, and the data just shows otherwise.

Your budget assumes a 3-percent increase, growth rate. Today, there is an article by Jason Furman that hoping for 3 percent or more is folly. Already, this budget has an immense deficit.

If the growth rate is 2 percent instead of 3 percent, do you know how much the deficit would increase next year?

Secretary Mnuchin. Well, again, first of all, it is actually -- our projection is 2.9 and not 3, but it is --

Mr. Levin. Okay.

Secretary Mnuchin. -- close enough. But we stand behind our projections. Many people have said over the last year that we can't get there. We have had over 3 percent. President Obama had actually projected 4 percent GDP in one of his budgets.

Mr. Levin. Okay. But let me just interrupt, because I have 3 -- I hate to do that, but they give us 3 minutes. And your statement was, I think, the most generalized of any statement I remember from a Secretary.

Do you know, if you are wrong and it is not 2.9 percent but 2 percent that most economist think, do you know how much the deficit would be next year?

Secretary Mnuchin. Again, what I would be happy to say is that the static score was $1.5 trillion. So, if we got no growth, that would be the difference as to what it would be, which we don't believe.

Mr. Levin. So it would be a trillion and a half next year?

Secretary Mnuchin. No. That was over the 10-year period.

Mr. Levin. What would it be next year?

Secretary Mnuchin. I don't have that number in front of me, but I would be happy to get back to you on it.

Mr. Levin. Thank you.

Chairman Brady. Thank you.

Mr. Reichert, you are recognized.

Mr. Reichert. Thank you, Mr. Chairman.

Welcome, Mr. Secretary

Beginning with Chairman Dave Camp years ago and now through the leadership of Chairman Brady, we began -- I have been on this committee -- I think this is my 10th year, so 7 or 8 years ago -- process of meetings and hearings and proposals, and we finally achieved something historic. Tax reform to benefit American families and businesses. With each passing week, we see positive impacts all across the country. Businesses in my home State of Washington have announced bonuses for their employees, pay increases for their employees, investments and workforce development, and increases in employee match gift programs.

I want to expand just a little bit on the question that Chairman Brady had. So you have got the withholding tables. You have got the calculator. What other regulatory efforts are you putting forth to spread the good news to the United States citizens across this country about this Tax Code? How are you sharing information? And how can we help you?

Secretary Mnuchin. Well, we have a massive effort at the IRS to implement the new tax bill. It touches everything from forms that we are updating to make them user-friendly to customer service to technology. And we are putting out guidance every week in an effort to help taxpayers understand and provide certainty. So we are very focused on that.

Mr. Reichert. Thank you. We all look forward to working with you to educate the public on the new Tax Code.

In closing, building on last year's accomplishments, the House has passed two bills with overwhelming bipartisan support to boost competitiveness of U.S. companies, a renewal of GSP and MTB. There is more we need to do in partnership with the administration. I want to finish this work with a successful NAFTA update and a fully operational Export-Import Bank. An estimated tens of billions of dollars of deals for the U.S. companies are waiting in the Bank's pipeline.

I yield back.

Chairman Brady. Thank you, Mr. Reichert.

Mr. Lewis, you are recognized.

Mr. Lewis. Thank you, Mr. Chairman.

Mr. Secretary, I agree with Mr. Neal that a budget is a reflection of our values and our priorities. I have one simple question: Is there any money in the budget to deal with the proliferation of gun violence?

Secretary Mnuchin. I don't -- I am not aware of that level of detail in the budget for me to be the expert to attest on that.

Mr. Lewis. Well, in light of what happened yesterday --

Secretary Mnuchin. I will say personally I think the gun violence -- it is a tragedy what we have seen yesterday, and I would urge Congress to look at these issues.

Mr. Lewis. Do you propose to do something?

Secretary Mnuchin. I have vast responsibilities as Treasury Secretary, but this is out of my lane of responsibility.

Mr. Lewis. You are a part of this administration. And we are losing hundreds and thousands of people. Young children in school trying to get an education, and they are murdered. Teachers, a football coach, and you are saying to me, who represent the people in Georgia, the city of Atlanta where we have the CDC, and someone in this government told the CDC to end the study of gun violence.

We can do better. We must do better. We have to save our children, our citizens, our teachers. So do you have anything? Are you willing to --

Secretary Mnuchin. I assure you I appreciate the severity and the tragedy, and I will speak to the President and the other Cabinet members.

Mr. Lewis. Well, thank you very much.

Chairman Brady. If I may, Mr. Secretary, in your seat yesterday was Secretary Azar talking about the HHS budget. We spent a lot of time on increased funding for opioid crisis and research, but we didn't spend time on the increased funding for mental healthcare and research into that, which often spurs, unfortunately, these tragic instances as well.

Mr. Lewis. Can I just mention here we have to do something to slow the proliferation of gun violence. Too many guns.

Chairman Brady. Well, we made --

Mr. Lewis. -- to go down this path, down this road.

Chairman Brady. Thank you, Mr. Lewis.

Mr. Roskam, you are recognized.

Mr. Roskam. Thank you.

Mr. Secretary, the recent IRS guidance related to the prepayment of property taxes has created confusion for my constituents in Illinois. Here is why: The guidance relates to the prepayment of 2018 property taxes. And my constituents, in 2017, were actually repaying their 2017 property taxes. We pay in arrears in Illinois. And I would contend that, as a result, the guidance doesn't apply to them.

In Illinois, there is further a longstanding custom, which I understand dates back for decades, which the IRS has never objected to, whereby the sellers of real property prepay their share of the current property taxes even though the tax bill wouldn't arrive until the following year. This is because the seller is liable for their share under Illinois law. Thus the longstanding custom is for the seller to estimate the amount of taxes they owe and deduct that amount on their Federal tax return. And, again, to my knowledge, the IRS has never objected to this.

And as far as I can tell, Illinois is the only State in the country that pays in arrears. So said another way, if prepayments were disallowed, Illinois citizens would be the only ones that were not allowed to pay their 2017 property taxes without limit. And, again, we are not asking about prepaying 2018 taxes. This is completely unique as to paying 2017 taxes.

Would you be willing to work with me in meetings to resolve and bring clarity to this issue?

Secretary Mnuchin. Yes.

So, first of all, I can tell you I have already had two meetings on this issue. I am aware of it. It is unique. And we are working with the Office of Tax Policy and the IRS to try to get comfortable if they have the authority to issue guidance on, effectively, the 2017 taxes. So we don't have a decision yet, but I can tell you we are actively working on this.

Mr. Roskam. Thank you.

Let me just shift gears quickly to Iran and the commercial sales of aircraft.

The last time we talked about this publicly was back in May. At that time, you said that you were studying this issue. There is -- there obviously have been no licenses that have been issued by the Department. And for that I commend you and I thank you profoundly.

Since that time, Iran has done nothing, I would argue, to make a case that it deserves commercial aircraft. They sent a drone into Israel in an incredibly provocative way. They have gone after their own citizens in an incredibly provocative way. They are active in Yemen backing militants and so forth.

Would you agree with me that, at the very least, Iran has done nothing further to further its cause in gaining access to commercial aircraft?

Secretary Mnuchin. So, as you have pointed out, we haven't issued any licenses. That shouldn't be interpreted as a decision that we are not going to, but it also shouldn't be interpreted as a decision that we are prepared to issue licenses. And I can tell you we are working with the intel community, and this will be a decision that is further reviewed at the NSC and with the President before we issue any licenses.

Mr. Roskam. Thank you.

I yield back.

Chairman Brady. Thank you.

Mr. Doggett, you are recognized.

Mr. Doggett. Thank you very much.

Mr. Secretary, after repeated refusals to answer tax questions before this committee last year, finally, we have an opportunity each to ask you an entire 3 minutes of questions. I think it is the congressional committee equivalent of government by tweet.

But I do have three questions for you. The first one is that, according to the Joint Tax analysis, the rate drop for the top tax bracket cost the Treasury $220 billion. That is for people that earn a half a million dollars a year in income. You promised that there would be no absolute tax cut for the upper class, and the President said much the same

The Trump budget proposes to cut student aid programs over the budget period about the same amount, $200 billion. I think that is the ticket to the middle class, and it is also the ticket to keeping our workforce competitive. Wouldn't restoring that top rate allow us -- and it is a top rate that all the Republican members of this committee thought was perfectly adequate when it was voted out of this committee; as you know, this was something that got added on in conference -- wouldn't that restoration allow us to void those student assistance cuts or, if you don't want to do that, at least to moderate the harsh reduction in Medicaid that the President said would never occur?

The second question, and I will just ask you to respond to all three at once, concerns the claim that every American household would get $4,000 every year in increased household income. In fact, when you came out of hiding on December 17 on Fox News, you said it would be $4,500 for every family. Isn't it true -- or do you disagree with the recent survey that 98 percent of Americans have not received any additional compensation at all? And while I am very pleased that somebody gets even a $1.50 a week in additional benefit from this bill, isn't it true that there are very few Americans, if any, who have actually gotten $4,500 in additional wage increase out of this even though you gave a permanent tax increase and even though it has been in place now for 2 months? I assume as well that while the President wants to take credit for the few that have happened, that he doesn't want to take credit for the decision by Pfizer, one of the biggest beneficiaries, to cut Parkinson's and Alzheimer's research and terminate workers.

Finally, you said yesterday that the reason that these stock buybacks may be occurring is because the companies don't have a good reason to invest in America. Isn't that an indication that some of this tax bill was misplaced since so much of the money is going to corporate buybacks?

Chairman Brady. The gentleman's time has expired. If you would answer Mr. Doggett --

Mr. Doggett. Can we hear from him on any --

Chairman Brady. -- in a written -- excuse me, Mr. Doggett. Your time has expired.

If you would respond in writing to Mr. Doggett, we will move forward with the hearing.

Mr. Buchanan, you are recognized.

Mr. Buchanan. Thank you, Mr. Secretary, for being here today. And I want to thank you for your leadership.

Let me talk about growth in terms of the next 10 years. But quickly taking a look at the last 10 years, we have had little or no growth. The slowest growth in 50 years. We have run up a $10 trillion debt in those 10 years, roughly. Plenty of blame to go around. But I had a chance to speak in front of the Tax Foundation last week. They came up to me after they are expecting $5 trillion in growth because of the new tax law. And I wanted to get your thoughts about the impact in terms of the growth is going to have on deficits, because we are all concerned about the $20 trillion in debt, especially the last 10 years we have accumulated another $10 trillion.

So, as we look forward, can you expand a little bit in terms of your thoughts in terms of the growth and the impact on debt and deficits, because what we have been doing the last 10 years, clearly not working? I would like to get your thoughts.

Secretary Mnuchin. Sure. Thank you.

So, you know, I stand behind the numbers that I have cited before. The difference between the 2.2 and the 2.9 percent GDP is $2.5 trillion. The static cost of the tax cuts was a trillion and a half dollars, but about a half a trillion of that was the difference between policy and baseline. So we think, effectively, the right way to compare it is the trillion to the 2.5 trillion if we get the growth.

Mr. Buchanan. Also, just the impact -- I have chaired the local chamber in Florida, the State chamber. Most businesses are 50 employees or less, you know that, probably 90 percent of the businesses in the country. The 25 percent tax cut for them, it seems like the enthusiasm is at a record high in terms of NFIB. Maybe you could comment on that.

