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PRESIDENT'S FISCAL YEAR 2020 BUDGET

HEARING

BEFORE THE

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UNITED STATES SENATE

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PRESIDENT'S FISCAL YEAR 2020 BUDGET

THURSDAY, MARCH 14, 2019

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 1:30 p.m., in room SD–215, Dirksen Senate Office Building, Hon. Chuck Grassley (chairman of the committee) presiding.

Present: Senators Roberts, Enzi, Portman, Scott, Cassidy, Lankford, Daines, Wyden, Cantwell, Menendez, Carper, Casey, Whitehouse, Hassan, and Cortez Masto.

Also present: Republican staff: Jeffrey Wrase, Deputy Chief of Staff and Chief Economist; and Mark Warren, Chief Tax Counsel. Democratic staff: Michael Evans, General Counsel; Adam Carasso, Senior Economic Advisor; Daniel Goshorn, Investigator; and Tiffany Smith, Tax Counsel.

OPENING STATEMENT OF HON. CHUCK GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. Welcome to everybody this afternoon and particularly to Secretary of the Treasury Mnuchin.

The President's budget includes various proposals to confront a variety of policy issues, whether that is runaway spending, border security, national defense, the opioid epidemic, or health-care costs—and all of the above and more. The budget envisions receipts averaging 17.3 percent of GDP over the next 10 years, slightly above the average of the past 50 years. It also has outlays averaging 20 percent over 10 years, about equal to the average of the last 50 years.

The budget contains some relatively minor tax proposals and proposes spending restraint to help achieve budget savings of around $2.8 trillion over 10 years. Those savings are significant, even if they come to only a fraction of what some recent proposals from the other side might end up costing. As examples, Medicare-for-All or the Green New Deal, those liberal-leaning proposals, would easily cost tens of trillions of dollars over decades, bring harm to employer-provided health insurance, and radically restructure the American economy. They would add tens of trillions to the debt.

The President's budget represents only a first step in our budget process where we learn of the President's priorities and proposals. As I often say, a President proposes, but Congress disposes.

I can say that I agree that we must remain focused on important goals, like reducing health-care costs, continuing to rebuild the military, fighting against opioid abuse, and addressing the security and humanitarian crisis at our southern border. And of all of those I mentioned, three of the four, at least, are very bipartisan.

I also know that this committee is ready to help accomplish some goals, such as tackling issues surrounding high drug prices, as well as the mystery in drug pricing, another very bipartisan issue I believe we can accomplish.

I will note that the budget is being put forward in the setting of a robust economy, an economy that has been strengthening following enactment of tax reform. The economy and tax reform are benefiting Americans across the board.

As you mentioned in your testimony, Secretary Mnuchin, the tax rate cuts, doubling of the standard deduction, and expanded child-care tax credits give real benefits to hardworking middle-class American families, and tax reform is fueling the economy.

During the Trump administration generally, and especially since tax reform was enacted, economic growth has topped 3 percent, business investment has been strong, job creation has been robust, real wage growth has accelerated—and we have not seen this sort of picture for 10 years—and incomes have grown.

In 2018, we saw more job openings than the number of people who are unemployed, and that signals a robust labor market. Unemployment has been remarkably low overall, and especially as the President can proudly point out, particularly among Hispanic and African-American workers. And in my State of Iowa, unemployment stands at a record low 2.4 percent, the lowest rate of the 50 States.

All of those strong economic numbers mean that hardworking Americans and their families are clearly benefiting from tax reform.

[The prepared statement of Chairman Grassley appears in the appendix.]

The CHAIRMAN. Senator Wyden?

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON

Senator WYDEN. Thank you very much, Mr. Chairman.

And today we are doing another round on the budget. Since the Treasury budget is largely about taxes, and taxes pay for the bulk of Federal programs, I want to begin with a hard look at the overall picture. In my view, this is not a budget as much as it is an economic smash-and-grab perpetrated on the American people. And if you get rid of the Washington lingo, what you have are cuts to Medicare, cuts to Medicaid, cuts to Social Security, cuts to education, cuts to housing, cuts to cancer research, cuts to job training, cuts to anti-hunger programs, cuts to anti-poverty programs, and the list goes on.

Then you have the impact of the Trump tax law, hundreds of billions of dollars in tax handouts to corporations and those at the very top of the economic ladder, with an overall price tag that will reach $2 trillion in a decade. The Secretary's famously declared proposition that the tax law would pay for itself and more was off by trillions of dollars.

The big effect of the Trump tax law has been to launch a trillion-dollar stock buyback bonanza that has been a non-stop joyride for corporate executives. That is because those executives get much of their compensation in the form of corporate stock.

So once again, you see the two tax systems in America, and with the stock buyback bonanza, the executives get two special breaks that are unavailable to a cop or a nurse. They can defer their taxes on their stock holdings and they get a lower tax rate on their salaries and bonuses.

In addition, new data released by Syracuse University shows the effects of years of Republican austerity imposed on the IRS. With audits of corporations and high earners steadily dropping year after year, enforcement of the tax law is in the worst shape it has been in in decades. Not in modern memory has there been a better time to be a wealthy tax cheat in America.

So under Donald Trump, corporations and the wealthy do not have to pay a fair share, and there is a pretty good chance they can get away with paying virtually nothing at all. And it should come as no surprise that deficits crossed the trillion-dollar mark under unified Republican control of the government.

Unveiling the budget at a press briefing on Monday, the acting OMB Director drummed up fears over what he called "unsustainable national debt." He warned that "annual deficits are continuing to rise" without recognizing what is driving the increase. Echoing other Republican budget-cutters, he said Washington has got a spending problem. And then it was off to the races outlining exactly how the Trump administration wants to dismantle the system that created a vibrant middle class.

For too long, the full burden of Republican budget cuts has fallen on the middle class and working families trying to get there. It does not fall on special interests. It does not fall on billionaires. And what the Trump administration put forward is not anything resembling fair belt-tightening. It is not even-handed reduction in spending. Middle-class families lose, but the budget would send more taxpayer dollars to defense contractors. It gives them even more than what the Pentagon asked for.

The bottom line is, just about every warning that has come from this side of the committee about the Republican tax cut and its aftermath is proving to be true. The $4,000 raises American workers were promised—nowhere to be found. The tax handouts—not paying for themselves. New fed data projects the economy is growing this quarter at a rate of 0.2 percent. The experts at CBO, the nonpartisan budget office, forecast, as the corporate tax cut sugar high wears off, economic growth will slow to 1.7 percent in the years ahead.

And as the public has seen this week, the deficits driven upward by the tax law are now considered the justification for draconian budget cuts. A cycle that has gone on for decades has taken a real toll on the middle class. It is long past time to end it.

Thank you, Mr. Chairman.

[The prepared statement of Senator Wyden appears in the appendix.]

The CHAIRMAN. Our witness, the Secretary of Treasury, has been very active with the President. Before he was elected, he was finance chairman for the campaign and a senior economic advisor. But he also has extensive experience in global financial markets, U.S. Government securities, mortgages, money markets, municipal bonds, and has held several successful positions with private enterprises.

Secretary Mnuchin also is committed to a lot of activity to help our society advance socially through philanthropic activities like being a member of the boards of the Museum of Contemporary Arts, the Los Angeles Whitney Museum of Arts, the Hirshhorn Museum Sculpture Garden on the Mall, the UCLA Health Systems Board, the New York Presbyterian Board, the Los Angeles Police Foundation, and I will bet there is a lot longer list some place.

He was born and raised in New York City, and has a degree from Yale University.

You may proceed, please.

STATEMENT OF HON. STEVEN T. MNUCHIN, SECRETARY, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Secretary MNUCHIN. Thank you.

Chairman Grassley, Ranking Member Wyden, and members of the committee, it is good to be here with you today.

I am pleased to report that President Trump's economic program of tax cuts, regulatory relief, and improved trade deals is working for the American people. During 2018, real GDP increased by 3.1 percent, measured from the fourth quarter of 2017 to the fourth quarter of 2018. This is the highest Q4 to Q4 growth rate since 2005. The unemployment rate remains historically low at 3.8 percent, and earnings rose by over 3 percent in 2018, the highest nominal increase in a decade. More Americans are entering the workforce because of a renewed sense of optimism. The World Economic Forum's most recent Competitors Report announced that the United States is the number one most competitive economy in the world, receiving the top ranking for the first time in 10 years.

Companies are investing hundreds of billions of dollars in new and expanding business operations in the United States. This is in large part because the Tax Cuts and Jobs Act made our tax rate competitive, moved us from a worldwide system towards a territorial system of taxation, and allowed immediate expensing of capital expenditures. For hardworking families, it also cut rates across the board, doubled the standard deduction, and expanded the Child Tax Credit.

I would also like to highlight Opportunity Zones, a key component of the TCJA. Opportunity Zones will help ensure that Americans benefit from our economic expansion and robust job market. They provide capital gains relief to encourage investment in businesses located in distressed communities. This policy has generated a great deal of enthusiasm.

These measures are fueling growth. Along with our efforts to provide regulatory relief, in our trade negotiations we are aiming to break down barriers to markets around the world.

As you know, China has gained many advantages through unfair trade practices. This administration is committed to rebalancing our trading relationship in order to level the playing field for hardworking Americans. We are negotiating with China on structural reforms to open their economy to our companies and to protect critical technology and intellectual property.

The administration is also prioritizing the U.S.-Mexico-Canada Agreement. It is the most comprehensive trade agreement ever negotiated and will modernize our trading relationship with North America. The USMCA will create the highest standards ever to protect intellectual property rights, support small and medium-sized businesses, open markets for agriculture, and spur manufacturing.

I encourage all members of Congress to support its passage, because it will have a positive impact for American workers, business owners, farmers, and families.

In addition to enhancing overall growth prospects, I want to note the impact the administration's economic agenda will have on our country's debt and deficits going forward. During the last administration, analysts predicted the 2-percent growth was the highest America could achieve and that it was the new normal. We have already shown that we can and will do better. An extra 1 percent of GDP growth per year means trillions of dollars of additional economic activity and more revenue to the government.

Turning to the budget, the policies and priorities of the President's fiscal year budget will continue to foster strong economic growth, reduce spending, and create a more sustainable fiscal outlook for our country by reducing the deficit as a share of GDP.

Of special interest to this committee, the Treasury portion of the budget includes $290 million for the Business Systems Modernization account, funding which is foundational for a new 6-year IRS IT modernization plan. Investment in the modernization of IRS information technology systems and infrastructure will protect the integrity of our tax system and improve customer service for taxpayers.

I am pleased to continue working with you on policies that will help to create jobs and increase wages for the American people. Thank you very much.

The CHAIRMAN. Thank you.

[The prepared statement of Secretary Mnuchin appears in the appendix.]

The CHAIRMAN. We will start our questioning now and will have 5-minute rounds, and I want to keep this going while we have the vote. So I hope somebody will volunteer to chair while I go vote.

Instead of reading a long introduction on my first statement, I am going to put that in the record.

But basically it is the fact that I think the tax reform has benefited the average American, particularly middle-income people, and you have accusations that the middle-income worker was left behind. So to me, the facts are pretty clear that all Americans, especially workers in the middle class, are benefiting from the tax reform and other policies of this administration. So given this difference of opinion about the tax bill, Mr. Secretary, can you help me understand how workers were left behind, as the accusation is?

Secretary MNUCHIN. Mr. Chairman, I cannot help you on that. I think that workers have done quite well, and they are doing substantially better both through tax cuts, increased wages, and more jobs.

The CHAIRMAN. Yes. Did you misunderstand my question? I was not criticizing that it was not helping the workers.

Secretary MNUCHIN. No, I understand.

The CHAIRMAN. Okay.

Secretary MNUCHIN. You were asking me if I could explain how it was not helping the worker.

The CHAIRMAN. Okay.

Mr. Secretary, we have heard a lot about the size of the tax reforms, and I have already said, look at the bottom line of your tax form this year versus last year, and you will know whether you had a tax increase or not, or tax decrease or not. And you cannot tell it from your refund. Even the National Taxpayer Advocate has said there is no evidence to support such claims made by the Democrats.

So would you care to set the record straight and explain the process followed for updating the withholding tables, because there were some accusations that there were political manipulations of it to make the tax reform look better for some people.

Secretary MNUCHIN. Mr. Chairman, we tried to carefully adjust the withholding tables so that hardworking taxpayers would have the benefit of tax cuts last year and have money in their pockets.

Now, let me just walk you through some examples. First of all, I know there has been a lot of attention, but the average tax refund this year is the same as last year. Notwithstanding that, we would have expected that they would have gone down because taxpayers had less taxes.