Secretary Mnuchin. Right. We do have the highest level of confidence. And I think, as you know, for small businesses, we have the lowest tax rate for the -- since the 1930s. And this is very important, because small businesses are a big part of driving the growth in the economy.

Mr. Buchanan. With that, I yield back, Mr. Chairman.

Chairman Brady. Thank you.

Mr. Larson, you are recognized.

Mr. Larson. Thank you, Mr. Chairman.

Mr. Chairman, I thank you for your opening statement and your sincerity.

And, Secretary Mnuchin, yours as well. But, frankly, we are long overdue in the Congress to stop -- as important as it is to express our condolences, what is more important is that we vote and we act.

Secretary Mnuchin, you are right: this is not in your province.

But it is exclusively in the province of the United States Congress.

Hailing from Connecticut and experiencing Sandy Hook and the disasters that just keep on coming. When they come for one of us and we do nothing, who is next? When will we stand up? And all is required is that we do our constitutional responsibility and vote; otherwise, we are all complicit in what happens increasingly and with devastating impact on our children. What are we as a body or an institution if we are not going to stand up for our children?

And if you disagree with universal background checks, fine. At least vote. At least let people know where you stand on this issue. Families, victims, the country deserves it. You are good people. We are a great Nation. The Nation deserves this Congress to act.

Secretary, I do know that you can carry that message back to the President, and I do believe that this President can make a dramatic difference by calling upon this Congress to act on a multitude of areas, not the least of which is this tragic issue we face.

I want to thank you as well, Mr. Neal mentioned it, for the work the Treasury has done on crumbling foundations, not unlike China drywall. I want to thank Representative Courtney for his leadership and Representative Neal in this area as well. But the Treasury Department went overboard when what was rather a cruel thing when members found out first that they could get a deduction and then the tax reform, so-called, took it away. With that, I can't commend you enough.

But also, as Mr. Neal pointed out, the inequality here for Connecticut residents, the double taxation that exists, when we find out that more than 750,000 people who make itemized deductions end up really supplementing everybody else's tax cut, that simply is unfair. Three minutes does not allow enough time for me to go into that, but I thank you. And I hope to work with you to correct that and amend that travesty.

Chairman Brady. Mr. Paulsen, you are recognized.

Mr. Paulsen. Thank you.

And welcome, Mr. Secretary, here today.

I want to echo the thoughts of many of my colleagues and tell you how encouraged I am to be seeing the benefits already of the Tax Cuts and Jobs Act. Although it has been less than 2 months since the reform legislation became law, we are already seeing its positive effects. Shortly after they were able to analyze the effects of these lower rates, we had Minnesota companies, like TCF Bank, U.S. Bank, Best Buy, Wells Fargo, all be able to give out special bonuses to their employees, to increase their employee wages, to invest more in their savings plans.

The bottom line is this is real money that is going to the pockets of hardworking Minnesotans and Americans. And they are investing in their employees for the future. And because of the Tax Cuts and Jobs Act, the median income family of four in the Third District of Minnesota is going to have an average tax cut of about $223. And a lot of folks, as has been mentioned already, because of withholding tables, aren't going to have to wait until next year to see those dollars in their pocket. The new withholding rules are -- now put out by the IRS just in January, everyone now is checking the check. They know that they are going to have those dollars in their pocket; 90 percent of all Americans seeing that in their paychecks right now in February. So I want to thank you for your involvement in helping us move that through.

I also want to mention, though, it is really not surprising to see the other economic indicators that are really trending in a very positive direction. For example, the Bureau of Economic Analysis now reports that private sector investment was up actually 8.8 percent in the last quarter of 2017 compared to the growth of less than 1 percent in the first quarter of 2017.

And, Mr. Secretary, there is no doubt in my mind that businesses large and small were making these investments in large part of anticipation for tax reform passing and getting it across the finish line. And those investments now are resulting in a growing, competitive economy. And when a business makes equipment investment, it typically means they are also going to be hiring more people, and they are going to be increasing productivity. And this is a good indicator of wage growth yet to come. So these are all positive economic impacts that are helping hardworking taxpayers across the country, and they are helping middle-income families.

Mr. Secretary, I also wanted to say I look forward to continuing to open the newspaper to hear the positive stories on television, the real-life stories about the positive impacts of the tax reform legislation that is now law.

And, with that, Mr. Chairman, I will yield back.

Chairman Brady. Thank you.

Mr. Blumenauer, you are recognized.

Mr. Blumenauer. Thank you, Mr. Chairman.

We are touching on a variety of areas, one that you do have a great deal of influence on deals with the supervision of the Financial Crimes Enforcement Network I mentioned to you a moment ago. I appreciated your testimony in the Senate that you recognize some of the challenges where we have an emerging legal cannabis industry throughout the United States. It is over -- it is about $8 billion now moving past 20 billion, over 200,000 employees. And there is this air of uncertainty about access to banking services.

The Obama administration issued some guidance to allow banks to open accounts for people who grow, process, and retail sales of marijuana. But, still, there are many of them that don't have access to banking services. It is a threat to public safety. It is an invasion for money laundering, tax evasion, money laundering, theft. I hoped that there would be a way for us to work together to seek further clarification and improvement. I would be -- I would welcome an expression today if you are supporting it and trying to move it forward. I understand that you are reviewing it. But I would hope at a minimum that we could work with our committee to try and develop with you appropriate rules for tax and banking for the cannabis industry, that we could work with the financial services industry to develop access to traditional lending for this emerging part of our economy.

Do you have any sense of what the timeline is going to be for the review that you are undertaking and how expansive it might be?

Secretary Mnuchin. So, first of all, let me say we are always happy to meet with the committee and discuss these issues. This is a complicated issue. We are actively looking at this at FinCEN, particularly in light of the DOJ decision. So this is something -- I can't tell you exactly when we are going to come out with guidance, but I can tell you it is on the top of the list, and we are working on it as we speak.

Mr. Blumenauer. Mr. Chairman, this is one item that affects a variety of people on this committee, from Washington to Maine. As I mentioned, it is a growing part of the economy. Ninety-seven percent of the American public have access to some form of State legal marijuana product. And I would hope that the committee might be able to delve into this a little bit to seek clarification and prevent the insanity of having this State legal activity be forced to be conducted on an all-cash basis.

Thank you, Mr. Chairman.

Chairman Brady. Thank you, Mr. Blumenauer.

Mr. Marchant, you are recognized.

Mr. Marchant. Thank you, Mr. Chairman.

Mr. Secretary, I live in the Dallas-Fort Worth area. We are experiencing an incredible building boom now. Our economy is what I hope the economy of the entire United States begins to look like over the next few years. I truly believe the tax cuts bill will become that engine that drives that economy. My cities are -- and State is excited about the new infrastructure plan. They are beginning to scratch their heads a little bit about how they will finance that plan and what projects will form -- what projects they will put forward that will fit the formula.

Is there any thought to going back and creating an instrument such as the Build America Bond that we had that was so popular years ago? Is there any interest or any plans to go back and look at that kind of a funding system that cities can tap and so that they can put their part of the -- of the capital into those projects or a similar instrument to that?

Secretary Mnuchin. Well, it is not currently being contemplated. But let me just say we obviously look forward to working with Congress on infrastructure, which is an important part of the President's agenda and how we finance it, as you have said.

Mr. Marchant. Okay. Thank you, Mr. Secretary.

I yield back.

Chairman Brady. Thank you, Mr. Marchant.

Mr. Kind, you are recognized.

Oh, excuse me. Mr. Higgins, you are recognized.

Mr. Higgins. Thank you, Mr. Chairman. I want to thank my colleagues too for yielding.

I can't see you, Mr. Secretary, but I just wanted to -- on Tuesday, September 25, of last year, there was a meeting in the White House. It was regarding the blueprint for the tax cut plan. You were present. The President was there. The Vice President was there. The chief of staff was there, Gary Cohn was there.

Do you remember that meeting?

Secretary Mnuchin. I don't remember the exact specifics of it, but yes.

Mr. Higgins. Okay. I had asked the President specifically about infrastructure, and he kind of went off. He was very interested in the issue. He is very exercised. And he categorically rejected the workability, the viability of public-private partnerships. In fact, at that meeting, he pointed to the Vice President and told the group that public-private partnerships don't work as it relates to infrastructure and cited Indiana as an example.

Do you remember that?

Secretary Mnuchin. I do.

Mr. Higgins. Yeah. In August of 2017, The Wall Street Journal did a story headlined "Indiana Highway Gives Black Eyes to Public-Private Partnership in Funding Infrastructure." And the President was referring specifically to a 21-mile stretch of highway. In Indiana, they refer to it as the Highway to Hell. It was a project that was a private State partnership signed by the Vice President in 2014 when he was Governor. And the project was 2 years behind schedule and only 60 percent built before the State took over the project and financed it in a more traditional way.

The infrastructure plan is not the entire Federal budget, sir, but it certainly is the centerpiece of it. And when you have 56,000 structurally deficient bridges in America, when every second of every day seven cars drive on a bridge that is structurally deficient, that is an urgent call for a real infrastructure bill. The bill that you have put together -- or the White House has put together, for every $6.50 of State and local spending, the Federal Government will spend $1. That is it. And so that means more State and local taxes on top of the gasoline tax that they already pay and on top of the tolls that will come along with this.

I would just like you to respond to it. If it didn't -- if it wasn't workable in September of 2017, why is it workable now?

Secretary Mnuchin. Well, I think, as you have outlined and you heard, the President does have concerns in certain cases of things being privatized in private-public partnerships. That is not an across-the-board. But as you have outlined from the meeting, there are certain areas he doesn't think we should be selling off.

Mr. Higgins. Okay. I yield back. And thank you.

And thank you again to my colleagues.

Chairman Brady. Thank you.

Chairman Black, you are recognized.

Mrs. Black. Thank you, Mr. Chairman.

And welcome, Mr. Secretary, it is good to have you here today.

I want to go to the area that we looked at lot at in our budget, and that was fraud and abuse. And there are an awful lot of dollars that are out there. And I want to first commend the President and OMB for taking a look at that. Two areas that have been talked about a lot in this committee. One is child tax credits, which was Representative Johnson's. And then mine is the tuition-related tax expenses that required Social Security numbers for students. And we all agree that we want to help those who really need the help. But there is a lot of fraud and abuse out there. So, first of all, I want to say thank you for looking at this because OMB actually put out a statement that said that, from the increased efforts from all forms of these tax credits and the oversight enforcement could raise $43.8 billion over the next decade, which is a lot of money that we could use to help people that really deserve it and need it rather than those that are trying to go over beyond the system.

So can you tell me, beside these two that I have already mentioned, any others that you might be looking at where we would use Social Security numbers, which are the identifying number that we all use for everything, that we might be looking at to save these dollars in these programs and prevent the fraud and abuse?

Secretary Mnuchin. Well, I can tell you, actually, it is an issue that I have started to spend a lot of time on, because we administer a lot of tax credits through the IRS based upon Social Security numbers. And I am in the process of having meetings with the Social Security Department in understanding how we are going to move forward with technology, smart Social Security cards, how we can protect that information. I think, as you know, on most credit cards today, you have a unique identifier and other ways, and we need to figure out how we use technology to protect us against fraud, which we think at the IRS is quite significant.

Mrs. Black. Well, thank you, because we know that. We have heard it over and over again -- right here in the Ways and Means Committee when we do the oversight hearings -- we have heard it over and over again how people are going around the system and not -- are getting something that they don't deserve. And so I applaud the administration. I look forward to hearing more about it. And thank you very much.

I yield back the balance of my time.

Chairman Brady. Thank you.

Now, Mr. Kind, you are recognized.

Mr. Kind. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here and engaging us today. And in a moment, I am going to ask you whether you, as part of the President's economic team and budget team, have any plans moving forward to get our fiscal house in order. But before I do that, let me remind you that you currently work for a boss who is quoted as saying: "I am the king of debt. I am great with debt. Nobody knows debt better than me. I have made a fortune by using debt. And if the things don't work out, I will just renegotiate the debt. I mean, that is a smart thing to do." He was also quoted as saying: "I would borrow knowing that if the economy crashed, you just make a deal. And if the economy was good, it is good. So, therefore, you can't lose."

And one of the problems I had with the tax bill is that it was one of the principles in working on a bipartisan tax reform bill is that it would be revenue neutral. It would shut down egregious loopholes, tax breaks that special interests were able to jam into the Code throughout years, the so-called expenditures. That clearly wasn't the case. We ended up with a tax cut bill where 83 percent of the benefit goes to the wealthiest wealth 1 percent. The $1.5 trillion was not offset. It was not paid for. You include interest on the debt on that over the next 10 years, you are pushing $2 trillion of additional debt in our fiscal house.

And it is little wonder that, right after last week's budget bill where we blew through the caps, another half a trillion dollars on top of that, the administration submits a budget this week that calls for cuts to Medicare and Medicaid of $2 trillion. Coincidence? I don't think so. And I would humbly submit that you are not going to be able to push through Congress cuts of $2 trillion to Medicare and Medicaid over the next 10 years. The American people won't stand for it.

And I mentioned during the debate that, unlike the tax cuts of 1981 or 2001 or 2003, it is different this time because we are not in a position to make a huge fiscal mistake, not with 70 million baby boomers beginning their massive retirement, 10,000 a day, joining Medicare and Social Security. And yet that is exactly what this Congress and this administration did in your complicity. It has made that huge fiscal mistake and setting future generations up for failure. Because the Bank of China is open now, and we are going to have to borrow a lot of money in order to finance these cuts and the spending increases that were just passed last week in the budget. And that is not going to be good for the long-term economic growth. And there is going to be a day of reckoning. You give me or any member on this dais an opportunity to write $1.5 trillion worth of hot checks, and I will give you the illusion of wealth. I will give you the illusion of growth, but there will be a day of reckoning. And this is going to come home, and it is going to hit us sooner rather than later. And that is the challenge.

So, again, I ask you whether this administration is putting together a team to get serious about getting our long-term fiscal house in order, or are we just going to renegotiate if things collapse on us?

Chairman Brady. Time has expired.

Mr. Reed, you are recognized.

Mr. Reed. Thank you, Mr. Chairman.

Thank you, Mr. Secretary. And before I get into my comments, I want to just start on a positive note. I was proud to be part of the effort, and I thank you and your team for the efforts done on tax reform, because I think tax reform is going to lead to huge amounts of opportunity across the country, and that is a cornerstone to getting our fiscal house in order in order to have growth, to have private sector job creation, to create new wealth. And I think that is a major part of the solution.

But I do have to agree with my colleague from Wisconsin on the other side of the aisle. I am afraid. I ran for Congress in 2010 on the issue of the debt crisis, on the issue of the national debt becoming too large to be sustainable for the future of America. And after last week and after much soul searching, I have come to the conclusion, and I will be the first one to say it publicly here on this committee for the first time, that I believe the debt crisis is now upon us, that this is the day of reckoning. It is not tomorrow. But we are starting to see that debt crisis explode as we speak.

And I would ask you and the administration to make sure that if we are going through this debt crisis, that we have policies proactively to try to mitigate the impact of that crisis as we speak. Because as has been indicated, if interest rates go up, and we know they are going to go up, the magnitude of the debt service, I don't think the American people can appreciate.

You know, I have done some rough calculations. And just going up to 3.6 percent of debt service obligations on an interest rate is about an extra $520 billion a year just to pay interest. And people can relate to that when you talk to them about their credit cards, when you talk to them about their mortgage payments back home. And if you told them that you had to come up with $520 billion of additional interest payments, they would then ask the question, "Well, where are you going to get that money?"

And then you put that in perspective of where we spend money across the budget. We spend $840 billion on Social Security. Defense, we are going to spend about $700 billion. If interest rates go up to 6.83 percent -- and this is what I asked the panel of economists about 2 years ago when I started to try to be the canary in the coal mine to this is happening, this will happen if we don't get our fiscal house in order -- 6.83, you are at about a trillion dollars for additional interest payments. I don't know how we sustain that. And you are a very smart man, Mr. Treasury Secretary. How do you sustain that type of debt load and keep America strong and vibrant going forward?

Secretary Mnuchin. Well, I think, first of all, the President shares your concern that the debt has gone from $10 trillion to $20 trillion over the last 8 years. And these are issues we need to look at, and we look forward to working with you.

Mr. Reed. I appreciate that. I look forward to working with you. It is imperative we get this in order.

Thank you

Chairman Brady. Thank you.

Mr. Pascrell, you are recognized.

Mr. Pascrell. Mr. Secretary, welcome.

The tax bill that was pushed through cost more than a trillion 500 billion dollars, and then we add the interest, and it goes on forever, money that we borrow for the future. Eighty percent of the money we spent went to the top 1 percent. Some would say a little more than that. Wells Fargo alone got a handout of $3.4 billion from the U.S. Treasury. You are the Secretary of the Treasury. After they cheated millions of customers, opened fake accounts, overcharged veterans, they got this reward. But following this tax cut, they were paying their shareholders $22.5 billion. Their shareholders. That is 102 times the amount they are putting into charity and wage increases combined. At the same time, Mr. Secretary, they are closing 900 branches.

So here's my first question, Mr. Secretary, because I heard you insult a lot of big States many times. Let's get it straight here right from the horse's mouth. You stated repeatedly last year that we needed to eliminate the State and local tax deduction because we had to get out of the business of subsidizing States. Who wrote that talking point for you? Because you seem to repeat it over and over again like a broken record. And I told you last year, and I will say it again, New Jersey subsidizes low States -- that is baloney. With my State getting back at $0.74 on the dollar, it contributes to Federal revenue.

Mr. Pascrell. Now with the Trump tax cuts, we will be contributing even more. How dare you insult those States?

And you also said in your statement that what they need to do is cut their taxes. Well, we all try to cut taxes. But you know that bill went back to the Civil War, long before the Tax Code even came into existence, to make sure that the local communities, the county communities, the State communities had enough money and resources to get by year after year. That is an insult.

This week, the Director of the National Intelligence, the CIA, the FBI, and other leading intelligence officials warned that Russia might be meddling. They did meddle in the 2016 election and will use their digital strategy to worsen it this year.

I understand the administration is working on implementing sanctions required by the bipartisan Countering America's Adversaries Through Sanctions Act, the bill that garnered more than 400 votes. How many sanctions did the President direct you to impose?

Chairman Brady. Thank you. All time has expired. If you would answer the question in writing.

Mr. Pascrell. Can I get an answer? Yes or no?

Chairman Brady. Members know that if you want the Secretary to give an answer, give him time, leave him time to do so.

Mr. Pascrell. Mr. Chairman, come on.

Chairman Brady. Mr. Kelly, you are recognized to question the Secretary.

Mr. Kelly. Thank you, Mr. Chairman.

Mr. Mnuchin, thank you so much for being here today.

Just I want to correct something real quick. First of all, the claim that the benefits -- gives 83 percent of the benefits to the top 1 percent. First of all, that is based on a Tax Policy Center data for 2027, which, doing the math, that is about 10 years from now.

The reality, in 2019 alone, over $100 billion in tax cuts will go to families making under $200,000. This is out of $180 billion in total tax cuts; therefore, 56 percent of the tax cuts go to families making under $200,000. So could we please quit separating our people with this Tax Code to saying somehow the -- only the wealthy.

But I want to thank you, first of all, for tax cuts. I spent some time at the auto show in Washington. And every maker I went up to, whether it was Chevrolet, Ford, Chrysler, whomever, the person would say, "Thank you so much for the tax cuts bill." This is something that is working in such a positive manner.

Now, not here in this Chamber, but when I am back home in Pennsylvania, I have the same reaction from people who are glad to get the crumbs. And in the business that I am in, sometimes $4 a month makes a difference between somebody being able to buy a car or truck or not buying a car or truck, so it is all important.

The big issue that I want to get with you, and I know you are already on this, and Earl Blumenauer and I are working on this together. On P3 legislation, we do have something called the Public Buildings Renewal Act, which would permit tax-exempt financing of certain government-owned buildings by expanding the definition of exempt facility bonds. And I know we are going to talk about that with infrastructure.

The other issue is on conservation easements. As you know, the conservation easement provisions were made permanent as a part of the PATH ACT. This legislation that Mike Thompson and I have, and it was authored in a previous Congress, has had broad bipartisan, bicameral support.

Unfortunately, there is some language out there now that turns the corner on that and doesn't present it in the right way. So I am going to really appreciate working with you on this.

The other thing, and I want to make this just so you know, I can't tell you how much I appreciate the administration for stepping out of the private sector and coming into Washington, D.C.

And the poster I think that I remember more than anything I ever saw is, "The beatings will continue until morale improves." When we see the massive economic revival that is taking place in this country and the only card we can play is we still hate Trump, when millions and millions of people are receiving the benefits of legislation that has taken place and what the President has been able to do, mostly on his own, by the way, in the first year to improve the lives of everyday hardworking American taxpayers and citizens? That is something to be lauded.

And so it is hard to come in and here everything else out there and "who struck John" -- and listen, the brave talk about entitlement reform is only going to take place before election time. It will never take place when we actually have to make those cuts.

When 70 percent of our budget is automatic and has absolutely no ceiling, that is a huge problem. I don't care if you are running a car dealership, a candy shop, or running a big company. This is the problem we have had.

And I love this Rip Van Winkle effect that, apparently, for almost 15 years or 10 years, the other side has sat in some type of a slumber. Didn't realize that we went from $9 trillion in debt to $20 trillion in debt, and all of a sudden debt is now a concern.

Mr. Crowley. Chairman, regular order.

Mr. Meehan. Thank you for your service. I appreciate everything you are doing. Let's just keep moving forward.

Chairman Brady. Yes, Mr. Crowley, you had been talking out of order to the Secretary at the beginning. So we will continue regular order.

Mr. Crowley. Mr. Chairman, I was speaking out of order?

Chairman Brady. Mr. Crowley, you are recognized. Yes, you were questioning the speaker without your microphone on.

Mr. Crowley. I had my microphone on.

Chairman Brady. So now you are recognized.

Mr. Crowley. Mr. Chairman, I fail to recognize when I asked the gentleman any question.

Chairman Brady. You were speaking to the Secretary at the early part of the debate. We let it go because --

Mr. Crowley. I don't think I was here, Mr. Chairman.

Chairman Brady. Yes, sir. You are recognized.

Mr. Crowley. I respectfully disagree with you, Mr. Chair.