So for example, an average married couple with one job and two children under age 17 who had $75,000 of income in 2017, they would have had a tax of $3,800. In 2018, they would have had a tax of $1,700. So their taxes—they would have saved $2,000 or about 55 percent. If that taxpayer had been withheld the same in both years, their refunds would have been down 55 percent.

So again, the average refunds, so far, are flat. So if anything, I think the data shows that we did not adjust the withholding tables enough.

The CHAIRMAN. I want to talk about the SALT deduction being limited to $10,000. In general, this limitation increases the progressivity of the tax code and allows for targeting larger tax cuts than otherwise would have been the case for middle-income families. Yet the same people who have criticized the recent tax reform as tax cuts for the wealthy are now seeking to repeal the cap which would overwhelmingly only benefit millionaires and billionaires.

Indeed, according to the liberal Tax Policy Center, nearly 57 percent of the benefits from repealing the SALT cap would go to the top 1 percent of the taxpayers, and more than a quarter of the benefits would go to the top one-tenth of 1 percent alone. Are these numbers consistent with Treasury's understanding of who would stand to benefit from the repeal of the SALT cap?

Secretary MNUCHIN. I do believe they are, Mr. Chairman.

The CHAIRMAN. Okay.

It appears as though the President's budget assumes that the tax cuts and reforms benefiting individuals and small businesses are permanent. And I hope that becomes more than just an assumption. Anything less than permanence of this bill would equate to an eventual tax hike for millions of individuals. The $2,000 child credit would revert to $1,000. The nearly doubled standard deduction and lower overall rates would revert to prior laws. The new provision for small business of a 20-percent above-the-line deduction would no longer exist.

So my last question is, Mr. Secretary, in Treasury's estimate, what would the expiration of these policies mean in terms of tax increases on individual families and job creators? And what would this mean to our economy generally?

Secretary MNUCHIN. Mr. Chairman, if we do not continue those tax cuts, it would reverse the tax cuts to middle-income families and significant child tax credits. And it would have an impact on the economy.

The CHAIRMAN. Okay.

Senator Wyden?

Senator WYDEN. Thank you, Mr. Chairman.

First of all on the stock buybacks, Mr. Secretary, I am not going to ask a question just because, you know, time is short. I told you I think this buyback bonanza, a trillion dollars' worth, is just a non-stop joyride for corporate executives.

And it just looks to me like this is classic trickle-down economics, that what you all are basically saying is well, maybe at some point the middle-class person might get an itty-bitty slice of the well-to-do's pie. I just disagree profoundly with that proposition.

Now, let me go to my questions. First, with respect to ethics, I am trying to make sense out of your uncertified 2017 ethics form. And the government has not been able to certify it yet. And I gather that there are some questions about why.

One of the assets you report is a receivable from the Alan G. Mnuchin Trust—that is your brother—and is valued at between $25 and $50 million. Another is a receivable from Stormchaser Partners, which I gather is your wife. What can you tell us about these receivables, and what is their relation to the assets you certified you had divested in 2017?

Secretary MNUCHIN. Thank you, Senator.

So first, let me just clarify. My forms were filed timely, and they were certified by the career Designated Agency Ethics Official at Treasury, who is the person that I consult with on a regular basis.

Senator WYDEN. But the Office of Government Ethics has not certified.

Secretary MNUCHIN. Mr. Senator, I am just explaining, please.

So again, I deal with the career Designated Agency Ethics Advisor. I am fully in compliance. It was fully certified by that person.

I do understand that it has not yet been certified by OGE. I understand the Treasury is working with OGE. There have been discussions in regards to their certification. But I have been advised by the people at Treasury that I am fully in compliance, and I have no ethical issue.

Senator WYDEN. We will wait for that. I hope that is the case. And until I see it, what we have wondered is whether there has been an exchange of an asset for a loan, rather than divestment. So we will await those results.

I want to turn now, if I might, to the question of the sanctions deal, and particularly, Mr. Deripaska. Now the Treasury Department's decision to lift sanctions on the big aluminum manufacturer involved a variety of entities related to the sanctioned Russian oligarch, Mr. Deripaska.

So I just want to ask you about a few issues here. Now according to reports, under the sanctions relief deal almost $100 million worth of shares in EN+—really an entity linked to Deripaska and Rusal—were transferred to a trust for Deripaska's children. Are you aware of this report?

Secretary MNUCHIN. I am aware.

Senator WYDEN. Do you dispute the report?

Secretary MNUCHIN. Again, I do not have it in front of me. So I cannot comment on it.

Senator WYDEN. Well, the name of the trust was "Liberi," which is the Latin word for children. It is a real head-scratcher how this came to pass, because it sure looks like Mr. Deripaska's children are benefiting from sanctions efforts meant to punish him.

So I am trying to make sense out of this. I mean this really resembles a Keystone Cops-level sanction enforcement.

How did this pass muster there at Treasury?

Secretary MNUCHIN. Bear with me. We are just pulling the information, but I can assure you it was not a Keystone Cops effort. This is something—as you know—the career people at Treasury worked on for a very, very long period of time.

Our objective—and we believe the sanctions worked—was to decrease his ownership, put in compliance, and now have the board controlled by a majority of Americans and Europeans.

Senator WYDEN. Let us do this, because my time is going to expire. I am puzzled how something like this could pass Treasury's muster. I am concerned that Deripaska's kids are benefiting from a sanctions effort meant to punish him.

Mr. Secretary, will you respond to my questions here today on Mr. Deripaska within 7 business days so we can get this resolved?

Secretary MNUCHIN. Absolutely, and I can assure you—and I am happy to not only respond, but to come up and meet with you and your staff if you want us to go through the details that his children did in no way benefit from sanctions.

Senator WYDEN. It does not look like it to me at this point, and we are going to have to exchange——

Secretary MNUCHIN. When we have more time, I would be happy to walk you through it.

Senator WYDEN. That will be fine.

Secretary MNUCHIN. Thank you.

The CHAIRMAN. Senator Scott?

Senator SCOTT. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here this afternoon with us. I want to ask you a couple questions that I think are probably easy to answer "yes" or "no," and some of them you have already stated in your opening statement. So I assume that the answer will likely be "yes" on many of the questions.

But are you aware of the fact that in February the Federal receipts were up 10 percent?

Secretary MNUCHIN. Yes.

Senator SCOTT. With lower tax rates, we actually saw an increase in our revenues. Therefore, if we were to control our spending, we would find ourselves on the right path. Is that an accurate assumption?

Secretary MNUCHIN. That is accurate. And I just want to highlight that the tax cut act was designed to stimulate the economy and, because of automatic expensing, would specifically lower revenues in the first year with additional revenues going forward.

So not only were revenues up, but there was the impact we had expected of additional costs in the beginning.

Senator SCOTT. I would assume, then, that we should expect more good news as we move forward because, as you think of the Laffer Curve, as we reduce the impediments on growth in our economy, we should expect that we will see even more growth in our economy.

Secretary MNUCHIN. Yes.

Senator SCOTT. That would probably help explain the fact that our GDP growth in 2018 was 3.1 percent?

Secretary MNUCHIN. Yes.

Senator SCOTT. It would also reinforce the fact that the earnings for our workers—we have seen a lag in their growth financially, individually—have lagged behind. And now for the first time in more than a decade, we saw their earnings grow over 3 percent?

Secretary MNUCHIN. That is correct.

Senator SCOTT. And since 2017, we have seen the creation of about 5.2 million jobs?

Secretary MNUCHIN. That is about correct.

Senator SCOTT. And since the passage of the tax reform, about half of those jobs have been created?

Secretary MNUCHIN. Yes; you are on a roll.

Senator SCOTT. Okay.

So doubling the Child Tax Credit is a positive thing for folks with kids?

Secretary MNUCHIN. Absolutely. It was a significant way of getting tax cuts to hardworking families.

Senator SCOTT. And then making more of it refundable also is an interesting and positive incentive as well?

Secretary MNUCHIN. Correct.

Senator SCOTT. Looking at the positive results for single parents—as we have discussed on a number of occasions, I was raised by a single mom. If you look at the average single mother around the country making wages around $40,000—which according to the IRS is the average wage for a single mother—her share of Federal taxes has been cut at least in half, some say as high as 73 percent.

Secretary MNUCHIN. That is about right.

Senator SCOTT. I would love to have an entire hearing, Mr. Chairman, contrasting the Tax Cuts and Jobs Act versus a Green New Deal. These questions may be harder to answer because I am not sure that there is an answer that we know yet. But, if the Green New Deal's price tag is $93 trillion, how does that help create jobs in the private sector?

Secretary MNUCHIN. I do not know how it would create jobs, and I do not know how we would possibly pay for it.

Senator SCOTT. That would be a harder question to answer.

Secretary MNUCHIN. It would be indeed.

Senator SCOTT. Yes, sir.

My thought is that, as we look at the Green New Deal, and if you look at the, as I call them, cross tabs within the information in the Green New Deal, it to me is undoubtedly a regressive tax on the poor from my perspective and reading of the Green New Deal. Would you have any information on that?

Secretary MNUCHIN. I think not only is it a tax on the poor, but it is an enormous brake on the entire economy.

Senator SCOTT. I certainly hope we have the opportunity to have this conversation and this debate in a hearing in the Finance Committee several times in the next 2 years.

Changing subjects to the Opportunity Zones, I assume that you are aware that I am a fan of the Opportunity Zones.

Secretary MNUCHIN. Not only am I aware you are a fan, but I want to personally thank you, Senator Scott, because you have been an important part of this. This never would have occurred without you. So thank you very much for your contributions.

Senator SCOTT. Thank you, sir.

Yesterday your team sent OIRA* a second set of proposed regulations on qualified opportunity funds. As you know, Congress intended for the Opportunity Zones to provide a new lifeline of equity capital to operating businesses in low-income communities in addition to certainly creating opportunities for real estate investments. Much of the market for operating business has been frozen due to the need for additional clarity on rules which thus far have not been provided. I know you are aware of the bipartisan concerns of this fundamentally important issue for the success of the Opportunity Zones policy. What can you tell us today about the forthcoming rules that will address key questions that may unfreeze the market and see even more development to follow on the so far successful implementation?

And I thank your office for working with us to smooth the—I guess the experience in the real world.

Secretary MNUCHIN. Well, thank you. And again, I think this is a very, very important economic development for communities that really need the investment.

We did significant listening after the first round to try to clarify issues. I can assure you this is at the top of my list.

We are working very closely with OIRA to get this out as quickly as we can so that taxpayers can understand this and we can see money going into the communities right away.

Senator SCOTT. Thank you, Mr. Secretary, Mr. Chairman.

The CHAIRMAN. Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman. Mr. Chairman, first of all, I would like to invite you to New Jersey so you could meet the nearly 1.8 million New Jerseyans who deducted their State and local property tax. And I can assure you, just like me as a property owner in New Jersey, they are not millionaires. They are not multimillionaires. They are about as middle-class as can be.

And as a State, we give more money to the Federal Treasury than we get back, compared to other States that give less and get more in return. So that classification in your opening comments I would seriously dispute.

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*The Office of Information and Regulatory Affairs.

Now, Mr. Secretary, I watched with interest that you acknowledged this morning before the Ways and Means Committee that the SALT cap is having a significant impact on States like New Jersey, and other productive States, and that these economies are critical to the national economy. As I said, New Jerseyans pay more than their fair share in taxes, and we punch above our weight economically. So I am encouraged to hear from you that it appears maybe you have come to understand the views of some of us who are facing this challenge. But this administration's support of the SALT cap and unprecedented efforts to undermine State-level tax credit programs sabotages the success of States like New Jersey, and it hurts our country as a whole.

Mr. Secretary, is it not fair to say that States have had programs that awarded tax credits and exchange for donations before the President's tax bill?

Secretary MNUCHIN. Well, Senator, as you pointed out, I did make comments on that this morning. So I will repeat them without getting into a debate whether it impacted the high-end individuals or the middle——

Senator MENENDEZ. I do not mean to interrupt, but there is limited time. That is not my question. I know what you said at the Ways and Means Committee, and I accept that you have come to some sensitivity of it. But is it not true that States have had programs before the Trump tax bill that awarded tax credits in exchange for donations?

Secretary MNUCHIN. There have been credits for—particularly in educational areas.

Senator MENENDEZ. Yes, and so there are actually over 30 States that had such programs, where they had credits in exchange for donations. So why did the administration reverse decades of precedent and case law by prohibiting taxpayers from deducting donations made to those State funds?

Secretary MNUCHIN. Senator, I would be happy to come up and walk you through this carefully. But what I would say is, what we tried to do was preserve the intent of these programs in the context of our obligation to monitor the $10,000 SALT.