Chairman Brady. Yeah. And I respectfully disagree with you. You are recognized.

Mr. Crowley. Mr. Secretary, welcome.

Secretary Mnuchin. Thank you.

Mr. Crowley. I think there is a new definition of reading, writing, and arithmetic. We add the fourth, and that is: Run for your life.

And I respect your position. You hold one of the highest positions in our government.

And I take you at your word you will talk to the President about what he will do to help protect our children from the onslaught that is happening on a weekly, a biweekly basis. Eighteen events in this year alone, and we are only into February. And I think that is incredibly disturbing, if not to you, to the President, to my Republican colleagues as well.

Mr. Secretary, the President said, on May 7, 2015, when he was running for President, he made a promise. He said, I quote: I was the first and only potential GOP candidate to state there will be no cuts to Social Security, Medicare, or Medicaid.

And, yet, in this budget proposal, the President has proposed a $65 billion cut to Social Security, a $500 billion, a half a trillion cut to Medicare, and over $1.5 trillion over the next 10 years in cuts to the Medicaid system. That is a political promise the President apparently is never going to keep because his budget does not reflect that at all.

Mr. Secretary, on January 12, you were quoted in the Daily Tax, in reference to the issue of high State taxes looking for creative ways to get around the tax law that caps $10,000 amount of State and local taxes. You said, and I quote: "I can assure you we will audit the real estate tax issue," end quote. That was at the -- January 12 at The Economic Club here in Washington. You remember making that statement?

Secretary Mnuchin. I don't, but --

Mr. Crowley. -- it is quoted here. I would like to enter that into the record.

Secretary Mnuchin. I have no reason to think I didn't. I just didn't say I specifically remember that.

Mr. Crowley. Does that sound like something you would have said?

Secretary Mnuchin. I have to read the whole thing in context.

Mr. Crowley. I would like to enter into the record, Mr. Chairman, that statement.

Chairman Brady. Without objection.

News

January 16, 2018

Mnuchin Warns of Audits in Blue States as Tax Showdown Continues

By Laura Davison

Treasury Secretary Steven Mnuchin threatened to target tax audits at residents of states such as California and New York that are seeking ways to restructure their state income taxes to lessen the blow of the new tax law.

High-tax states have been looking for ways to creatively get around the tax law that caps at $10,000 the amount of state and local taxes their residents can deduct. California has proposed to allow residents to make a donation to the state to satisfy their income tax liabilities and claim the charitable contribution as a credit to reduce their federal tax bill. New York is considering swapping the personal income tax for a business payroll tax that employers could deduct.

"I can assure you we will audit the real estate taxes issue," Mnuchin said Jan. 12 at the Economic Club of Washington, responding to a question about states' plans to create workarounds.

The comment highlights what is one of the most politically sensitive points in the tax overhaul—Democrats say the GOP targeted blue states, which tend to have higher taxes, to fund their tax overhaul. Republicans argue that the deduction subsidizes high-tax state residents.

The Internal Revenue Service and Treasury Department didn't respond to a request for comment on how the audits would work and what authority the agency has to disallow deductions.

Shots Fired

Mnuchin's comments furthered the debate that has been playing out between the Republican-led Congress and Democratic governors and state legislatures since the new tax act (Pub. L. No. 115-97) passed Dec. 22, with each side trying to outsmart the other to get the final word.

"People are angry about what they interpret as Republicans in Congress using the tax law to hammer their political opponents," said Daniel Hemel, an assistant professor of law at the University of Chicago. "If you're a blue state, this is political gravy. You are saving money for residents and protecting the state's ability to collect revenue. Why wouldn't you do this?"

States might not do this if they're not sure it will hold up to IRS scrutiny, said Jared Walczak, a senior policy analyst at the Tax Foundation.

"The IRS operates on the concept of substance over form," he told Bloomberg Tax. "What a state or local government calls it or how they frame it matter much less that what it actually is."

Walczak says existing IRS guidance, regulations, and case law make it unlikely that the California charitable contribution plan will work out. The New York plan is tougher to challenge legally, he said, but does present logistical difficulties in implementing the system.

But for states where significant revenue is at stake—which could be tens of billions dollars for residents in California or New York—the cost may be worth the potential savings, Hemel said.

Audit Considerations

"Maybe the IRS drags people through audit, but it's still a heads we win, tails we tie situation," he said. "If IRS shuts this down, people wouldn't be worse off than they are now."

Mnuchin's warning of audits raises a practical consideration, said Donald Williamson, the executive director of American University's Kogod Tax Center. The IRS doesn't have the manpower to audit every New York and California taxpayer, he said.

The number of audits the IRS conducts annually has been steadily decreasing, falling nearly 34 percent from 2009 to 2015 as the agency's budget has declined, according to IRS data. Additionally, audits take several years to select and complete, so it's unclear how many auditors the agency will have in the future.

"Right now they're auditing 2015 and won't be done for a couple months," Williamson said. "2018 audits won't occur until 2020 or 2021. That's a long way out."

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Mr. Crowley. I would think my Republican colleagues would be concerned. Mr. Roskam mentioned what was happening in his home State of Illinois.

I appreciate the crocodile tears from my colleague from New York, Mr. Reed, on the epiphany he had, the soul searching that took place after December 22, when he voted to increase the national debt by $2.4 trillion in the tax scam bill that was passed, as well as my other colleagues, and then, additionally, just last week, by another $300 billion.

That comes to a total of $2.7 trillion that just last week my Republican colleagues voted for. This epiphany now that, you know, they are worried about what -- the national debt. Why weren't they worried about it before they gave the biggest tax cuts in the history of the world to the wealthiest in this Nation?

Eighty-three percent going to the wealthiest 1 percent and those wealthiest multinational corporations in the history of the world. And now they are worried about this.

I understand now why the President is cutting Social Security, Medicare, and Medicaid system because he is going back on that promise.

Chairman Brady. The gentleman's time is now expired.

Mr. Renacci, as I recognize you, I would remind everyone in attendance that our Democrat colleagues raised the national debt by $2 trillion in 1 year, 1 year, and slashed Medicare by $700 billion.

Mr. Crowley. Mr. Chairman.

Chairman Brady. Mr. Renacci, you are recognized.

Mr. Renacci. Thank you, Mr. Chairman.

And thank you, Secretary Mnuchin, for being here today and your continued service to our country.

The results of tax reform results are becoming more apparent every day, and I appreciate you coming out to Ohio last week. You started to see, even in Ohio, how it is growing our economy. But, still, there is work to be done in Congress and technical clarifications at the Treasury with implementation and at the IRS with administration.

Every day since tax reform passed, another company announces it is passing its benefits along to its workers in the form of bonuses and higher wages. You saw that in Ohio. This is in addition to the direct benefit these workers are receiving due to reduced taxes.

As my colleague, Mr. Kelly, said, the JCT noted that families making between $40,000 and $50,000 are seeing a 10 percent reduction in their taxes that they owe. In 2009 alone, over $100 billion of tax cuts will go to families like these, and we are seeing that.

So the narrative again that my colleagues on the other side continue to say that this is a giveaway to corporations and wealthy Americans is just ridiculous. And as I travel the State of Ohio, I continue to hear people thanking us for those tax cuts.

I would also talk about the debt crisis. I disagree with my colleague from New York. The debt crisis started about 10 years ago. It continues to go, and, yes, we do have to worry about the debt crisis.

One thing we have to do is we have to get growth, and I think we are getting that out of the tax and jobs bill cut. But we have also got to get spending down, and we are going to have to look at mandatory spending. I sit on the Budget Committee so I continue to look at that as well.

So if -- the one thing I do hear is my colleagues on the other side are concerned about our debts and deficits. I am glad to hear that. I hope we can work together to come up with solutions so that our children and grandchildren don't have to deal with this debt crisis. But, again, the tax cut will grow our economy and allow us to grow a revenue base that will help. We cannot continue down a stagnant path that we have had the last 8 years.

Mr. Secretary, I do want to bring though to you an issue. A number of Ohio restaurants and retailers have reached out to my office this month to ask me for help in addressing a drafting error.

More specifically, when writing the tax reform legislation, we intended to consolidate three types of improvements or renovation properties into qualified improvement category.

We also intended to assign the property a 15-year recovery period, which it had under the old law. However, given a drafting error, it now appears that qualified improvement property will instead default into a 39-year recovery year period. I know that our committee is looking at it, but I wanted to make sure that you were aware of it, which I assume you are.

And what would you say to retailers and restaurants that are nervous that neither Congress nor the Treasury will be able to quickly resolve this issue?

Secretary Mnuchin. Well, first of all, I am aware of the error. It obviously was unintended. We are looking at whether there is anything we can do with regulations. I think it is likely that this is something that may need to be fixed in the bill. But we look forward to working with you.

Mr. Renacci. Thank you.

Chairman Brady. Thank you.

Dr. Davis, you are recognized.

Mr. Davis. Thank you, Mr. Chairman.

Mr. Secretary, I am appalled at this budget. After a $1.5 trillion tax cut for the wealthiest corporations and donors, the Trump budget proposes cutting basic necessities of everyday Americans: Medicare, Medicaid, Social Security, food assistance, housing, and heating, just to name a few.

At a time when this administration enacted complicated tax cuts, the Trump budget fails to provide substantial increases to the primary services that help real Americans with their taxes: the volunteer income tax assistance clinics, the low-income tax clinics, the tax counseling for the elderly, and the Taxpayer Advocate.

At a time when tens of millions of middle class taxpayers in SALT States will be grappling with tax increases and a Secretary who threatened them with audits, you propose a budget with paltry increases for substantive on-the-ground assistance to help taxpayers.

Further, I am disturbed that the Trump budget lauds its investment in enforcement when your private debt collection enforcements this year targeted SSDI and SSI recipients, subjected impoverished Social Security recipients to levers even though they were impoverished, and put 45 percent of the studied taxpayers into installment agreements they couldn't afford.

It seems that your enforcement focuses on increasing the profits of debt collectors at the expense of the disabled, retirees, and impoverished counter to IRS policy and decency. I cannot understand why you have refused to allow the Taxpayer Advocate to monitor these collection calls to understand these inappropriate actions.

I know that there are thousands of hardworking IRS employees who have dedicated themselves to helping taxpayers, yet your failure to prioritize everyday taxpayers, your current enforcement practices targeting vulnerable taxpayers with for-profit debt collectors, and your own threat to aggressively audit taxpayers in States like Illinois, with high SALT expenses make me wary of this cruel budget.

I would like to ask you, what are you doing to remedy the harm to vulnerable taxpayers by your private debt collection program?

Secretary Mnuchin. I look forward to -- I will follow up with the IRS on the issue of the private debt collectors, see why they don't want the Taxpayer Advocate to monitor. I am not familiar with that issue, but we will follow up with it.

Mr. Davis. Thank you very much.

And I yield back, Mr. Chairman.

Chairman Brady. Mr. Meehan, you are recognized.

Mr. Meehan. Thank you, Mr. Chairman.

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

So much of the real benefit of the hard work that you did passing tax reform really goes down to the small businesses and others who are the real engine of job growth and really economic growth in our country. When they do well, the country does well. And I am seeing a sense of enthusiasm when I am out there talking to the grassroots.

One group that has some challenges -- and a lot of them, admittedly, are contractors, but I have got a lot of small businesses, family owned that have been for a period of time working in -- with pension plan issues because they are part of multi-employer plans.

You sit on the PBGC as a Secretary of Treasury. Can -- I have got two questions: Can you tell me what the PBGC may be recommending to you about ways in which we might be able to resolve the concerns that the multi-employers, particularly the small employers have, in that?

And then, in a related way, I think that there are many small businesses that are passthroughs that are excited about the opportunities for investment, particularly taking the capital that they now have to grow their businesses.

And can you give me a little bit of insight on what the kind of priorities you are going to have in terms of making recommendations or clarifying with further guidance what the passthrough deduction opportunities may be for small businesses?

Secretary Mnuchin. Yes. Thank you.

So, first of all, on the multi-employer, you know, this is a complicated issue. It is a significant risk to the PBGC, as you have mentioned, and we look forward to working with you and others in Congress in trying to figure out a solution for it.

And as with regards to passthroughs, we are working with the IRS and the Office of Tax Policy to put together guidance so that small businesses can take advantage of the investment opportunities on the one hand and, on the other hand, make sure there are guardrails that don't get abused.

Mr. Meehan. Thank you, Mr. Chairman.

Chairman Brady. Thank you, Mr. Meehan.

Ms. Sanchez, you are recognized.

Ms. Sanchez. Thank you, Mr. Chairman.

And I want to thank the Secretary for joining us today.

But I have to say, in chorus with some of my other colleagues, that I am shocked, although maybe I shouldn't be, that less than 2 months after the Republicans passed the largest tax giveaway to multinational corporations in our Nation's history, we are here discussing a budget proposal that takes even more money away from the hardworking people that I represent.

At every turn, this administration never misses an opportunity to shift more of the burden onto the poor and middle class families and the communities in which they live. Cities in my district are already staring down impossible budget choices thanks to the Republican tax scam.

The law gutted State and local income tax deduction from my constituents and threw city budgets into almost certain chaos. But the Republican budget proposal before us today takes that difficulty a step further from municipalities, and when city budgets are tighter, tangible services in our communities suffer. That means that teachers don't get the supplies they need, fire stations don't get the new equipment they need, and police departments can't hire new deputies. These would be the very real effects if this preposterous budget proposal were to become law.

Many cities I represent are also in desperate need of infrastructure updates, from crumbling bridges to unsafe rail crossings and long, overdue highway projects. These are massive projects that need Federal support and Federal dollars. But, instead, this budget pushes localities out on an island, forcing them to do even more with even less. How can already squeezed cities foot even more of the bill for transportation projects, as the President proposes in his budget?

But perhaps the single most offensive proposal in this budget is the Republican food rationing box for SNAP recipients. I am out of words to describe just how amazed I am at the depths to which this budget stoops to hurt people. But I couldn't let my time go without saying that.

How in good conscience can a President sign a law containing roughly $1.5 billion in tax cuts that heavily favors billionaires and corporations that stash money overseas and then turn around and literally take fresh food out of the mouths of children? Is this our shining example of democracy to the world?

I have said this every year at this hearing: Budgets are about priorities. And if this budget doesn't show exactly what this administration's true priorities are, I don't know what does. This kicks people in the teeth that are struggling to support their families and to contribute to this country. It is despicable.

And, with that, Mr. Chairman, I yield back.

Chairman Brady. Mr. Smith, you are recognized.

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

And thank you, Mr. Secretary, for appearing here today.

I know time is limited, but I wanted to touch on a couple of tax issues: One is it is my hope that we can resolve the 199(a) issue. There are concerns among ag producers that there is a problem there. And I hope that we can address that.

Also, I would like to draw your attention to the issue of cash accounting for agriculture syndicates. And despite longstanding law and practice allowing cash accounting for family-owned agriculture production under the active participation exemption, the IRS attempted to argue in the fifth circuit that Burnett Ranches, a family-owned for more than 100 years, was ineligible for this exemption because a family-owned S-corporation was a limited partner in the ranch. The fifth circuit correctly ruled in favor of the Burnetts, and this decision stands across Texas, Louisiana, and Mississippi. However, the IRS has indicated it may continue to hold its position in other circuits, creating uncertainty for producers in the other 47 States.

So it seems to me this position is contrary to the administration's efforts to provide certainty and regulatory relief for American businesses, and I strongly encourage the IRS to stand down from this position.

So thank you, again, for being here today.

Mr. Chairman, I yield back.

Chairman Brady. Thank you.

Ms. Sewell, you are recognized.

Ms. Sewell. Mr. Secretary, I wanted to ask my question about the Treasury Department's proposed elimination of the Community Development Financial Institutions Fund. In a report your Department issued June of 2017, it was said, quote: CDFIs and MDIs, minority depository institutions, are often the only source of credit and financial services in impoverished urban and rural, low- and moderate-income areas with limited access to the banking system.

Mr. Secretary, I submit to you that nothing has changed since June of 2017. This year's budget, again, calls to effectively eliminate the arm of the Treasury Department that aids economically distressed communities, many of which are in my district.

The CDFI fund runs a number of different programs that encourage investment in poor communities around the country. They help businesses in low-income communities garner financing, and they are an integral part of the administration of the new market tax credit program, which provides tax credits to investors who provide capital organizations in low-income communities.

The new market tax credit has enjoyed broad bipartisan support for many Members of Congress. It has earned the support due to the proven record of such a program. The CDFI fund leverages Federal funds roughly 12 to 1, leading to the investment of about $3 billion in low-income distressed communities.

I was wondering if you could explain to my constituents who depend upon this why you would -- your Department would issue such a report that talks about its benefits and yet effectively eliminate such a fund.

I am especially curious as to why you would eliminate such a fund when it has been said time and time again this administration has added $1.5 trillion to the budget due to a tax cut.

I think it is really hypocritical, frankly, that you would add to our debt and at the same time take away tools that actually help low-income and distressed communities, especially since we live in a time when we are asking these communities to do more with less.

So I don't know if you could answer that question, sir, but I would like for you to try.

Secretary Mnuchin. Sure. I am happy to answer it.

So, first of all, let me acknowledge I do think that the CDFI funds have done tremendous work for many communities. So the Treasury is proud to have been part of administering these funds.

Ms. Sewell. Well, why would you eliminate it?

Secretary Mnuchin. The $1.5 trillion we feel is paid for through growth. So they are two independent things. The CDFIs, this is just a difficult decision in looking for savings and putting more money to some other areas.

Ms. Sewell. Well, why would you take -- I just want to reclaim my time because I only have a few seconds. But why would you choose to make that kind of calculated choice, which, frankly, if you do not have the kind of growth that you are saying -- and I can tell you that in distressed communities that I represent, we have been waiting -- waiting -- for the trickle down of economics to actually affect them. And so, with all due respect, you are taking away an important tool.

Chairman Brady. Ms. Sewell, your time has expired.

Mr. Holding, you are recognized. Mr. Holding.

Mr. Holding. Mr. Secretary, it was a pleasure to work with you on tax reform. And in the 2 months since the bill was passed, middle class families in my State of North Carolina have already begun to see the benefits of a historic law.

Much like the growing trend we have seen throughout the country, businesses in North Carolina are giving out bonuses, increasing wages, and providing enhanced benefits and greater retirement plans as a result of the tax reform that we passed together.

The Hammock Source in Greenville, Ally Financial in Charlotte, Atlantic Packaging in Wilmington, Lowes in Charlotte, IET Insurance in Raleigh, Benchmark Auto Sales in Asheville is just naming a few of them that have given out bonuses of $1,000 or more.

Further, BB&T in western Salem; Aquesta Financial Holdings in Cornelius; MetLife, which just broke ground on a second location in my district, all raised employee wages and implemented a minimum wage of at least $15 an hour.

In addition to these bonuses and pay increases, the average family in my district in North Carolina will see their taxes cut by approximately $2,250. And while my friends on the other side of the aisle have characterized these benefits to hardworking families as crumbs, North Carolinians know otherwise and have directly seen the positive impact in their paycheck.

And I also want to briefly touch on the importance of the change to a territorial system that we accomplished on tax reform. We finally leveled the playing field for companies around the globe, and I look forward to continuing to work on that to ensure its implementation to increase competitiveness.

But, also, I look forward to working with you and this committee to ensure that we work towards a territorial system for our American citizens abroad and finally end our draconian citizenship-based taxation regime.

This move, much like territoriality for corporations, will increase the competitiveness of Americans in the global job market and level the playing field for individuals that is currently tilted toward their foreign counterparts. Then we will finally have a system that allows talent, not tax burden, to determine the business and hiring decisions of global corporations.

With that, Mr. Chairman, I yield back.

Chairman Brady. Thank you. The gentleman yields back.

Ms. DelBene, you are recognized.

Ms. DelBene. Thank you, Mr. Chair.

Thank you, Mr. Secretary, for being with us.

The administration's entire infrastructure plan is about leveraging a small Federal investment through profit-driven investors. And if there is no profit to be made, it sounds like the same folks who have been left behind before are going to be left behind again.

So can you tell me, do those investors plan to fund projects in struggling rural communities, like Concrete or Darrington in my district, or similar communities across the country, when these communities won't necessarily provide a lucrative return, but they desperately need infrastructure investments to support farmers and families and small businesses?

Secretary Mnuchin. Well, I agree with you completely that there are many projects that won't have returns for investors, and they need to be funded either through Federal dollars or State dollars. Public/private partnerships are not appropriate for everything.

Ms. DelBene. Well, we have very few Federal dollars in the President's budget, so it is very concerning. In fact, according to the White House, how the project will spur economic and social returns on investment ranks at the bottom in terms of deciding where dollars would go. It is just 5 percent of the formula for choosing projects versus 70 percent for the ability to secure non-Federal funding. That is very concerning for our rural communities.

And we talk about State and local governments having resources; I wanted to also ask you about marketplace fairness or e-fairness. You told the Senate Banking Committee in January of this year that the President is supportive of the idea and looks forward to working with lawmakers on this issue.

I have been working on this issue with a bipartisan group since before I was in Congress, and I ran the Department of Revenue for the State of Washington. And it is absolutely critical for State and local budgets that we resolve this issue. Yet we have had good bipartisan legislation. House leadership has refused to allow that to move. We haven't even had a committee markup.

So is this a priority for the administration? And can I have your commitment that you are going to help us move forward on online fairness legislation?

Secretary Mnuchin. This I am actually very pleased to answer, because I will change my comment from "he is supportive" to "he feels strongly." I have personally spoken to him about this. Without a comment on any specific bill, he does feel strongly that the taxes should be collected.

Ms. DelBene. Well, we have some specific bill -- a very specific bill out there that is bipartisan, and we need it to move. So I would appreciate the commitment to actually make sure that moves because this is something that has been languishing for years, again, bipartisan legislation and is critical for our State and local governments.

Thank you. I yield back.

Chairman Brady. Thank you.

Mr. LaHood you are recognized.

Mr. LaHood. Thank you, Mr. Chairman.

And thank you, Mr. Secretary.

Having just passed once-in-a-lifetime tax reform -- and obviously the effect that is having on our economy is significant and our economy continues to grow -- I would hate to see us shoot ourselves in the foot by withdrawing from NAFTA. And the consequences of withdrawing from NAFTA would have significant impact on agriculture manufacturing, lots of other things.