So the idea was not to allow States to create a workaround——

Senator MENENDEZ. But this existed, Mr. Secretary, before the SALT is what I am saying. These States, by the way, mostly red States—including of many members of this committee—their States had these charitable deductions for purposes that would help them with their taxes. And for years, they went on without a consequence, and all of a sudden States like New Jersey come along and do the exact same thing as the States had for years, and then all of a sudden we get a different ruling.

Now I will say this much: at least you are affecting all of the States by those rulings at the end of the day, not just New Jersey. But in essence, it seems to me that what you try to do is to crack down on blue States that created the same exact circumstances that red States had, and for years tax preparers in those red States would say this is the easiest way to deal with avoiding hitting the alternative minimum tax.

So they had it for a different purpose. But the IRS for years allowed this to go on. The IRS actually had rulings that said it was okay, and then all of a sudden when States like New Jersey try to deal with the challenge for their taxpayers, it was ruled unacceptable.

So you know, those of us who believe that, and get concerned that the IRS is being weaponized, see this is a classic, perfect example of that set of circumstances. I hope we can work together to find a way to create relief for taxpayers like myself who live on my salary and who have a property and who are being affected by the SALT deduction. But far beyond me, we have hundreds of thousands of New Jerseyans who are not millionaires who are being affected by this, and being treated poorly at the end of the day.

The CHAIRMAN. Senator Whitehouse?

Senator WHITEHOUSE. Thanks very much.

Mr. Secretary, before we go any further, I would like to ask unanimous consent to put two articles in the record, one regarding the commentary that has been heard in this hearing about tax bill revenues. Similar statements just earned four Pinocchios, and I would like to have that article added. And second, there is a recent article evaluating the so-called $93 trillion that the Koch brothers came up with and evaluating the credibility of that as well.

The CHAIRMAN. Without objection, so ordered.

[The articles appear in the appendix beginning on p. 53.]

Senator WHITEHOUSE. Secretary Mnuchin, you have said in the past, in July of 2018 in the House Financial Services Committee, "We have got to figure out this beneficial ownership issue in the next 6 months. I do not want to be coming back here next year and we do not have this solved." I think you and I are in the same place on this beneficial ownership issue, but it is a bear trying to get progress, and here it is next year and I do not see much progress. Could you tell me, just for openers, who is the point person at Treasury, by name, leading the beneficial ownership issue?

Secretary MNUCHIN. First, let me just acknowledge I did make that statement, and I am not pleased that it has not been fixed.

Senator WHITEHOUSE. Nor am I, and I look forward to working with you together to fix it.

Secretary MNUCHIN. I have put our new Deputy, Justin Muzinich, in charge of this issue. He is coordinating with our Office of Tax Policy. He would be happy to come over and sit down with you.

We have a bunch of different ideas. I think it is very important that we figure out a solution to beneficial ownership. It is important for our TFI* area. It is important for tax reporting. It is important for international compliance. It is not a simple answer.

Senator WHITEHOUSE. Would you agree that it is also important for our international credibility, that if we become the Crooked Redoubt of kleptocrats everywhere, that is not a great American brand to own.

Secretary MNUCHIN. I would agree with you. I do not think we will be without it. But I do agree with you, and I am not happy to report that we have not solved this. It is a very complicated issue with lots of different views.

But I am committed that Treasury will follow up with you specifically, and we would very much like to get your input.

*Terrorism and Financial Intelligence.

Senator WHITEHOUSE. Thank you. I appreciate that.

Secretary MNUCHIN. I hope I am not back here next time without this solved.

Senator WHITEHOUSE. I hope so too, because I am eager to get it solved. I would also like to add to the record an editorial piece that General David Petraeus and I wrote describing the kleptocracy regime and America's support of the secret channels for hiding money by foreign dictators and crooks as a national security weakness for the country.

The CHAIRMAN. Without objection, so ordered.

[The article appears in the appendix on p. 57.]

Senator WHITEHOUSE. And I want to thank General Petraeus for writing that article with me. He is, obviously, somebody who has an extraordinary record of defending America's national security.

Mr. Secretary, there was really terrific bipartisan action related to climate change here in Congress with respect to what is called the 45Q tax program. It created a tax benefit for investors in carbon capture and sequestration. On the floor the other day, Republicans came to talk about climate change and repeatedly mentioned the importance of this particular legislation. Just recently Chairman Barrasso held a hearing in which he repeatedly mentioned the importance of this legislation.

I wrote to Treasury officials about this issue in early February and would like to add a copy of that letter dated February 6th to the record. I do not believe we have had a response.

The CHAIRMAN. Without objection, so ordered.

[The letter appears in the appendix on p. 59.]

Senator WHITEHOUSE. Thank you.

I do not believe we have had a response. I do not know why. The failure of guidance on this has gummed up the progress that we have tried to seek. There are industries waiting to go. There are investors waiting to move. There are academic institutions that have done scientific work that they want to move forward with into production, and all of that is being held up for want of 45Q guidance that I think is reasonably tolerably easy to achieve.

Could you give us a time for when you think you can actually get this done?

Secretary MNUCHIN. So I understand that we followed up the letter with a briefing to your office. I am not familiar, personally, with all the details. But I will make sure that next week I get briefed on this, and we will get back to you if we have questions. So we will put it high on the list, and if there are issues, we will follow up with you.

Senator WHITEHOUSE. Let us just say there are not a whole ton of issues on which Senator Cory Booker and I and Senators John Barrasso and Jim Inhofe come together and agree on. This is one. It ought not to get lost in the executive bureaucracy.

Thank you, Mr. Chairman.

Secretary MNUCHIN. I assure you it will not get lost. Thank you, Senator.

The CHAIRMAN. Senator Lankford?

Senator LANKFORD. Thank you, Mr. Chairman.

Mr. Secretary, thanks for being here, and for the testimony today.

Tell me how it is going with OIRA. There is a new memorandum of understanding between IRS and OIRA trying to be able to work out any of the regulatory issues. Have you bumped into any barriers, slowdowns in timing, anything that has caused an issue to OIRA and IRS in promulgating rules and regs?

Secretary MNUCHIN. So I think we are pleased with the new memo and the change of it. And I think we are working closely with OIRA. Obviously, from our standpoint we always want to get things out quicker. And from their standpoint, they have an obligation to look through them. So there is always a natural—we would rather go faster, but I think it is working.

Senator LANKFORD. No major hiccups to this point. That is helpful.

There has been an ongoing dialogue about the tax gap, and you and I have talked about that before. The tax gap is one of those issues where we all talk about a number, but we also realize the tax gap number is a decade old. So we really do not know what the tax gap is anymore.

Any progress on trying to determine what is our tax gap, and what is unpaid at this point?

Secretary MNUCHIN. Well, I think there is progress, but I would say more importantly, this is why I am determined that we need to modernize the IRS technology—and we substantially underinvested in technology. We need to bring it into the modern age.

And the best way to shrink the tax gap is through technology, is through being able to use the vast amounts of information that we have at the IRS, and automate it so that we can use it for narrowing the tax gap.

Senator LANKFORD. So you and I talked about this last year during FSGG conversations on appropriations, that for the past 10 years IRS has listed a problem with legacy hardware and legacy software. There was additional investment that was put to IRS last year, and there was the year before that, and the year before that to be able to help in modernization.

Do you have a number yet, what it would take to be able to move from "we need additional investment" to "we are there?"

Secretary MNUCHIN. I think the total investment is approximately $2 to $2.5 billion as to what we think is necessary. And this will obviously be over a multiyear period.

Senator LANKFORD. Are we talking 5 years, 10 years? Are we talking 3 years? What do you think that is?

Secretary MNUCHIN. I think it is 6 years, and I think it is like $2.2 to $2.6 is the range we have been using.

Senator LANKFORD. Okay.

So, switching from tax gap to the other side, the improper payments side, EITC has been one of those things for a while. GAO has placed it on the high-risk list to say there are a lot of improper payments there.

Any progress in providing greater clarity to tax preparers and other folks on how to be able to close down that improper payment?

Secretary MNUCHIN. There is, but again, this is something that I would like to come in and brief you on——

Senator LANKFORD. Yes.

Secretary MNUCHIN [continuing]. Because I think, as you know, we have the right to hold the payments for a certain period of time. But there are still issues with matching and everything else and potential fraud in this. And we would be happy to come up and give you a briefing. It is potentially a significant amount of money.

Senator LANKFORD. Yes, it is. And it is one of those areas that has been on GAO's list for a very long time to resolve, and if there are ways that we can be helpful in that process, I hope that we can be helpful in that process as well.

Secretary MNUCHIN. Yes.

Senator LANKFORD. Opportunity Zones are, if not one of the first three things that people say to me—there are a lot when I get back in State—they are in that top list somewhere.

It has been interesting the amount of buzzing conversation in different places around the States where they want to talk about Opportunity Zones. I know that the regs are coming out on that frequently. Will the frequency increase, or what do you think is a regular release on regs on that? When do you think is the next release? I know we just had one. When do you think is the next one?

Secretary MNUCHIN. I think the next release will come within the next month, and it is quite material. I think it will have a lot of issues. And then again, as we get feedback and other issues, we will roll out additional regulation.

Senator LANKFORD. Terrific. There is a question that has come up from a couple of folks in my State that there are listed within the regs what are called sin businesses: commercial golf courses—which I think a lot of people would be shocked to know that the golf course, I guess, is on the sin list—country club, massage parlor, hot tub facility, suntan facility, racetrack, gambling facility, liquor store. Is there an assumption within that that anything that violates Federal law should also be on that list?

So for instance, the multiple States that have legalized, decriminalized, or allowed medical distribution of marijuana, would those businesses and grow locations or dispensaries—because they violate Federal law—would they also not be eligible for an Opportunity Zone credit the same as these others?

Secretary MNUCHIN. It is not something I believe we have considered at the moment. But I would be happy to review it internally——

Senator LANKFORD. There has been a question just in my State. Just try to figure out, if it violates Federal law if it still is eligible for a tax credit. And so trying to be able to figure out that balance on it would be helpful to folks.

Can I flip to one more quick subject? The nonprofit parking piece that the reg came out for, about 30 pages of it—is that done or is there a new reg that is coming out? Any updates on that one in the days ahead?

Secretary MNUCHIN. The taxpayer should be able to rely upon the guidance that has come out, although it will go through a more formal process. But they should be able to rely upon that. And we hope that we have solved it as best as we can.

Senator LANKFORD. Okay. Thank you.

The CHAIRMAN. Senator Hassan?

Senator HASSAN. Thank you, Mr. Chairman and Ranking Member Wyden, for having this hearing.

Good afternoon, Mr. Secretary. Thank you for being here. Before turning to my questions, I just wanted to comment on Treasury's mission to stop terrorist financing.

Detecting and disrupting terrorist financing is a critical tool in the counterterrorism arsenal. And in order to help prevent ISIS, Al-Qaeda, or the next version of these groups, whatever they may be, from threatening our homeland, we have to provide robust funding for the antiterrorist financing programs at the Treasury Department. To that end, I am very pleased that Treasury's budget requests a significant increase for the Office of Terrorism and Financial Intelligence, and I look forward to supporting Treasury in this mission. So thank you all for doing that.

Secretary MNUCHIN. Thank you, and thank you for the specific funding increases we have had in the last few years in recognition of the importance of it.

Senator HASSAN. Well, thank you.

Now I want to move on to some pieces of the budget. I am sure, Mr. Secretary, we can agree that supporting innovative small businesses is key to growing the economy and creating good-paying jobs. In my State, the New Hampshire Community Loan Fund, a nonprofit community development financial institution in Concord, has been increasing access to capital for Granite Staters, especially small businesses in economically distressed areas of our State, for more than 35 years.

In fact, they came by my office yesterday. But the President's budget would eliminate the Treasury Department's Community Development Financial Institution program, which provides support to CDFI in New Hampshire.

Meanwhile, Mr. Secretary, the administration told the American people that the new pass-through deduction in the 2017 tax law would give a boost to Main Street entrepreneurs. But in fact, the Joint Committee on Taxation found that in 2018, the top 1 percent received over $20 billion in tax cuts from this new deduction.

Now, after billions in tax cuts that were supposed to help small businesses have actually gone to the top 1 percent, the administration wants to slash the vital CDFI program. Mr. Secretary, can you tell me in dollar terms how much the President's budget would cut from the Treasury Department's CDFI program?

Secretary MNUCHIN. It would take it down from 250 to approximately 14——

Senator HASSAN. That is the CDFI fund, not the program.

Secretary MNUCHIN. Yes.

Senator HASSAN. The program, I believe, is currently funded at about $160 million.

Secretary MNUCHIN. I do not have that chart with us, but we would be happy to follow up with you.

Senator HASSAN. It is a very important program within your own department. So let me just tell you that it is funded at about $160 million, and your budget completely eliminates it—100-percent cut.

So with the $20 billion that the pass-through deduction handed to the top 1 percent last year, with——

Secretary MNUCHIN. I——

Senator HASSAN. Go ahead. I am sorry. Did you want to say something?

Secretary MNUCHIN. No, I was just going to say we are happy to follow up. But let me just acknowledge that I do think the CDFI program does create valid benefits to the community. There were difficult decisions we made in the budget, and we would be happy——

Senator HASSAN. And let us just talk about what that reflects about the administration's priorities then, okay? Because with the $20 billion that the pass-through deduction handed to the top 1 percent last year, is it not true that the CDFI program could be fully funded more than 100 times over?

Secretary MNUCHIN. Well, I do not agree with you. And the calculation is rather complicated on the $20 billion, because what we did is, we lowered the corporate tax rate. The idea of the pass-through discount was to create some level of parity between pass-throughs and corporations.

Senator HASSAN. I do understand. I——

Secretary MNUCHIN. There is an assumption in that calculation as to what goes to the taxpayers and what gets passed on.

Senator HASSAN. But let us just be very clear, though. That is about half of the value of the total pass-through deduction. And it went to the top 1 percent at a time when the administration is turning around and talking here in this hearing about tough choices to make. The tough choices are going to be for small businesses in economically distressed areas that cannot get necessary capital to invest and create jobs just where we need them the most.

That reflects this administration's priorities, and I just have to tell you I think that is backwards. I think we should be focused on where we need to help people start small businesses and create jobs in the most economically depressed areas of our country. And certainly in my State, that elimination of CDFI is going to have a real impact.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Casey?

Senator CASEY. Thank you, Mr. Chairman.

Mr. Secretary, good to be with you. I wanted to start with something that was not noticed by very many people, I guess, across the country when the tax bill was enacted at the end of 2017. The 2017 tax bill eliminated the deduction for union dues and other expenses for workers like gasoline and tools that they have to purchase. At that time—and I would include that time as well as the present—did you support eliminating the deduction for unreimbursed employee expenses?

Secretary MNUCHIN. I did support the elimination of unreimbursed employee expenses.

Senator CASEY. And is there anything in the President's budget that has just been announced, or any initiative that you or anyone else in the administration has undertaken to reinstate those provisions for union dues and employee expenses?

Secretary MNUCHIN. I am not aware of it, but I can check with the team and get back to you.

Senator CASEY. Okay, I might have the answer, or an answer. I have a bill to make the deduction for union dues above the line, and also to reinstate the deduction for expenses like tools and gas. And I ask—you may not have seen this bill yet, but I ask you to take a look at it and then correspond back with us with an answer as to whether or not you or the administration could support it.

Secretary MNUCHIN. We would be happy to do that, and we will have the Office of Tax Policy work with your staff so we can understand the exact impact.

Senator CASEY. Thank you.

And at the time of the tax bill, there were a lot of debates about the projected impact of the tax bill on workers, on workers' wages. At one point, the Council of Economic Advisors for the White House said that wages would go up on average $4,000. What is your sense of, (a) what has happened since the enactment of the bill to workers' wages? Have they gone up $4,000? Have they gone up at all? What is your sense of where workers' wages are in dollars?

Secretary MNUCHIN. We have had the largest growth of wages last year that we have had. I think the idea was not necessarily the $4,000 would all be in year one, but we continue to think that wage growth will lead to that for the calculation.

Senator CASEY. So are you saying that real wages are up, inflation-adjusted wages are up since the tax bill?

Secretary MNUCHIN. Yes, indeed.

Senator CASEY. And what is your source for that?

Secretary MNUCHIN. Yes, we are happy to give you the sources. I have it from our Office of Economic Policy. This is all based on third-party data that I believe is put out with the Commerce Department.

But we are happy to give you the exact data and the sourcing of it.

Senator CASEY. Okay; we look forward to seeing that it.

Also, going back to one of the 2018 hearings—to be exact, February 14, 2018—I asked you the following. I said last May, referring to 2017, you told the committee, quote—and I'm now quoting you—"over 70 percent of the cost of corporate taxes are actually born by the worker." And then my question was, if companies are not keeping to that, instead are giving the majority of the value of the tax cut to shareholders and executives through dividends and buybacks, do you think we should have a mechanism in place for making sure that employees—that wage earners—see the gains from the tax code? That was my question to you in 2018.

Your response at that time was, quote, "I commented on this earlier, the similar question. And again, we do stand by what we believe. There are many economists that support that over 70 percent." You went on to say, "We do stand behind that. We think we are going to see that. We think we are going to see wage increases."

Do you still stand behind those statements about 70 percent?

Secretary MNUCHIN. I do, over a broad basis. Okay, I do think that is the case. Now I know the comment that you are going to say is, well there have been big stock buybacks.

Senator CASEY. What do you mean by "broad basis?"

Secretary MNUCHIN. If we look over the economy, over a large set of large companies and small companies, that is what that statistic was based on.

Senator CASEY. Are you saying that we have seen or we will see 70 percent of the gains going to workers?

Secretary MNUCHIN. What I am saying is that, over time, the workers bear 70 percent of the cost of taxes. So, yes, I stand behind, over the 10-year scoring period, that that is our view.

Senator CASEY. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Cortez Masto?

Senator CORTEZ MASTO. Thank you, Mr. Chairman.

Mr. Secretary, welcome. I want to jump to another subject. I am concerned about an unpublished IRS decision that is blocking the development of affordable housing for veterans in my State. For years, the Low-Income Housing Tax Credits and private activity bonds were effectively used together to build affordable housing, including projects that serve veterans and other special needs populations.

Recently, however, the IRS has informally interpreted how the general public use criteria are applied to private activity bonds.

[Pause.]

Secretary MNUCHIN. We are working with the Finance staff, and we are——

Senator CORTEZ MASTO. I have not asked a question.

Secretary MNUCHIN. I am sorry. I apologize.

Senator CORTEZ MASTO. I was just waiting for you to get your answer, or question, or take care of whatever you needed to.

In the misinterpretation of the statue and congressional intent, the IRS has decided that private activity bonds can no longer be used for veteran housing projects. And as a result, ongoing projects have been halted and the ability of veteran housing facilities to renovate or expand will be significantly impaired in my State.

So can you tell me, when did the IRS make the decision to reinterpret the general public use criteria as applied to private activity bonds? And what was the justification for the change?

Secretary MNUCHIN. I am concerned about the impact, particularly on our veterans. We have been working with the Finance staff. We will also work with your office. We are trying to resolve this issue so that it can be used, and so that veteran housing is not impacted. So we share your concern.

Senator CORTEZ MASTO. So then, why change it? I guess I would like more information. That was not enough. I do not understand the justification for the change.

Secretary MNUCHIN. I apologize, but I am not briefed on the entire issue, given the specifics of this, but I assure you I will follow up with you next week.

Senator CORTEZ MASTO. Thank you. I appreciate that. Thank you.

Another subject as important for me—and I know you are aware of this—is the high student loans that we have in this country. There are more than 40 million Americans with student loan debt. This outstanding debt of $1.5 trillion is stressful for families. It is a drag on our economy.

And the Consumer Financial Protection Bureau has a position which is called the Private Education Student Loan Ombudsman. That ombudsman is designated by the Treasury Department, is my understanding. And I understand the previous gentleman who was there left the Bureau because he had concerns that it had abandoned students. It was no longer enforcing the law. I would like to include his letter of resignation in the hearing record.

[The letter appears in the appendix on p. 31.]

Senator CORTEZ MASTO. I am curious: have you read that letter, and do you agree with his concerns, or are you aware of what is happening here?

Secretary MNUCHIN. I have read the letter. I am aware of the concerns. We do not necessarily agree with the concerns. I have had my legal department review it internally, and we are working to replace that position.

Again, our responsibility is to effectively designate the person, and that person has the responsibility to carry it out. But it is something that is an important position that will be dealt with.

Senator CORTEZ MASTO. And do you have a time frame of when you are going to fill that position?

Secretary MNUCHIN. Very soon.

Senator CORTEZ MASTO. Okay.

And is that individual going to be committed to ensuring that students—protecting student loan borrowers from servicing errors, like miscalculated payments?

Secretary MNUCHIN. I would say that person, that will be part of the responsibility. Again, that is an important issue that that person will have to review. Ultimately, we need to make sure that the servicers are properly enforcing their responsibilities.

Senator CORTEZ MASTO. Okay.

The third subject I want to jump to is U.S. debt. Is it not true that the U.S. national debt is more than $25 trillion dollars?

Secretary MNUCHIN. No; it is less than $25 trillion.

Senator CORTEZ MASTO. So I am looking at the U.S. debt world clock. That is not accurate?

Secretary MNUCHIN. I do not believe that is the exact number.

Senator CORTEZ MASTO. All right. So what is our national debt, then, if that is not the case?

Secretary MNUCHIN. Well, we will get back to you on the exact number.

Senator CORTEZ MASTO. You do not know, sitting right here, what our national debt is as a Treasury Secretary?

[No response.]

Senator CORTEZ MASTO. Well, I can tell you it is over $20 trillion.

Secretary MNUCHIN. It is more like $22 trillion than 25. Just to be clear, I was trying to get the exact number for you. I was aware of——

Senator CORTEZ MASTO. All right, semantics. It is $22 trillion. Thank you.

And is it not true that the administration's tax bill raised the debt by $1 trillion?

Secretary MNUCHIN. No, that is not true.

Senator CORTEZ MASTO. Then what did it raise——

Secretary MNUCHIN. I would be happy to go through the math for you. So the tax bill scored at $1.5 trillion on a static basis. You take off 250. That is the difference between baseline and policy as a result of expensing. That gets you down to 1.25 trillion. As a result of last year's growth, we have already accounted for about 400.

So the current cost is 825, and with about 35 basis points of growth over the 9 years, it will pay for itself.

So we do not believe that it will add to the——

Senator CORTEZ MASTO. That is at 3-percent growth?

Secretary MNUCHIN. No; what I am saying is, all you need is an additional——

Senator CORTEZ MASTO. You said "basis points of growth over 9 years." What basis points are you looking at?

Secretary MNUCHIN. The breakpoint is about 2.55. We believe that we will get 3 percent. At 3 percent, it pays down the debt.

Senator CORTEZ MASTO. So it is just under $1 trillion right now.

Secretary MNUCHIN. Again, no; it is $825 billion assuming zero growth. Okay, if you assume——

Senator CORTEZ MASTO. So when you say it is $825 billion right now——

Secretary MNUCHIN. Again, just to be clear, the way this was scored was on a static basis at 1.5 trillion. Okay, all along we said that it would be positive because we thought there would be over 75 basis points of additional growth, and we would raise an additional trillion dollars.

What I am saying to you is that the cost has been reduced already as a result of 1 year of growth, and if we hit 2.55 percent growth—that is roughly the break-even for paying for itself. So we firmly believe not only will this pay for itself, but it will pay down debt.

Senator CORTEZ MASTO. I notice I have run out of time. So thank you very much.

The CHAIRMAN. Senator Roberts?

Senator ROBERTS. Thank you, Senator.

I want to talk a little bit about agriculture. And then I have some very quick questions for you.

I want to know that tax reform included much-needed incentives for farmers to grow their operations at a time when we are struggling to stay afloat. I think you know that I am not a very good fan of tariffs and tariff retaliation and the rather desperate need for price recovery in farming.

But I want to also say that, because of tax reform, a family farmer in Dodge City, KS can now immediately write off larger capital purchases, things like breeding livestock, farm equipment. Single-purpose structures up to $1 million are eligible, and the benefit does not start to phase out until the business reaches $2.5 million in capital purchases.

A dairy farm in Wichita can now invest in an additional milking machine they need to grow their business. The Act also created a 20-percent deduction for pass-through businesses. I have a couple of questions for you on that, since we have heard a lot of commentary from my friends across the aisle.

Ninety-three percent of the U.S. farms file their taxes as pass-throughs. This deduction is a very big deal for agriculture. Some will say this only applies to certain businesses, and that the rules for those who qualify are too complicated to the average small business. I just do not think that is true.

Based on the Joint Committee on Taxation's 2019 projections, over 95 percent of individuals who will take the pass-through deduction will fall below the income eligibility thresholds. As a result, they do not have to worry about the section 199A limitations. This is tax relief for farmers that really provides some incentives to grow their business and hire more workers.

Now, given where we are with the farm economy, it could not have been done at a better time. Now we have heard a lot from my friends here across the aisle with regards to their concern that too much of the benefit on pass-throughs goes to owners above the income threshold.

Mr. Secretary, an owner of an S corporation, a manufacturing business for example, who is above the income threshold would be subject to wage and investment limitations. If that business pays no employee wages and has no special investment in the business, that section 199A deduction would be exactly zero. Is that not true?