But, you know, as I look at those negotiations and where we are headed, that causes me a lot of concern and a lot of other folks in Congress. Can you tell us the role that you play on the trade negotiations and the consequences of withdrawing from NAFTA to our economy?

Secretary Mnuchin. Sure. So I am actively involved. Ambassador Lighthizer is leading this, but I am meeting weekly with him with other members of the economic team. And I am cautiously hopeful that Ambassador Lighthizer will be renegotiating this deal. So it is a major priority of ours to renegotiate the deal.

Mr. LaHood. And can you talk a little bit about the consequences to the U.S. economy if we did withdraw?

Secretary Mnuchin. I don't want to go through the consequences because, again, that is not our first priority. Our priority is to renegotiate the deal, and, as I said, we are actively having discussions on this. I don't want to go into the details in this public setting, but I would be happy to follow up with you privately.

Mr. LaHood. Thank you. Look forward to following up.

As a second part of trade, when the new administration came in, they talked a lot about bilateral trade agreements. So we are 14 months in now, and we haven't had a bilateral trade agreement put forth or really even a template or kind of an example or a model for bilateral trade agreement.

Can you talk a little bit about what you see in terms of bilateral trade and how important that is to our U.S. economy?

Secretary Mnuchin. I do think it is very important. So, as I said, you know, this is one of the top issues we are meeting on constantly. The President's priority is bilateral, but I think he is open-minded. In Davos, he commented that if we could renegotiate the TPP, he would consider going into multilateral.

And we are in active discussions -- again, I don't want to go through it publicly here, but I assure you we are in active discussions on enhancing our ability for exports in creating more fair trade for American companies. It is a very big focus of the President's.

Mr. LaHood. Well, thank you for those comments.

Obviously, I think you understand the importance of international trade, what it means to our economy moving forward, and I look forward to your input on that and your advice on this administration, because it is vitally important to this country moving forward.

Thank you very much, Mr. Secretary.

Chairman Brady. Thank you.

Ms. Chu, you are recognized.

Ms. Chu. Secretary Mnuchin, the GOP tax plan is terrific -- terrific for the top 1 percent and the wealthiest of the corporations. Now the top 1 percent can buy not just one mansion but two.

And corporations like Kimberly-Clark, the maker of brands such as Kleenex, Scott, and Huggies, said that the savings it receives from the new tax cut law will help them pay for a restructuring program that includes layoffs, layoffs of about 5,000 to 5,500 people, or 12 to 13 percent of its workforce.

And who is paying for this windfall? Well, in my State, it is 6.1 million California families, who will immediately bear the burden thanks to limits to the State and local tax deduction. The average Californian deducts $18,000 in local taxes each year for 100 years of SALT deduction ensured that they wouldn't be taxed twice on their hard-earned money. But with the $10,000 cap, Californians are liable to pay taxes on $8,000 more.

Already, my constituents have told me they are filled with dread when attempting to plan their family finances. These dollars hadn't been taxed because they help our State and local economies by paying for better schools, better roads, and other important services like fire and police. But by capping what can be deducted, Republicans are hollowing out our State's most essential services.

And if that is not enough, Mr. Mnuchin, in an attempt to pay for these tax cuts, your administration's budget strikes another blow to California by cutting critical grants and programs that help the most at-risk populations in my State. Your budget completely eliminates programs like the Social Services Block Grant, which provides critical services to our most vulnerable, including seniors and victims of child abuse.

It cuts funding of $21 billion to the Temporary Assistance for Families program, or TANF, which helps the neediest families put food on the table. It completely guts the Community Development Block Grant Program and the Low-Income and Home Energy Assistance Program, LIHEAP, which funds affordable housing projects, ensures that families don't have to pick between paying their energy bills and paying for their medicine or other bills.

Mr. Mnuchin, these changes will affect over 3 million seniors, children, working parents, the disabled, and other families in my State who are struggling to make ends meet. California stands to lose over $1 billion a year based solely on the cuts to these four programs alone.

All this, Mr. Secretary, at the same time that the Republican tax scam wants to see California turned into even more of a donor State, with our taxes rising to pay for Republicans' ill-conceived tax cut for corporations and the wealthiest few. This tax plan is irresponsible, and the budget is heartless.

I yield back.

Chairman Brady. Time has expired.

Mr. Secretary, I would like to thank you for appearing before us today.

Please be advised Members of the Congress of the committee have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record.

With that, Mr. Secretary, thank you for joining us. The committee stands adjourned.

[Whereupon, at 11:39 a.m., the committee was adjourned.]

MEMBER QUESTIONS FOR THE RECORD

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

March 22, 2018

MEMORANDUM

Witness: The Honorable Steven T. Mnuchin
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

From: Danielle DuBose, Tax Legislative Assistant

CC: Barbara Angus, Chief Tax Counsel

Subject: Questions for the Record for the hearing entitled, *Hearing on the President's Fiscal Year 2019 Budget Proposals with U.S. Secretary of the Treasury Steven Mnuchin*

Thank you for testifying before the House Ways and Means Committee. In order to complete the record of the hearing, please respond to the attached Questions for the Record (QFRs). Pursuant to the Committee rules, we ask that responses to the QFRs be returned to the Committee by 6:00 PM on Thursday, April 5th. Please submit your responses via e-mail as a Word attachment to Danielle.DuBose@mail.house.gov by that date.

If you have any questions concerning this matter, please feel free to contact me at the email above or via phone at (202) 225-5522.

Question from Rep. Buchanan

Lead in:
I want to commend you and the administration for your efforts to streamline federal bureaucracy and reduce burdens that the IRS and Treasury impose on American taxpayers. Specifically, Executive Orders 13777 on Enforcing the Regulatory Reform Agenda and Executive Order 13789, on Identifying and Reducing Tax Regulatory Burdens.

With that in mind, I wanted to ask you about an issue that is negatively impacting small, captive insurance companies, including some in my home state of Florida. More specifically, I am inquiring about Notice 2016-66, which was issued at the close of the prior administration and is harming small insurance companies by imposing on them (and their professional advisors) significant and potentially unwarranted compliance and record-keeping burdens. This IRS Notice also harms these businesses by branding all small insurance companies as transactions potentially giving rise to tax avoidance—even where such insurance company has no characteristics that the IRS is concerned about. Moreover, the Notice was made effective 10 years retroactive, exacerbating the burden placed on these small insurance companies.

Given the focus of the executive orders, I would encourage you to withdraw this Notice and in its place initiate a formal regulatory process that would allow taxpayers the procedural rights of the Administrative Procedure Act with regard to any appropriate reporting regime in this area.

Question:
Secretary Mnuchin, is this something you are willing to consider?

Question from Rep. Jenkins

Lead in:
According to the IRS Data Book from 2000 to 2016, uncollected tax debts grew from 5.8 million debts valued at $38.8 billion to 14 million debts valued at $138 billion. The growing debt prompted Congress to mandate that IRS contract with private debt collection agencies. And yet, the IRS has only assigned a fraction of those cases to Private Collection Agencies, with the vast majority being accounts with a balance due of $10,000 or less.

Question:
What is the agency's plan for fully implementing the program this year? Please include the planned volume for distribution for FY 2018 and FY 2019, with a breakdown by balance due amount. Additionally, please provide the Committee with any available rating reports on customer service satisfaction, professionalism, and timeliness.

Question from Rep. Black

Lead in:
Many tax credits meant to help the middle class have been and continue to be abused – wasting billions of taxpayer dollars by providing credits to individuals seeking to game the system. In the past I have authored legislation that would require social security numbers be required when filers claim the American Opportunity Tax Credit.

I am encouraged to see the administration propose a similar policy for the child tax credit. However, there is much work to be done by Congress and Treasury to ensure taxpayer dollars are safeguarded from fraud. The Inspector General of the Internal Revenue Service published a 2016 audit that the improper payment rate of the AOTC to be around 24 percent and potential improper payments to total $1.1 billion.

Question:
What actions, if any, is the Treasury implementing to require taxpayers claiming education tax credits verify they are deserving of these credits? Are there outside third parties the government can use to check a student's education status more effectively?

Questions from Rep. Kelly

Lead in:
Secretary Mnuchin, I want to raise two issues with you related to tax legislation that I have introduced on tax-exempt bond financing and conservation easements.

The Public Buildings Renewal Act
The first is public-private partnership (P3) legislation that I have introduced with my colleague Representative Earl Blumenauer (D-OR), as well as U.S. Senator Dean Heller (R-NV) serving on the Senate Finance Committee.

In short, the Public Buildings Renewal Act of 2017 (H.R. 5361/S. 3177) would permit the tax-exempt financing of certain government-owned buildings. By expanding the definition of "exempt facility bond" to include bonds used for qualified government building, private activity bonds could be used for qualified government-owned buildings or facilities such as elementary or secondary schools, public libraries, or public safety facilities such as police and fire stations.

I introduced this legislation because our nation's public buildings are in a historic state of disrepair. As such, the current public infrastructure crisis cannot be solely addressed through traditional forms of public financing and project delivery options.

Like the qualified private activity bonds (PABs) authorized for transportation projects, PAB financing is desperately needed for our nation's public buildings. In the transportation sector, PABs are used to attract private investment for projects that have some public benefit. PABs leverage private financing to fund public projects through the creation of public private partnerships (P3s). In turn, P3s advance transportation and infrastructure projects in an efficient way that creates jobs and saves taxpayer money by streamlining project delivery, design, and construction.

The Joint Committee on Taxation has already scored this bill at $48 million. It is supported by a broad group of state and local organizations as well as the National Taxpayers Union.

Question 1:
Secretary Mnuchin, I request the Administration's commitment to work together on this important legislation by including it in a larger infrastructure package or similar tax package. I would appreciate a follow-up meeting with you or another agency official to further explore this issue.

Lead in:
The Charitable Conservation Easement Program Integrity Act
The second issue I wish to raise is related to the conservation easement tax donation program. As you know, the conservation easement provision was made permanent as part of the PATH Act. Representative Mike Thompson (D-CA) and I introduced this legislation in previous Congresses and it has had broad bipartisan, bicameral support.

Since this legislation was made permanent, however, concerns have been raised with certain syndicated conservation easement transactions. Brad Bailey of your staff has been provided with information on these transactions. While the vast majority of conservation easement donations are charitable undertakings, certain organizations are promoting conservation easements to investors in order to facilitate a profit by generating large Federal tax deductions. As such, the Treasury Department has designated these egregious transactions as abusive tax shelters.

As you know, these tax shelters are on Treasury's radar as the IRS issued a notice, IRS Notice 2017-10, which alerted taxpayers and advisors involved in certain syndicated transactions that they are tax avoidance schemes and must be disclosed to the IRS.

Unfortunately, the House Appropriations Committee included language in the IRS funding bill that would *prevent* the IRS from enforcing this Notice. This is seriously concerning to me and many in the Land Trust community, including those in my district. These abusive tax shelters are exploiting this charitable program and undermine the integrity of this tax incentive which encourages private landowners who voluntarily seek to protect their land.

Question 2:
Therefore, I hope you and the Treasury Department are aware of this rider and that the Administration has indicated its strong opposition to the House language which would hinder your ability to administer this tax law.

If not, I encourage you to do so. I would like to work with you to preserve the integrity of this important tax incentive that has enabled thousands of acres of farmland and open spaces to be preserved for the enjoyment of future generations.