Secretary MNUCHIN. That is correct.

Senator ROBERTS. So this deduction is helping to encourage the impressive increase in jobs and wage growth that we have seen since tax reform, as well as the increase in capital investment. And I think you would agree with that, would you not, sir?

Secretary MNUCHIN. I would agree. Thank you.

Senator ROBERTS. Lastly, the Democrats—pardon me; I do not say "Democrats." My friends across the aisle are terribly concerned about the pass-through deduction, that it is just too complicated. I have just mentioned that.

Is it not true, Mr. Secretary, that for pass-through business owners below the income threshold—and according to JCT, more than 95 percent of the business owners taking the deduction are below the income threshold—the complexity really amounts to taking your qualified business income and multiplying it by 20 percent. Is that not correct?

Secretary MNUCHIN. That is correct.

Senator ROBERTS. Now, the budget proposes legislation enabling additional funding for new and continuing investments to expand and strengthen tax enforcement. Now, I have been on this committee for quite a while. That does not excite me too much, given the past history of what we have had to investigate and get into.

According to the budget, however, spending $15 billion will generate $47 billion in new revenue. How?

Secretary MNUCHIN. Well, this has to do with the tax gap. It has to do with better technology and having enforcement. So that is the idea.

Senator ROBERTS. It is my understanding that this represents a much larger investment in—regarding the question that Senator Lankford had just a while ago on computer technology, is that not correct?

Secretary MNUCHIN. That is true.

Senator ROBERTS. Well, if you are investing $15 billion and you produce $47 billion in revenue, hopefully, that is a good thing.

Where are we with China on trade?

Secretary MNUCHIN. We are in active discussions with China. I have had two conference calls recently with Ambassador Lighthizer and our counterpart, Vice-Premier Liu He. We had a discussion as recently as last night.

I think you know we are working on a very extensive document that covers very important issues, structural changes, forced technology, IP protection. It is a complicated issue. We are working diligently to try to get this done as quickly as we can.

Senator ROBERTS. I appreciate that. I know you are aware of this, but all regions, all crops, farmers, ranchers, growers, everybody involved in the food chain, are going through a difficult time. I would just offer an opinion of mine, and talking to the Ambassador from Canada and also Mexico, they would sure think it would be a good idea if we are going to get NAFTA–2 passed, that we could do something with those continuing tariffs.

I know in talking to Mr. Lighthizer, sometimes he can be a stubborn cuss. He will not mind that. I have known him for a long time. But at least—how do you feel about that?

Secretary MNUCHIN. I can assure you that the Ambassador and I are working very hard on that issue. We had a bunch of people with the President yesterday. That was brought up.

The idea is, one, we would like to pass the USMCA as quickly as we can, and as part of that, we would like to reach a resolution on the steel and aluminum tariffs with Canada and Mexico. And I can assure you on the agriculture side, I spoke to the Soybean Growers Association this week. I understand the importance of agriculture and trade.

Senator ROBERTS. You can add in corn, wheat, sorghum.

Senator Daines, you want to add in beef, I know that.

Senator DAINES. Beef, wheat, and barley, sir.

Senator ROBERTS. There we go. We can just keep going down the line.

The CHAIRMAN. Senator Cassidy?

Senator CASSIDY. Thank you, sir.

A couple of things, and I am sorry. I have been away, so you may have answered this. But I do not know what your answer was.

The issues on the guidance on the Opportunity Zones, as to the pace at which those will come out, you spoke of them, rightly, as something which is highly anticipated and has the potential to have a great impact. But the information from the IRS has been somewhat limited.

You know, for example, how do we liquidate an Opportunity Zone without disrupting the tax benefit, as one example. Or how local businesses can meet key tests to become qualified. So anyway—and it is a time-limited incentive. So any insights as to when these rules shall be released?

Secretary MNUCHIN. I can assure you this is on the top of our list. We are going through with OIRA right now the review of various regulations. And we are trying to get things out as quickly as we can. We realize how important this is to the communities.

Senator CASSIDY. Also, I think one of my colleagues earlier, I am told, brought up trade-based money laundering. It is something of intense interest to me in my office.

When we were in Mexico, they pointed out that the USMC does have new provisions which would allow greater cooperation between the United States and Mexico to track this.

I do not know what it will require to implement this, but the cartels are moving $60 billion a year, conservatively, out of our country. And obviously, this has been highlighted recently, because the President is using money from the asset forfeiture fund to help finance the southern border.

Are you familiar with these provisions, and do you have any sense of how they will begin to be implemented?

Secretary MNUCHIN. I am familiar with them, and we are working closely with ourselves and other departments on how we will implement them. We look forward to coming up and briefing you once we make a little bit more progress.

Senator CASSIDY. That will be wonderful. And what I do not know now—and again, if you want to include this in your briefing—and I have tried to understand. If somebody is moving assets and our dollars one direction or the other, and there is an effort to mis-invoice, or double invoice, or false invoice, how is there a correlation between the dollars that are going in one direction and the putative goods going in another? I just have not been able to figure that out, as easy as that seems.

Obviously money is flowing, but goods may not go. So how do we know whether or not that is happening?

Secretary MNUCHIN. As you have outlined, it is somewhat of a complicated issue, and we look forward to going through it with you.

Senator CASSIDY. Sounds great. Also, I would like to point out, just for my colleagues who seem to be bashing the Tax Cuts and Jobs Act bill and suggesting that benefits have not been realized by those who are lower-income, I also will put up this and just point out here the dark blue line is wage growth, and the wage growth right now is disproportionately among those who are in the lower half of the income scale. And that is because of this economy, and this economy is at least in part because of the Tax Cuts and Jobs Act bill.

So this is not pertaining to your testimony or questions to you, but it does pertain to the public debate as to whether or not there is a general benefit that comes from a booming economy. There is a general benefit, and in this economy it is disproportionately for those who are in the lower end of the wage scale.

So hospitality and the service industries, for example, are disproportionately benefiting with 5-percent growth in their wages. So also just to make that point, again not apropos of you, but just to echo something you said earlier.

With that, Mr. Chairman, I yield the balance of my time.

The CHAIRMAN. Senator Daines?

Senator DAINES. Thank you, Mr. Chairman and Secretary Mnuchin. Thanks for coming up here today.

Since President Trump took the oath of office, Republicans have delivered lower taxes, fewer regulations, and because of these policies, our economy is soaring. In fact, on average Montana families are keeping over $1,000 of their hard-earned paychecks. And on top of that, many are receiving higher wages. This is resulting in bigger paychecks for working families.

I would like to first talk about the pass-through deduction. It is allowing Main Street companies in Montana and around our country to succeed. As you know, these businesses employ 66 million workers, which is about 55 percent of the workforce. The purpose of the TCJA deduction is to help preserve and to grow these jobs. And I am hearing from small businesses in Montana it is doing just that.

My question is, would you agree that this deduction for Main Street businesses is helping to encourage the impressive increase in jobs and wage growth we are seeing since tax reform, as well as the increase in capital investment?

Secretary MNUCHIN. Yes, I would.

Senator DAINES. And now the naysayers of the tax cut bill contend that it produced nothing more than a sugar high. In the President's budget, however, you anticipate annual economic growth of around 3 percent over the next decade. What do you think the other forecasters are missing about the sustainability of our soaring economy?

Secretary MNUCHIN. Well, I think you know last year when we predicted 3 percent or higher, everybody else was still in the low 2s. I think we just have a fundamentally different view of growth, and in running it through the economy. So we think that the impact of the tax cuts is just beginning and we will continue to see more.

Now, let me just make one comment, which is, the U.S. is growing. The rest of the world is slowing down substantially. So we are growing, and whether it is Europe, or whether it is China, they are having an opposite impact.

Senator DAINES. Why do you think we are growing and other places are not?

Secretary MNUCHIN. Because we have instituted a combination of tax cuts, regulatory relief, and redoing our trade agenda.

Senator DAINES. In sharp contrast, Mr. Secretary, to the policies that you and I would support, several of my friends across the aisle have proposed a so-called Green New Deal, which includes wiping out all the oil and coal industries that are critical to Montana jobs, critical to our tax base, critical to our way of life. And it includes canceling the private health coverage of 180 million Americans, including over 500,000 Montanans. To top it off, these proposals would be financed by tens of trillions of dollars in tax increases.

Could you give a short overview of how these radical proposals would disrupt and damage our economy?

Secretary MNUCHIN. I do not think they disrupt or damage. I think they destroy. So I do not know how they could possibly be financed without having the economy just ground to an absolute halt.

Senator DAINES. I want to shift gears and talk a bit about China. Senator Roberts mentioned it earlier. It was recently reported the administration is actively seeking to exclude allies from talks with China.

Do you agree that working with our allies to confront China's trade abuses could increase pressure on China to make the structural reforms, the necessary reforms that are needed to level the playing field, particularly for Montana farmers and ranchers, the outdoor industry, and other businesses?

Secretary MNUCHIN. Well, let me just comment. At the G7, we are working on WTO reform, which is really a lot of the China issues, and a lot of the other problems with the WTO. I think the

President is very focused on our bilateral trade with China, which is very unbalanced, and that is our number one priority.

Although I can tell you I was in Europe last week and met with both the finance ministers of France and the UK, and we have been in communication with them and have their input.

Senator DAINES. So one of the industries we are seeing that has been hurt with retaliatory tariffs is the U.S. polycon industry. They have been targeted by the Chinese. I would urge you to prioritize removal of these tariffs to help level the playing field.

We have a polysilicon manufacturer called REC Silicon in Butte, a place that creates great jobs. And we need some help here to get rid of these retaliatory tariffs. I just want to make sure you are aware of that, Mr. Secretary.

Secretary MNUCHIN. Thank you.

Senator DAINES. Thanks.

The CHAIRMAN. Senator Cantwell?

Senator CANTWELL. Thank you, Mr. Chairman.

I join my colleague from Montana in asking for your help and support, obviously, on the trade issues and trying to open up markets. And this is a holdover from the last administration, but nonetheless, it is still a very important issue to, in my opinion, focus more on, giving the resources to USTR to fight these cases legally. I am more for lawyering up than tariffing up.

So anyway, REC is a good example to that point, because it is 5 or 6 years later, and we are still dealing with the basic underlying substance.

And I apologize for asking a bunch of related questions, but I wanted to get your views on them. The new deduction under 199A—you have had an extension, but how can we help our farmers and fishermen get the information that they need so that they can file their taxes?

Secretary MNUCHIN. This is a very important issue for us, and we want to make sure—there are obviously a lot of technical issues, as you said, particularly for farmers. We hope to get something out very quickly, and we have taken a lot of input. And if there are specific issues you have, we will reach out to your office, but we are very focused on this.

Senator CANTWELL. Okay; soon meaning what? What would you say soon is?

Secretary MNUCHIN. Within the next month—weeks.

Senator CANTWELL. So, okay; thank you.

I just want to get your viewpoints too. Do you think it is fair that we have business expense deduction for legitimate businesses, but on a cannabis business, we do not? They are not allowed to have business expensing.

Secretary MNUCHIN. Let me just comment that this is a very complicated issue that impacts lots of things where there is a conflict between Federal law and State law. And whether it is me putting on my IRS hat where we have hundreds of thousands of dollars of cash coming in, this issue needs to be resolved one way or another, because there are conflicts, and so many regulations and rules and everything else.

However it is resolved, you have just described one of many, many, many complicated issues.

Senator CANTWELL. And so you would like to see that resolved?

Secretary MNUCHIN. Again, I just encourage—there are lots of issues that we cannot give guidance on, or cannot change from Treasury without dealing with the conflict.

Senator CANTWELL. To me it is an injustice that there is a business that is not treated like other businesses when a State decides that that is a true business. But we will get on to other things.

The Low-Income Housing Tax Credit is something we are very supportive of and want to see continued investment in. My colleague from New Jersey brought up, and maybe my colleague, Senator Scott brought up, we definitely are seeing hundreds of thousands of people paying more taxes in the State of Washington.

So the notion that corporations are paying less—we are getting more money from a larger pool of people who are paying more. I have constituents who are paying more, middle-class families who are paying more because of those same SALT deductions that are no longer available. And yet I do not know that they would relate that growth that you are saying is occurring and wage growth.

In 2015, we had one quarter with 5.1-percent wage growth, and in 2016, we had one quarter with 3.1-percent wage growth. So we have had some wage growth, but I do not know that everybody is equating the tax bill results to wage growth. I do not even know if you believe that there is consistency among economists about what creates wage growth. Do you think there is?

Secretary MNUCHIN. I think different economists have different views on lots of different things. And let me just say, I am sympathetic where SALT is having an impact on certain economies, and we are trying to monitor this carefully.

Senator CANTWELL. All I am saying is I think the northwest has a lot of wage growth. And I think that companies and employees are doing great jobs at creating products and services. And that is why I think that they are having some success in also raising wages, because of the productivity that is coming and the efficiencies that are coming out of some of those business models.

So I would just caution us not to equate, just by looking at the balance sheet of the Federal Government, that all of a sudden we are achieving all these goals. Personally, I would like us to see a Federal discussion about what causes wage growth, at least get people on the same page, because I am not sure we are all on the same page. And I think we are going to continue to have this debate.

But from the concerns of people in my State—I hear from people who work for these companies and who literally are paying more in taxes. So they think they are creating the economic opportunity, and now they are paying more in taxes.

And yes, we gave that company a big tax break, and they might have bought back shares and increased the value of the company, but it is not necessarily as clean-cut as I think the administration might think it is.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Portman?

Senator PORTMAN. Thank you, Mr. Chairman.

And, Mr. Secretary, I appreciate your being here, and you're here during a time where we can brag about what we have accomplished, which is a tax bill that is helping middle-class families throughout Ohio. A median-income family in Ohio is getting another 2,000 bucks a year, on average.

Wage growth is finally going up, not just in Ohio, but across the country. This is something we have all been waiting for for a long time. In Ohio, it has been about a decade and a half. The wage growth last month was 3.4 percent, inflation-adjusted by the way.

So some of the numbers we heard a minute ago were not inflation-adjusted. And yes, I mean, here are the numbers: 1.7 percent average, real—meaning inflation-adjusted in this administration, post the tax bill, versus .6 percent during the Obama administration. That is reality.

And now we are finally seeing wages go up even higher, 3.4 percent last month, the highest in over 10 years. And if you look at it over your long basis, it is also the highest since the Great Recession.

So finally, we are getting the kind of wage growth that all of us have been waiting for. And people working harder, longer hours have not seen the ability to get ahead. Now they are saying, yes, finally we are beginning to see the benefits of good tax policy being spread more broadly.

So I am excited about it, particularly because, if you look at it, it is the blue collar workers who are getting the biggest benefit, right? The white collar wages are not going up quite as fast. So this is exciting.

I have been all around Ohio, as you know, doing these town hall meetings and talking to our small business community. I had a roundtable discussion the week before last, and I heard the same thing I have heard at the other two dozen of them that I have done, which is every single business around the table is doing something to invest in their people or in their plant and equipment.

And to the point earlier about, you know, is this really going to result in more investment, non-residential fixed investment, equipment structures, and so on—7.2-percent annual growth rate in 2018, the highest since 2011.

So this is the tail. This is the consequence of tax reform over time. Would you agree with that, that seeing the increased investment is going to be one of the major benefits of the tax reform?

Secretary MNUCHIN. Yes, I would agree with you.

Senator PORTMAN. When you look at the 199A pass-through issue, I heard earlier some of my colleagues talking about folks who are above the threshold getting too much of a benefit. I would make two points. Number one, that is about 4.9 percent of taxpayers. Number two, they only get a deduction when they do one of two things, right: pay wages or make investments. Is that not good?

Secretary MNUCHIN. That is good.

Senator PORTMAN. And if you look at the wage growth, and you look at the investment growth, I mean part of it is because you and we, working together, put together a pretty smart package on 199A. It is not perfect. Nothing is in this complicated tax code and complicated world we live in. But this has enabled us to be able to see higher growth, don't you think?

Secretary MNUCHIN. It has, and I want to personally thank you for the work that you have done, in particular, on this.

Senator PORTMAN. You and I worked a lot on the international side—again, very complicated. I will give you a quote from a group that met in 2015, the International Tax Working Group. It said that "tax reforms on the international side work best with a substantial corporate rate reduction and broader tax reform for all businesses." That was Chuck Schumer and Rob Portman. We were co-chairs of that task force. That is exactly what we did.

And you have worked with us on some issues, including the expense allocations issues under GILTI and other things—and to try to be sure that we are getting these benefits broadly.

But let me ask you this question. Do you think, as some of my colleagues have asked when they talk about raising the corporate rate, if we took the corporate rate back up to, let us say 28 percent or more, maybe even 35 percent, let us say even 28 percent, do you think that would result in a new trend of foreign acquisitions and inversions that we saw happening before the tax bill?

Secretary MNUCHIN. Either that or, again, an additional slowdown in the economy.

Senator PORTMAN. Yes. I mean, I look at the numbers. Businesses were being acquired or inverting at a rapid rate, three times as many businesses being bought by others rather than the U.S. buying those businesses. And we managed to reverse that and now have money actually flowing back in.

Two final questions quickly. One is with regard to IRS reform legislation. You and I have talked about this before. I know you are generally supportive.

The new Commissioner now being in place and having gotten through the worst part of the tax season—and soon he will be through it altogether—do you think it is time for us to push IRS reform, as we talked about at the end of last year, to be able to make the agency work even better for taxpayers?

Secretary MNUCHIN. I do, and the Commissioner and I would look forward to coming up and sitting down with you and going through that.

Senator PORTMAN. I think it would be time. And one of the things that we talked about and I want to get your view on is the IRS Oversight Board. It has not worked well.

The administration—and I would say the Obama administration most recently, but even the Bush administration—did not embrace it as I had hoped they would. The idea is that it gives strategic direction to the IRS to avoid some of the problems we are now seeing at the IRS in terms of taxpayer service and lack of direction on IP and investment in technology.

Do you support the idea of an Oversight Board going back to its original intent?

Secretary MNUCHIN. I would like to go through that with you and kind of weigh the benefits and the issues. Again, there is a difference between oversight and an advisory. But again, I would love to come and talk to you, and we could discuss the benefits and the issues.

Senator PORTMAN. I think it is a matter of establishing a strategic direction that is consistent for the agency. And I would like to work with you, and I hope you can give us some ideas of what kind of expertise you would be looking for on, perhaps, a board that is more streamlined and more effective.

The other one is retirement security. My time is expired, so I will just ask you for the record if you could just tell us what your views are on trying to move forward with a broader retirement package.

We have RESA that we got so close to passing. We also have this issue of frozen defined benefit plans. The Retirement Security Preservation Act deals with that. We have about 420,000 beneficiaries who stand to lose benefits this year alone if we do not deal with that.

So we would love to hear your thoughts on that at the appropriate time. If you want to give an answer now if the chairman will allow you, otherwise I have to yield back my time that I have already used too much of.

Secretary MNUCHIN. I will just comment that retirement savings is an important issue and we look forward to working with you on it.

The CHAIRMAN. Everybody has asked you the questions that you are going to get today. You may get questions in writing. So every member should know that those questions for answer in writing should be submitted to the Secretary by the close of business March 28th.

Thank you very much, Secretary Mnuchin.

Secretary MNUCHIN. Thank you, Mr. Chairman.

[Whereupon, at 3:03 p.m., the hearing was concluded.]

A P P E N D I X

Additional Material Submitted for the Record

Submitted by Hon. Catherine Cortez Masto,
a U.S. Senator From Nevada

August 27, 2018

The Honorable Mick Mulvaney
Acting Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20052

Acting Director Mulvaney:

It is with great regret that I tender my resignation as the Consumer Financial Protection Bureau's Student Loan Ombudsman. It has been the honor of a lifetime to spend the past seven years working to protect American consumers; first under Holly Petraeus as the Bureau defended America's military families from predatory lenders, for-profit colleges, and other unscrupulous businesses, and most recently leading the Bureau's work on behalf of the 44 million Americans struggling with student loan debt. However, after 10 months under your leadership, it has become clear that consumers no longer have a strong, independent Consumer Bureau on their side.

Each year, tens of millions of student loan borrowers struggle to stay afloat. For many, the CFPB has served as a lifeline—cutting through red tape, demanding systematic reforms when borrowers are harmed, and serving as the primary financial regulator tasked with holding student loan companies accountable when they break the law.

The hard work and commitment of the immensely talented Bureau staff has had a tremendous impact on students and their families. Together, we returned more than $750 million to harmed student loan borrowers in communities across the country and halted predatory practices that targeted millions of people in pursuit of the American Dream.

The challenges of student debt affect borrowers young and old, urban and rural, in professions ranging from infantrymen to clergymen. Tackling these challenges should know no ideology or political persuasion. I had hoped to continue this critical work in partnership with you and your staff by using our authority under law to stand up for student loan borrowers trapped in a broken system. Unfortunately, under your leadership, the Bureau has abandoned the very consumers it is tasked by Congress with protecting. Instead, you have used the Bureau to serve the wishes of the most powerful financial companies in America.

As the Bureau official charged by Congress with overseeing the student loan market,[1] I have seen how the current actions being taken by Bureau leadership are

[1] Section 1035 of the Dodd-Frank Act establishes a Student Loan Ombudsman at the CFPB to "provide timely assistance to borrowers," "compile and analyze" borrower complaints, and "make appropriate recommendations to the Director [of the CFPB], the Secretary [of the Treasury], the Secretary of Education, the Committee on Banking, Housing, and Urban Affairs and the Committee on Health, Education, Labor, and Pensions of the Senate and the Committee on Financial Services and the Committee on Education and Labor of the House of Representatives." See 12 U.S.C. § 5535.

hurting families. In recent months, the Bureau has made sweeping changes, including:

- **Undercutting enforcement of the law.** It is clear that the current leadership of the Bureau has abandoned its duty to fairly and robustly enforce the law. The Bureau's new political leadership has repeatedly undercut and undermined career CFPB staff working to secure relief for consumers. These actions will affect millions of student loan borrowers, including those harmed by the company that dominates this market. In addition, when the Education Department unilaterally shut the door to routine CFPB oversight of the largest student loan companies, the Bureau's current leadership folded to political pressure. By undermining the Bureau's own authority to oversee the student loan market, the Bureau has failed borrowers who depend on independent oversight to halt bad practices and bring accountability to the student loan industry.
- **Undermining the Bureau's independence.** The current leadership of the Bureau has made its priorities clear—it will protect the misguided goals of the Trump Administration to the detriment of student loan borrowers. For nearly seven years, I was proud to be part of an agency that served no party and no administration; the Consumer Bureau focused solely on doing what was right for American consumers. Unfortunately, that is no longer the case. Recently, senior leadership at the Bureau blocked efforts to call attention to the ways in which the actions of this administration will hurt families ripped off by predatory for-profit schools. Similarly, senior leadership also blocked attempts to alert the Department of Education to the far-reaching harm borrowers will face due to the Department's unprecedented and illegal attempts to preempt state consumer laws and shield student loan companies from accountability for widespread abuses. At every turn, your political appointees have silenced warnings by those of us tasked with standing up for servicemembers and students.
- **Shielding bad actors from scrutiny.** The current leadership of the Bureau has turned its back on young people and their financial futures. Where we once found efficient and innovative ways to collaborate across government to protect consumers, the Bureau is now content doing the bare minimum for them while simultaneously going above and beyond to protect the interests of the biggest financial companies in America. For example, late last year, when new evidence came to light showing that the nation's largest banks were ripping off students on campuses across the country by saddling them with legally dubious account fees, Bureau leadership suppressed the publication of a report prepared by Bureau staff. When pressed by Congress about this, you chose to leave students vulnerable to predatory practices and deny any responsibility to bring this information to light.

American families need an independent Consumer Bureau to look out for them when lenders push products they know cannot be repaid, when banks and debt collectors conspire to abuse the courts and force families out of their homes, and when student loan companies are allowed to drive millions of Americans to financial ruin with impunity.

In my time at the Bureau I have traveled across the country, meeting with consumers in over three dozen states, and with military families from over 100 military units. I have met with dozens of state law enforcement officials and, more importantly, I have heard directly from tens of thousands of individual student loan borrowers.

A common thread ties these experiences together—the American Dream under siege, told through the heart wrenching stories of individuals caught in a system rigged to favor the most powerful financial interests. For seven years, the Consumer Financial Protection Bureau fought to ensure these families received a fair shake as they strived for the American Dream.

Sadly, the damage you have done to the Bureau betrays these families and sacrifices the financial futures of millions of Americans in communities across the country.

For these reasons, I resign effective September 1, 2018. Although I will no longer be Student Loan Ombudsman, I remain committed to fighting on behalf of borrowers who are trapped in a broken student loan system.