Thank you for your consideration. I look forward to your timely response.

Question from Rep. Holding

Lead in:
Mr. Secretary, I wanted to bring to your attention a provision in the Tax Cuts and Jobs Act that I have been hearing about from a cross-section of businesses that include in-bound companies and U.S. headquartered companies. Prior to its repeal in the 2017 Act, section 958(b)(4) prevented the "downward attribution" of stock ownership from a foreign person to a related U.S. person for purposes of determining the status of a corporation as a CFC. On three occasions – in the Senate Finance Committee report, in a colloquy that occurred between Senator Perdue of Georgia and Senate Finance Committee Chairman Hatch and in the Conference Committee report, Congress indicated that the modification of CFC rules do not result in income inclusions to a U.S. shareholder of a foreign corporation in cases where the U.S. shareholder is neither in control of the foreign corporation nor related to an affiliated group of which the foreign corporation is a part. The treatment outlined throughout the legislative process is also consistent with the purpose and historical application of the CFC rules over their 55-year history.

Question:
Mr. Secretary, given this clear legislative intent and the grant of regulatory authority to implement such intent, when can we expect administrative guidance to be issued from Treasury

to ensure that the modification of the stock attribution rules is implemented in a manner that is both consistent with its historical application and the intent of Congress?

Question from Rep. Schweikert

Question:
With the renewed interest in transportation and infrastructure funding, we have to find creative mechanism for financing. In the opinion of Treasury economists, will long-term bonds have a reconsideration in viability? You have issued statements both in favor and against long-term bonds at various times, and so any clarification would be helpful.

Questions from Rep. LaHood

Question 1:
Mr. Secretary, as you are aware the recently passed tax reform act changed the applicable interest rate and amended the discount period used by property and casualty insurers to calculate the discount for tax purposes on their loss reserves. The IRS must revise the loss discount factors as a result of these changes. These calculations are very important for property and casualty insurers and it is important for the IRS to publish the new discount factors as soon as possible. Could you please provide an update on the status of this project and an estimated date for release?

Question 2:
Mr. Secretary, the tax reform act generally eliminated the ability of corporations to carryback losses incurred after December 31, 2017. Congress recognized the cyclical nature of property and casualty insurers and preserved carrybacks for those losses. Will you commit to work with the industry to address net operating loss (NOLs), particularly in the context of consolidated groups?

Question 3:
Mr. Secretary, Congress gave the Alcohol and Tobacco Tax and Trade Bureau (TTB) $5 million for fiscal years 2017 and 2018 for "the costs of programs to enforce trade practice violations of the Federal Alcohol Administration Act." These resources are to be used to enforce the unfair trade practice provisions of the Federal Alcohol Administration Act (FAA Act). Understanding that trade practice investigations are extremely time and resource intensive, and that it likely took a while to ramp up efforts once this influx of money arrived, how would you say this directive is developing within TTB? I've seen press releases on investigations, but can you confirm that this funding has greatly aided TTB in pursuing the bad actors?

Question 4:
Mr. Secretary, how is the Administration thinking about market access for US companies in financial services sectors in China? While the general atmosphere around US-China trade relations remains somewhat apprehensive, there is little said about currency manipulation these days and investment flows between the two countries are way up in specific sectors, including financial services. Does this signal more positive relations when it comes to financial services?

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

Lead in:
The National Taxpayer Advocate's *2017 Annual Report to Congress* highlighted the implementation of the Internal Revenue Service's private debt collection program as one of the most serious problems. The report found that not only is the program failing to generate revenue but also the implementation is inconsistent with the law and disproportionately focuses on low-income and average working taxpayers.

Question 1:
What specific actions will the Department take to respond to the report's alarming findings and recommended actions to improve the private debt collection program's oversight and administration?

Lead in:
Although IRS funding remains below the fiscal year 2010 level, the volume and complexity of taxpayer services continues to increase. Despite these realities, the Administration continues to propose reductions in the IRS professional workforce, taxpayer service, and enforcement.

Question 2:
How will the President's fiscal year 2019 budget move the IRS towards being able to provide quality, direct, personal, and timely assistance for more than 150 million taxpayers?

Lead in:
During wartime, the U.S. Treasury Secretary traditionally works with congressional tax legislators to develop a strategy that balances borrowing and revenue to finance our country's participation in war. As the United States begins the 17^{th} year in the Global War on Terror, there is no public, federal conversation on the costs to our nation; however, the cost of war and its share of the federal deficit continue to skyrocket.

In July 2017, the Department of Defense, the Internal Revenue Service, and the Department of Commerce's Bureau of Economic Analysis complied with Section 1090 of Pub. L. 114-328 by releasing an estimate that these conflicts cost each taxpayer $7,740. A few months later, Brown University's Watson Institute on International and Public Affairs released a report estimating that the total cost of war-related spending through fiscal year 2018 is $5,632 billion; this estimate includes future obligations through 2056, which includes caring for veterans.

Question 3:
Please explain the role and work of the IRS and Department of the Treasury in the initial inter-agency compliance with Section 1090 of Pub. L. 114-328 and the resulting calculations for the initial report released in July 2017.

Question 4:
When will the updated report and calculation of the costs to U.S. taxpayers for the Global War on Terror and Operation Inherent Resolve be available to the public?

Question 5:
Is the Department considering and/or developing policy proposals on how to finance the ongoing Global War on Terror and Operation Inherent Resolve and how to fund the care and support that existing and future generations of U.S. veterans and their families expect and deserve?

Questions from Rep. Doggett

Lead in:
According to the Joint Committee on Taxation, reducing the top tax bracket from 39.6% to 37% and narrowing the size of that top tax bracket cost the Treasury $220 billion over the decade. That rate cut will benefit couples earning more than half a million dollars annually. On November 30, 2016, you promised that "there will be no absolute tax cut for the upper class," in what came to be known as the "Mnuchin rule." President Trump made similar claims prior to the enactment of the new tax law.

Question 1:
Meanwhile, the Trump budget proposes to cut student aid programs over the same budget period by nearly the same amount: $200 billion dollars. Education is the ticket to the middle class and critical to keeping our workforce competitive. Is it true that restoring that top rate would be more than enough to avoid those cuts to student assistance?

Question 2:
The Administration claimed that American households would get $4,000 every year in increased household income as a result of the new tax law. On December 17, 2017 on Fox News, you said it would be $4,500 for every family. Do you disagree with the recent Reuters/Ipsos survey, that 98% of Americans have not received any additional compensation? Isn't it true that there are very few Americans who are actually receiving a permanent $4,500 in additional household income as a result of the corporate tax cut?

Question 3:
President Trump has been quick to attribute one-time bonuses companies have offered- that so far have left out 98% of Americans -to his massive corporate tax cut. The price-gouging drug-giant Pfizer was one company that offered a one-time bonus. Does the Administration also take credit for Pfizer shutting down its Parkinson's and Alzheimer's research, terminating hundreds of workers in the process? Or for the $10 billion in stock buy-backs - a full 100 times what it offered its workers - which will further enrich its executives and wealthy shareholders?

Question 4:

President Trump touted the $1,000 one-time bonus that Walmart offered its employees. The median tenure of a retail worker is three years, but isn't it true that the full $1,000 bonus was reserved only for those who have worked there for at least 20 years?

Lead in:
On January 26, 2018, you said on CNBC that "you're going to see massive investment coming back to the U.S." as a result of your corporate tax cut. Yet most analysts predict, and current experience already suggests, that corporations are spending most of their tax break on stock buybacks, which provide a windfall to wealthy shareholders and corporate CEOs. One study found that companies have already announced nearly $100 billion in stock buybacks. Moody's Analysts has found that companies "will likely prioritize share buybacks," and Bank of America's CEO has said himself that "we expect most of the benefits from tax reform to flow to the bottom line through dividends and share buybacks."

Question 5:
In your testimony before the Senate Finance Committee on February 14, 2018, you described corporate stock buybacks as a way of "returning capital to shareholders when a company determines they don't have the use for that capital to make an appropriate return." If a massive corporate tax cut was needed to encourage "massive investment coming back to the U.S," how could it be that so many companies "don't have the use for that capital" other than to reward their shareholders and CEOs?

Question 6:
Are the massive stock buybacks that have been announced an indication that your theory - disputed in a University of Chicago survey by all but one of 42 prominent economists- has not been borne out, and that this central feature of your tax bill was misplaced?

Lead in:
You have repeatedly claimed, including in your February 14, 2018 testimony before the Senate Finance Committee, that upwards of 70% of corporate tax cuts will benefit workers. Your view contradicts that of mainstream economists, including the nonpartisan Joint Committee on Taxation, which estimates that three quarters of the benefits of corporate tax cuts in fact flow to the wealthy owners of capital. It even contradicts a 2012 Treasury Department study finding that over 80% of the corporate tax is borne by the owners of capital, which you had your staff remove from the Treasury Department website.

Question 7:
We no longer need to debate theory, because companies are already revealing how they plan to spend their tax windfall. A study from JUST Capital found in a survey of 90 large, publicly traded companies that just six percent of the corporate tax break was set aside for workers. An

Americans for Tax Fairness study found that just 18 percent of Fortune 100 companies have attributed any employee benefit to the tax cut, and all 18 have announced stock buybacks that dwarf those benefits. Based on this experience, do you now acknowledge that the bulk of your corporate tax cut will not benefit workers?

Question 8:
Is it true that Treasury will borrow nearly double what was borrowed last year? Aren't declining revenues resulting from the new tax law a significant contributing factor to the need to borrow so much more?

Question 9:
Last summer a number of American tourists were poisoned by counterfeit alcohol while visiting Mexico, resulting in a travel warning from the State Department. Given that recent reports of counterfeit and/or tainted alcohol in countries such as Mexico are not uncommon, please describe how our system in the U.S. prevents similar occurrences here. Is there a possibility that tainted alcohol from Mexico could end up in our country, and if so, do we have the resources needed to combat this danger for American consumers? Is there more than can be done to guarantee product safety?

Question from Rep. Blumenauer

Lead in:
More than 97% of Americans living in states with some form of state-legal cannabis, and any change to federal marijuana guidelines will affect millions of Americans. One relatively small, but important example is that if the Financial Crimes Enforcement Network (FinCEN) guidance for financial institutions who serve cannabis-related businesses is revoked, more than $30 million in cash will almost instantly flood into Oregon communities. No one thinks that this is a good idea. It is of the utmost importance that you quickly reaffirm current FinCEN guidance on marijuana banking or put out new guidance that continues to provide protections for financial institutions that serve cannabis-related businesses.

Question:
What is your timeline for either endorsing the current FinCEN guidance or replacing it with new guidance?

Questions from Rep. Pascrell

Question 1:

Secretary Mnuchin, in January you pledged to audit residents of states like New Jersey that are seeking workarounds to the loss of the full state and local tax deduction, or SALT. Mr. Mnuchin, are you planning to audit residents of my state?

Do you think it's appropriate to use your position as Treasury Secretary, overseeing the IRS, to politically target residents of my state?

Lead in:
Secretary Mnuchin, you stated repeatedly last year that we needed to eliminate the state and local tax deduction because we had to "get out of the business of subsidizing states." New Jersey subsidizes low-tax states, with my state getting back at most 74 cents on the dollar it contributes to federal revenue. Now, with the Trump Tax Cuts, we will be contributing even more.

The Trump Tax Cut bill capped the SALT deduction at $10,000. But the average deduction in New Jersey is more than $17,000. You don't need a degree in mathematics to understand that $17,000 is more than $10,000.

I heard from a constituent in my district, David, from Fort Lee. David is a 50 year-old Building Trades union worker who can no longer work following an injury. His wife works for the post office and they share their home with his elderly parents, where they pay more than $15,000 in property taxes and have more than $12,000 in yearly medical costs. Last year, they just broke even. With the Trump Tax law, David told me he will have to sell their house, move out of Fort Lee and live apart from his wife until she retires. He said, "What kind of middle-class tax break did they just give me? This is garbage. This will bury me."

Question 2:
Secretary Mnuchin, what would you say to my constituent David if he were sitting here before you today?

Lead in:
Earlier in February, the Directors of National Intelligence, the C.I.A., the F.B.I., and other leading intelligence officials warned that Russia thought their meddling in the 2016 election was successful and will use a digital strategy to worsen our country's political and social divisions in the 2018 elections. I understand the Administration is working on implementing sanctions required by the bipartisan *Countering America's Adversaries Through Sanctions Act* – a bill that garnered more than 400 votes in the House and overwhelming support in the Senate. However, dragging your heels continues a dangerous pattern of covering for President Putin.

Question 3:

Mr. Secretary, this bill directed the President to "impose five or more of the sanctions." How many sanctions did the President direct you to impose? Have you ever been directed by the President to sanction those responsible for the cyberattacks during the 2016 elections? What is the Treasury Department doing either to punish or guard against future cyber intrusions from Russia?

Lead in:
At a hearing last summer, you testified that currency manipulation by U.S. trading partner needed to be met with impact, "not just talk." I agree and have asked U.S. Trade Representative (USTR) Lighthizer to include strong and enforceable currency manipulation provisions in a newly negotiated NAFTA as a foundation for addressing this problem with trading partners and in trade agreements going forward. His office has told me they are deferring to work being done within your Treasury Department to formulate provisions that make sense.

Question 4:
Secretary Mnuchin, can you confirm that officials within Treasury are drafting currency manipulation provisions that can be used in a new NAFTA? If so, will those provisions be subject to dispute settlement and when can we expect to see that language or details?

Question 5:
In that same hearing last summer (House Financial Services Committee), you said that engaging in countervailing currency interventions could be one possibility in combating the problem.

Congressmen Sandy Levin, Tim Ryan, and I introduced a bill, the *Currency Reform for Fair Trade Act* (H.R. 2039), that would impose countervailing duties to offset the impact of artificially deflated currency on goods coming in to the U.S. from abroad. Will this Administration support my bill?

Lead in:
Secretary Mnuchin, you came before this committee a year ago and told us you had 100 people at Treasury working day and night on a tax reform plan and you promised an independent analysis of its effects on revenue and growth. You repeated that assertion over and over in television appearances. We finally got a one-page supposed analysis from Treasury on December 10th. In it, you claimed that the tax plan would not add to the deficit, through a combination of economic growth and cuts in other, unspecified areas. You repeatedly claimed in interviews that this bill would pay for itself.

Not a single independent economist agreed with your glowing characterization of this irresponsible and unnecessary tax cut bill. The Penn Wharton Budget Model found these tax cuts add nearly $2 trillion to our federal debt, and only about one tenth of one percent to economic growth.

Now, we are facing more than $1 trillion in deficits and borrowing nearly double what we borrowed last year. We even had to address the debt ceiling sooner than anticipated because of the way this tax bill exploded the deficit.

Question 6:
Secretary Mnuchin, when you claimed the tax bill would pay for itself, was that a lie?

You also said wealthy individuals would see no net tax cut from this bill. But the Trump Tax Cut dropped the top rate from 39.6% to 37%! Is 37% less than 39%?

Question 7:
Secretary Mnuchin, how much will you personally benefit from the Trump Tax Cuts? How much will Donald Trump benefit personally from the tax cuts he pushed? The New York Times estimated his family stood to benefit by more than $1 billion. Don't you think the American people have a right to know?

Lead in:
Mr. Secretary, you've repeatedly identified modernization of the Committee on Foreign Investment in the United States, or CFIUS, a key Treasury priority for this year. The summary of the Treasury budget request also notes that it "supports Treasury's role as chair of CFIUS."

But when I look at the substance of the request, it looks like the "Departmental Offices" line item—where I understand the Treasury funding for CFIUS is housed—is cut by $49 million, or about 20% in Fiscal Year 2019, and remains at this lower level through the entirety of the budget window.

Question 8:
What is your explanation for this apparent gap between Treasury's stated priorities and the Treasury budget request?

<u>Question from Rep. Crowley</u>

Lead in:
Mr. Secretary, I would like to follow-up on the bipartisan letter led by Congressman Tiberi and myself sent to you on October 10, 2017 regarding our request for administrative action to withdraw Section Two of IRS Notice 2007-55 dealing with the Foreign Investment in Real Property Tax Act (FIRPTA). In our letter signed by 30 other members of the Committee on Ways and Means, we urged withdrawal of this outdated notice because it creates a significant

impediment to foreign investment in U.S. commercial real estate and infrastructure, holding back our country's growth at a time when new infusions of capital are necessary.

To support our arguments, in 2015, Congress made minor reforms to the FIRPTA statute, easing some of the tax burden for foreign investors, and these small changes are estimated to have injected billions of dollars in foreign investment into the U.S. real estate market. Capital investment spiked not only in places like Manhattan but in cities nationwide including Charlotte, Nashville and Memphis. With this surge of investment came jobs in the construction, development and service-related industries.

While this jolt of foreign investment is a positive result, it is estimated that an additional $2.8 trillion of global capital that could be invested in the U.S. real estate market, including in critically-needed investment in infrastructure, continues to sit on the sidelines because of the punitive FIRPTA tax imposed by the IRS Notice. The evidence leads us to believe withdrawal of this notice will lead to an even greater surge of foreign investment in the country.

Question:
Therefore, I wanted to restate this Committee's support for withdrawal of the notice and get a better understand of the thinking at Treasury with respect to the prospects of withdrawal of this notice. Thank you in advance for your thoughts on this important matter with respect to investment in America.

Questions from Rep. Higgins

Lead in:
Mr. Secretary, the Administration's infrastructure proposal provides a minimal federal funding commitment, while expecting states, localities and private entities to finance upwards of 80 percent of the cost of the $1.5 trillion in infrastructure development the President discusses. This would require over $1 trillion to come from state and local spending or from unnamed private investment.

Firstly, the $200 billion in federal spending doesn't account for the $168 billion in cuts to federal infrastructure funding over the next ten years outlined in the President's FY '19 Budget, including but not limited to the Transportation Investment Generating Economic Recovery (TIGER) grant program, the Federal Transit Administration New Starts program and the Community Development Block Grant Program, all of which are vital to my district.

Secondly, you are asking states to spend money on infrastructure instead of spending it on their own specified financing needs – dollars that states are already spending. Yet, the enactment of Public Law 115-92 has restricted the ability for states to modify their state tax systems without imposing adverse impacts on many of their citizens, in particular through limiting the deductibility of state and local income, sales, and property taxes.

Question 1:
Can you describe specifically what programs you think state and local governments should cut to raise the necessary funding?

Lead in:
The President's plan assumes that private investment, in conjunction with state and local funds, will make up the bulk of the financing for these projects. Achieving the level of investment that the President specifies would either entail massive private investments or require that states and localities make severe cuts to programs.

I was surprised to see such reliance on private investment given the President's acknowledgement that private investment in infrastructure is not a good idea, specifically citing defaults of private investment and upside down leverage on certain roads in the Vice President's home state of Indiana that have resulted in exponential increases in tolling required to finance the construction by private groups.

I want to make clear that I do not believe the lion's share of our infrastructure investment shortfall can or should be made up by auctioning off our nation's highways and creating financing structures that are regressive, that could turn overly burdensome, or worse, could threaten our country's infrastructure as a result of a private company defaulting on its obligations. Based on the President's comments during the September 25th meeting which I referenced during the hearing, it seems he agrees with me.

Question 2:
Can you clarify as to what your position is on public-private partnerships? Do you agree with the President in his assessment that many of such partnerships do not work and should not be the basis of a broad infrastructure investment?

Question 3:
Secondly, can you please provide estimates from the Treasury economists tasked with the Administration's infrastructure proposal as to how much of the spending above the $200 billion in federal funding is anticipated to come from state and local governments and how much is anticipated to come from private investment? In terms of the private investment, can you provide estimates of how much of the private investment will come from companies with foreign parents, or whether you anticipate direct foreign investment in, and possibly foreign ownership of, American infrastructure?

PUBLIC SUBMISSIONS FOR THE RECORD

Comments for the Record
United States House of Representative
Committee on Ways and Means
Hearing on the Fiscal Year 2019 Budget
Wednesday, February 15, 2018, 10:00 A.M.
1100 Longworth House Office Building

By Michael G. Bindner
Center for Fiscal Equity

Chairman Brady and Ranking Member Neal, thank you for the opportunity to submit these comments for the record to the Committee on Ways and Means on the FY 2019 Budget. Recent legislation has not met the Center's policy goals, nor the goals of other advocates with similar proposals, for example the advocates of the FairTax, who were disappointedly silent in the last round of debate.

As you know, we did raise our voices and will continue to, as the recent law will still have all of the flaws of the prior system as well as the asset inflation would have made another Great Recession inevitable, although the recently passed bill will increase the deficits enough to cancel out the tax reduction to the Executive/Donor Class.

We withdraw none of our proposals, most of which are about tax and entitlement policy and the process of estimating discretionary spending, rather than specific recommendations for departmental budgets. We are wondering, however, why this hearing, which mainly presents discretionary budget request data for the subject fiscal year, is still being held when on Friday last an Omnibus Appropriation for the period in question was passed and signed into law. Regardless, our comments still apply so we will preface them with our comprehensive four-part approach, which will provide context.

- 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 and members of the House leadership favor 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.

Recent legislation has solved some of our international tax issues. It would still 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. 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.

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 Fiscal Year 2019 Budget
Wednesday, February 15, 2018, 10:00 A.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.

Date/Time of Meeting:
February 15, 10:00 a.m., 1100 LHOB

Witnesses: Treasury Secretary Steven Mnuchin

Mr. Chairman, already Americans across the country are seeing increases in their paychecks following historic tax reform. A record share of small businesses are saying now is the time to expand their operations. As companies continue to reinvest and grow their businesses the benefits will only improve for our hard-working American families. In addition to increases in their paychecks, the doubling of the standard deduction will enable families to take more of that money home. In effect, families will see a boost to both ends of their income – a higher paycheck with fewer taxes.

Now that we are entering the tax-filing season, it is of the utmost importance that taxpayers are able to properly file their tax returns so that they can take full advantage of the benefits this tax reform has brought to the American people. That is why I am glad to see continued support for the Volunteer Income Tax Assistance program, or VITA, which provides free tax-filing assistance to low-income taxpayers, included in the budget.

Mr. Secretary, the Administration has emphasized improving compliance and combating fraud. VITA preparers have among the strongest accuracy rates of all tax preparers. Can you talk about the importance of taxpayer services like the VITA program in the effort to combat fraud?