Sincerely,

Seth Frotman
Assistant Director and Student Loan Ombudsman

Consumer Financial Protection Bureau

cc: Hon. Steven Mnuchin, Secretary, U.S. Department of the Treasury
Hon. Betsy DeVos, Secretary, U.S. Department of Education
Senator Mike Crapo, Chairman, Senate Committee on Banking, Housing, and Urban Affairs
Senator Sherrod Brown, Ranking Member, Senate Committee on Banking, Housing, and Urban Affairs
Senator Lamar Alexander, Chairman, Senate Committee on Health, Education, Labor and Pensions
Senator Patty Murray, Ranking Member, Senate Committee on Health, Education, Labor and Pensions
Representative Jeb Hensarling, Chairman, House Financial Services Committee
Representative Maxine Waters, Ranking Member, House Financial Services Committee
Representative Virginia Foxx, Chairman, House Committee on Education and the Workforce
Representative Bobby Scott, Ranking Member, House Committee on Education and the Workforce

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PREPARED STATEMENT OF HON. CHUCK GRASSLEY, A U.S. SENATOR FROM IOWA

Welcome to this afternoon's hearing. Treasury Secretary Mnuchin is here to testify about the President's Fiscal Year 2020 budget proposal.

The President's budget includes various proposals to confront a variety of policy issues, including runaway Federal spending, border security and immigration enforcement, national defense, the opioid epidemic, and health-care costs.

The budget envisions receipts averaging 17.3 percent of GDP over a 10-year budget window, slightly above the average of the past 50 years. It also has outlays averaging 20.0 percent of GDP over 10 years, equal to the average of the past 50 years.

The budget contains some relatively minor tax proposals and proposes spending restraint to help achieve budget savings of around $2.8 trillion over 10 years. Those savings are significant, even if they come to only a fraction of what some recent proposals from the other side would cost, such as Medicare-for-All or the Green New Deal. Those socialist-leaning proposals would easily cost tens of trillions of dollars over a decade, force Americans out of employer-provided health insurance that they like, and radically restructure the American economy. And they'd add tens of trillions to our deficits.

The President's budget represents a first step in our budget process, where we learn of the President's priorities and proposals. I can say that I agree that we must remain focused on important goals like reducing health-care costs, continuing to rebuild the military, fighting against opioid abuse, and addressing the security and humanitarian crisis at our southern border.

I also know that this committee is ready to help accomplish some of the goals in the President's budget, such as tackling issues surrounding high drug prices and confusing drug pricing.

I will note that the budget is being put forward in the setting of a robust economy, and an economy that has been strengthening following enactment of tax reform. The economy and tax reform are benefiting Americans across the board.

As you mention in your testimony, Secretary Mnuchin, the tax rate cuts, doubling of the standard deduction, and expanded Child Tax Credit give real benefits to hardworking American families. And tax reform is fueling the economy.

During the Trump administration generally, and especially since tax reform was enacted, economic growth has topped 3 percent, business investment has been strong, job creation has been robust, real wage growth has accelerated, and incomes have grown.

In 2018, we saw more job openings than the number of people who are unemployed, and that signal of a robust labor market has persisted. Unemployment has been remarkably low, overall and for Hispanic and for African American workers.

And in my State of Iowa, unemployment stands at a record low 2.4 percent, the lowest rate in the country.

All of those strong economic numbers mean that hardworking Americans and their families are clearly benefiting from tax reform.

With that, I turn to Ranking Member Wyden for his opening remarks.

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

Chairman Grassley, Ranking Member Wyden, and members of the committee, it is good to be with you today.

I am pleased to report that President Trump's economic program of tax cuts, regulatory relief, and improved trade deals is working for the American people. During 2018, real GDP increased by 3.1 percent measured from the fourth quarter of 2017 to the fourth quarter of 2018. This is the highest Q4-to-Q4 growth rate since 2005.

The unemployment rate remains historically low at 3.8 percent, and earnings rose by over 3 percent in 2018, the highest nominal increase in a decade. More Americans are entering the workforce because of a renewed sense of optimism.

The World Economic Forum's most recent competitiveness report announced that the United States is the number one most competitive economy in the world, receiving the top ranking for the first time in 10 years. Companies are investing hundreds of billions of dollars in new and expanding business operations in the United States.

That is in large part because the Tax Cuts and Jobs Act (TCJA) made our tax rates competitive, moved us from a worldwide system towards a territorial system of taxation, and allowed immediate expensing of capital expenditures. For hardworking families, it also cut rates across the board, doubled the standard deduction, and expanded the Child Tax Credit.

I would also like to highlight Opportunity Zones, a key component of the TCJA. Opportunity Zones will help ensure that more Americans benefit from our economic expansion and robust job market. They provide capital gains tax relief to encourage investments in businesses located in distressed communities. This policy has generated a great deal of enthusiasm. We are particularly proud of this incentive, because it will ensure not only that capital is deployed in our country, but that it is invested in a way that will achieve profound results—by restoring the promise of prosperity to people and communities.

These measures are fueling growth. Along with our efforts to provide regulatory relief, in our trade negotiations we are aiming to break down barriers to markets around the world.

As you know, China has gained many advantages through unfair trade practices. This administration is committed to rebalancing our trading relationship in order to level the playing field for hardworking Americans. We are negotiating with China on structural reforms to open their economy to our companies and protect America's critical technology and intellectual property.

The administration is also prioritizing the U.S.-Mexico-Canada Agreement (USMCA). It is the most comprehensive trade agreement ever negotiated and will modernize our trading relationships across North America. The USMCA will create the highest standards ever to protect intellectual property rights, support small and mid-size businesses, open markets for agricultural products, and spur manufacturing. I encourage all members of Congress to support its passage, because it will have a positive impact for American workers, business owners, farmers, and families.

In addition to enhancing overall growth prospects, I want to note the positive impact that the administration's economic agenda will have on our country's debt and deficits going forward. During the last administration, analysts predicted that 2-percent growth was the highest America could achieve, and that it was the new normal. We have already shown that we can and will do better. An extra 1 percent of GDP growth per year means trillions of dollars of additional economic activity and more revenue to the government.

Turning to the budget, the policies and priorities in the President's Fiscal Year (FY) 2020 budget will continue to foster stronger economic growth, reduce spending, and create a more sustainable fiscal outlook for our country by reducing the deficit as a share of GDP. Of special interest to this committee, the Treasury portion of the FY 2020 budget includes $290 million for the Business Systems Modernization account, funding which is foundational for a new 6-year IRS IT modernization plan. Investment in the modernization of IRS information technology systems and infrastructure will protect the integrity of our tax system and improve customer service for taxpayers.

I am pleased to continue working with you on policies that will help to create jobs and increase wages for the American people.

Thank you very much.

QUESTIONS SUBMITTED FOR THE RECORD TO HON. STEVEN T. MNUCHIN

QUESTIONS SUBMITTED BY HON. CHUCK GRASSLEY

Question. Over the course of the Obama administration, debt held by the public more than doubled, increasing by more than $8 trillion. Deficits totaled more than nearly $8 trillion in current dollars, with 4 straight years of deficits above $1 trillion, even in years after the recession ended.

Spending as a share of gross domestic product (GDP) shot up to well above the historic average. And taxes were increased by well over $1 trillion when Obamacare taxes and the resolution of the fiscal cliff are taken into account.

If we look ahead, under current law, revenue relative to GDP will get back to the long-run average, even before temporary tax reform provisions phase out, according to the non-partisan Congressional Budget Office (CBO).

But spending relative to GDP is scheduled to continue to rise well above the long-term average, driven by unsustainable entitlement spending.

I've felt, for a long time, that we have a spending problem. And, as CBO has told us for a long time now, entitlement spending is driving our deficits as growth in entitlement spending continues to outstrip growth in the economy.

Secretary Mnuchin, with discretionary spending accounting for around 30 percent of the budget, and mandatory spending accounting for 70 percent, do you think we can stabilize the budget without doing something about unsustainable mandatory spending growth?

Answer. As Treasury discusses in the 2019 Financial Report for the U.S. Government, current fiscal policy is unsustainable. With the aging of the baby boom generation, non-interest spending as a percentage of GDP is projected to rise from 18.7 percent in 2018 to 21.0 percent in 2029. This increase in spending is primarily due to growth in Medicare, Medicaid, and Social Security spending. Policy changes that do not hinder economic growth are essential to realizing a sustainable fiscal path. For that reason, the President's budget proposes reductions in non-defense discretionary spending and reforms to Medicaid and Medicare. Treasury looks forward to working with Congress to identify and implement meaningful spending modifications, which can include changes in mandatory spending, that will put the Nation on a sustainable fiscal path.

45Q CARBON CAPTURE AND SEQUESTRATION

Question. As part of the Bipartisan Budget Act of 2018, Congress enacted modifications to the section 45Q credit for carbon oxide sequestration. To be a qualified facility under the amended provision, construction must begin on the facility before January 1, 2024.

This bipartisan provision is an example of an incentive to reduce the amount of carbon released into the atmosphere, directing it to productive uses such as enhanced oil recovery. The provision represents the sort of common-sense public-private partnership that is better able to address issues with pollution than draconian energy policies or vast mandates of power to the government.

I appreciate all the work the Department of the Treasury is devoting toward implementation of tax reform and the provisions within the Bipartisan Budget Act of 2018. I want to highlight the importance of this provision to our sustainable energy future, encourage the timely release of guidance necessary for stakeholders to use the provision, and ask you to keep me informed as to your timeline to prepare that guidance.

Answer. The Treasury Department and the Internal Revenue Service (IRS) are actively working to solicit stakeholder input on the modified section 45Q provisions and also provide guidance on the relevant provisions. Treasury is aware that industry and investors need guidance for many of these projects to get underway and Treasury is working to provide the necessary clarity.

LOW-INCOME HOUSING TAX CREDIT

Question. As you noted during the hearing, the Treasury Department has been in communication with Finance Committee staff regarding a recent interpretation of the use of Private Activity Bonds (PABs) in conjunction with the Low-Income Housing Tax Credit that would apparently prevent the use of PABs for projects that serve veterans and other populations with special needs.

Internal Revenue Code (IRC) section 42(g)(9) notes that "A project does not fail to meet the general public use requirement solely because of occupancy restrictions or preferences that favor tenants—(A) with special needs, (B) who are members of a specified group under a Federal program or State program or policy that supports housing for such a specified group, or (C) who are involved in artistic or literary activities."

Because the 4-percent Low-Income Housing Tax Credit is typically used for rehabilitation projects financed with PABs, enforcing a public use requirement on PABs effectively invalidates the IRC provision cited above and could limit the ability of the Low-Income Housing Tax Credit to be used for veterans housing.

Although legislation addressing this issue was introduced in the House during the last Congress, I understand that the Treasury Department currently has sufficient authority to address this matter. Please provide the committee with an update on the steps you are taking to address this issue.

Answer. On April 3, 2019, the Treasury Department and the IRS released Rev. Proc. 2019–17, which provides favorable public administrative guidance to address this issue regarding the general public use requirements for qualified residential rental projects financed with tax-exempt bonds under section 142(d) of the Internal Revenue Code (Code). Rev. Proc. 2019–17 coordinates these requirements with the provisions of Code section 42(g)(9) regarding the permissibility of certain housing preferences for purposes of the low-income housing credit. Specifically, this guidance provides that a qualified residential rental project (as defined in Code section 142(d)) does not fail to meet the general public use requirement applicable to exempt facilities solely because of occupancy restrictions or preferences that favor tenants described in Code section 42(g)(9) (for example, certain housing preferences for military veterans). Rev. Proc. 2019–17 was published in 2019–17 Internal Revenue Bulletin, dated April 22, 2019, and can be found at the following website link: *https://www.irs.gov/pub/irs-drop/rp-19-17.pdf.*

QUESTION SUBMITTED BY HON. PAT ROBERTS

Question. Since China joined the World Trade Organization (WTO), opening its financial sector to foreign competition and establishing a level playing field have been important United States objectives. I have read that China has demonstrated a willingness to open the financial sector to 100 percent ownership for U.S. companies in 3 years, but did not offer a clear roadmap. What are we doing in the ongoing negotiations to ensure that U.S. financial institutions will be allowed access to the Chinese market without ownership or activity restrictions?

Answer. The administration is working to ensure that U.S. financial services suppliers, across a full range of sectors including banking, insurance, securities, and asset management, have full and fair access to the Chinese market, including China's removal of ownership and activity restrictions.

QUESTIONS SUBMITTED BY HON. JOHN THUNE

Question. Mr. Secretary, as you know, with the European Union's (EU) failure to reach a consensus on a uniform digital tax proposal, a number of EU member states have decided to impose their own individual digital taxes. As currently drafted, most (if not all) of these digital tax proposals would have a disparate impact on American technology companies. I believe this disparate impact speaks to the underlying—

true—intent of the taxes, which appear to be nothing more than a money grab at the expense of U.S. innovators.

Have you reached a conclusion as to whether these discriminatory proposals would give the United States actionable rights under any of its existing trade agreements?

Answer. Unfortunately, we are seeing a disturbing trend of some politicians, especially in Europe, politicizing the complex issue of seeking genuine fairness in the rules for taxing cross border transactions. This trend is seen most clearly in so-called Digital Services Taxes (DSTs), such as that proposed by France. If implemented unilaterally in various countries, DSTs are likely to:

a. Hurt consumers in the countries that implement them;
b. Complicate the environment for seeking global consensus for new rules in the OECD; and
c. Stifle innovation and global growth because of inconsistent and redundant tax obligations around the world.

The United States believes all companies—regardless of nationality or sector of the economy they operate in—should pay fair rates of taxation. The United States recognizes that changes in business practices in the increasingly digitalized, 21st-century global economy are challenging the global consensus that has existed for many years on the rules for taxing cross border transactions.

As a result, the United States is leading efforts in the Organisation for Economic Co-operation and Development (OECD) seeking agreement on new international tax rules. In the OECD, the United States is working with more than 125 countries on a multilateral solution, seeking to craft a global consensus for new rules that will ensure all companies pay fair rates of taxation and will also provide certainty to taxpayers, minimize administrative burdens, and avoid double taxation.

The United States is fully committed to seeing the multilateral OECD process succeed. We believe the ongoing work is on an increasingly positive trajectory and look forward to the G20 endorsing a detailed OECD work plan by June 2019. This work plan is specifically designed and intended to deliver a global consensus on new rules by the end of 2020.

Question. The President's fiscal year 2020 budget seeks to improve clarity in worker classification, and as you may know, I have introduced legislation that would do just that. My bill, the New Economy Works to Guarantee Independence and Growth (NEW GIG) Act, addresses the classification of workers—independent contractors versus employees—and creates a safe harbor for those who meet a set of objective tests that would qualify them as an independent contractor, both for income and employment tax purposes.

Given the importance of this issue to me, to the administration, and to the on-demand economy, (a) do you agree that more needs to be done to clarify who is an independent contractor in such network platform companies, and (b) will you commit to working with me to add much-needed certainty to our worker classification rules?

Answer. Workers, service recipients, and tax administrators would benefit from reducing uncertainty about worker classification, eliminating incentives to misclassify workers, and reducing opportunities for noncompliance by workers classified as independent contractors. Your bill shares many common elements with the proposal in the administration's fiscal year (FY) 2020 budget. Treasury is committed to working with you and others in Congress to add much-needed certainty to existing worker classification rules.

Questions Submitted by Hon. Johnny Isakson

Question. Tax reform changed our international tax system to address the "stateless" income issue, which is the same issue that the European Union's proposed "digital tax" claims to target. Would you agree that it is wrong and punitive for foreign countries to levy a discriminatory new tax on U.S. firms, especially a tax targeted solely at large U.S. technology companies?

Answer. Unfortunately, we are seeing a disturbing trend of some politicians, especially in Europe, politicizing the complex issue of seeking genuine fairness in the rules for taxing cross border transactions. This trend is seen most clearly in so-called Digital Services Taxes, such as that proposed by France. If implemented unilaterally in various countries, DSTs are likely to:

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Question. What is the administration prepared to do to avoid these actions by France and other European governments, which will both hurt the international competitiveness of American companies and also threaten the U.S. tax base?

Answer. Please refer to answer above.

QUESTIONS SUBMITTED BY HON. TIM SCOTT

Question. I'd like to say that I very much support the President's deregulatory agenda. Too little attention is paid to the cost attributed to burdensome regulations and the negative affects these regulations have on our economy. I was especially pleased that he extended his deregulatory mission to tax regulations when he issued Executive Order 13789 though I will say I was a little surprised when I saw in Treasury only found a total of eight tax regulations as worthy of further review. I understand that Treasury staff are now fully busy with implementing tax reform, but this executive order was issued early 2017. Notably, Treasury still has yet to act on the distribution rules of the Obama-era section 385 regulations. On October 4th of 2017, Treasury issued its final report in response to EO 13789 in which it said that it expected that Congress would obviate the need for the distribution rules through tax reform and would reserve action until completion of tax reform. On the day that the 385 regulations were released, then Treasury Secretary Lew stated that the best way to deal with the issues that the regulations grappled with "would be to enact comprehensive business tax reform." With that statement, I could not agree more. The issues that the 385 regulations deal with, debt versus equity, go to the heart of tax reform. Well, I'm happy to say that we completed tax reform and I think the powerful measures we took do obviate the need for those rules. Specifically, we lowered the rate to 2 percent, transitioned to a territorial system, provided for downward attribution rules, limited interest deductions, and provided for a new Base Erosion and Anti-Abuse Tax (BEAT). The remaining section 385 regulations should be low-hanging fruit ripe for revocation since their sole purpose now are to increase cost and freeze out investment in the United States washing away the economic benefits from tax reform. I'm proud to say that over 140,000 South Carolinians are employed by international companies and the foreign direct investment is driving a manufacturing renaissance in my State as it is across the country. Therefore, while I was pleased to see Treasury repeal the documentation requirements of the regulations, it's unfortunate that the more substantive and burdensome portions of the regulations remain. Can we count on you to finish what you started as part the President's deregulatory agenda and finally rescind the remaining portions of the 385 regulations?

Answer. Treasury has consistently worked during this administration to reduce regulatory burdens on U.S. taxpayers—by reviewing existing regulations and partnering with Congress to address burdens best resolved through legislation. On April 21, 2017, the President issued Executive Order (EO) 13789 (82 FR 19317), a directive designed to reduce tax regulatory burdens. The order directed the Secretary of the Treasury to identify significant tax regulations issued on or after January 1, 2016, that impose an undue financial burden on U.S. taxpayers, add undue complexity to the Federal tax laws, or exceed the statutory authority of the IRS. In an interim Report to the President dated June 22, 2017, Treasury identified eight such regulations, including the final and temporary regulations issued under section 385 of the Internal Revenue Code (Code). (T.D. 9790; 81 FR 72858). The section 385 final and temporary regulations address the classification of related-party debt as debt or equity for U.S. Federal income tax purposes, and generally consist of two parts: (i) the "documentation regulations"; and (ii) the "distribution regulations."

As your question acknowledges, in light of taxpayer concerns and other contemplated further actions, on September 24, 2018, Treasury and the IRS issued proposed regulations (83 FR 48265) that propose to remove the final documentation regulations. With respect to the distribution regulations, Treasury stated in its October 2017 report on EO 13789 that legislative changes can most effectively address and that proposing to revoke the existing distribution regulations before the enactment of fundamental tax reform could make the problems worse. Accordingly, Treasury focused its efforts on actively working with Congress on fundamental tax reform to prevent base erosion and fix the structural deficiencies in the current U.S. tax system. The Tax Cuts and Jobs Act (TCJA), which was enacted shortly after Treasury released its report, included many elements that addressed the underlying conditions that had previously led to inversions and foreign takeovers.

Consistent with Treasury's prior statements on assessing whether the TCJA obviates the need for the distribution regulations and makes it possible for these regulations to be revoked, Treasury has been studying the inter-relationships of the statutory and regulatory changes from the TCJA with the section 385 distribution regulations. Part of this analysis includes understanding how taxpayers have modified their behavior in response to the changes. One such example includes whether the application of the Global Intangible Low-Taxed Income (GILTI) system to U.S. parented groups, but not to foreign-parented groups, creates continuing motivation for inversions and foreign takeovers, and whether the BEAT and other anti-earnings stripping provisions fully mitigate those motivations. Treasury is continuing to assess these factors before reaching a conclusion on whether or not to revoke the section 385 distribution regulations.

Questions Submitted by Hon. Todd Young

Question. Mr. Secretary, lawmakers from both sides of the aisle—not to mention supporters of the Opportunity Zones policy in the private and philanthropic sector—are eager to make sure Opportunity Zones work in our communities. Today in my home State, the Opportunity Investment Consortium of Indiana is leading the way by discussing best practices for successful implementation at the local level.

I believe it is imperative that the IRS collects data on Opportunity Funds and their investments so we can better understand and evaluate whether our policy goals are being met. I believe this can be done in a manner that provides basic transparency without imposing significant or arbitrary administrative burdens on investors.

Can you speak to how your department is approaching this issue?

Will you commit to implementing a reporting standard for Opportunity Funds this year as part of the broader rules among process?

Answer. On April 17th, we released the text of a Notice and Request for Information, which was then published in the Federal Register. This request sought public comment on the data that would be most valuable to collect and the least burdensome means of collecting those data. We would welcome your concrete suggestions in that process.

In addition, the preamble to the second set of Opportunity Zone regulations, which were published in the Federal Register, foreshadowed potential changes to the Form 8996 filed by Qualified Opportunity Funds (Funds). We expect that proposed revisions to the Form 8996 may require additional information such as (1) the employer identification number (EIN) of the Zone business owned by a Fund, and (2) the amount invested by Funds and Zone businesses located in particular Census tracts designated as qualified Opportunity Zones. Those changes would be effective for the current tax year.

Question. Mr. Secretary, I appreciate the administration's focus on the issue of China's economic aggression. For far too long, China has stolen American intellectual property, forced technology transfer on our job creators, and dumped goods, undercutting American jobs.

Resolving these illicit trade practices in the near term is a shared priority of the administration and Congress. However, the unilateral manner in which the administration initiated this trade dialogue—through punitive tariffs—has detrimentally impacted scores of Hoosier job creators. While the administration should be lauded for bringing China to the table to seriously dialogue about their illicit activities, the administration must not forget that there is a very tangible impact that the tariffs are placing on American farmers and manufacturers.

Can you reassure my Hoosier constituents that the administration is acutely aware of the impact this trade dispute has on American workers and families—and that we are working to swiftly conclude this dispute in short order?

Answer. The administration is committed to working toward a more fair and reciprocal trade relationship with China, which will benefit American workers and families in Indiana and across the United States. In the current negotiations with China, we are seeking to address a wide range of unfair trade practices, including ones that support non-market forces. China should have responded to the findings in the section 301 investigation and the subsequent U.S. tariff actions by undertaking the necessary economic and policy reforms needed to end its trade-distortive practices. Instead, China retaliated with tariffs on U.S. products. Currently, the administration's use of tariffs under section 301 is providing the United States with an important source of leverage to bring China to the table to negotiate an enforceable agreement that will address China's unfair trade practices. The administration does not have a predetermined timetable for how long it will be necessary to leave these tariffs in place.

Our negotiations with China stalled in May 2019 following months of hard work and candid and constructive discussions. By that time, the parties had reached agreement on a number of important matters. In wrapping up the final important issues, however, the Chinese moved away from previously agreed-upon provisions. More recently, China has indicated a willingness to resume our discussions. For an agreement to be reached, China must commit to real structural changes and cease its unfair trade practices, as well as end its retaliatory actions. Any agreement must also be enforceable.

Question. Mr. Secretary, I occasionally hear the charge that tax reform created new incentives for U.S.-based companies to invert to a foreign country. While it's too early to tell from aggregate date—anecdotally it appears that tax reform has changed the incentives that drove companies to invert in the past, namely a high corporate tax rate.

While it appears we've leveled the playing field for U.S. companies, I'm still hearing from companies located in Indiana concerned that regulations implementing the TCJA might run counter to the intent of Congress, particularly as it relates to our international regime.

Can you speak to how you are approaching regulations that still need to be finalized and how they might impact decisions on where to locate business units that are located in the U.S. today?

Are you confident we won't return to the pre tax reform days where we were reading about inversions of U.S.-based multinationals on a regular basis?

Answer. Compared to the old international system, the new system discourages the shifting of U.S. profits overseas, significantly reduces the disincentive to repatriate foreign profits to the United States, and reduces the tax rate disparities that motivated U.S. companies to invert. TCJA reduced the top U.S. statutory corporate tax rate from 35 percent to 21 percent and created an international tax system that more closely aligns the tax rate on domestic investment of U.S. companies with the tax rate on foreign investment of U.S. companies. Overall, as a result of the TCJA, the incentive to locate investment in the United States has increased and the incentive to invert has been greatly reduced. Treasury received comments from some taxpayers that the statutory allocation of expenses to foreign source income for purposes of computing the foreign tax credit limitation, and the resulting limitation on foreign tax credits, can result in higher than expected residual tax on global intangible low-taxed income. Proposed regulations treat income and assets related to the section 250 deduction as exempt for expense allocation purposes, which has the effect of reducing expense allocations to global intangible low taxed income. As regulations are finalized, Treasury continues to review the relevant statues, comments, and all other aspects of the issues.

Questions Submitted by Hon. Ron Wyden

CORPORATE TAX CUTS

Question. Mr. Secretary, you repeatedly claim that the 2017 Republican tax bill is going to pay for itself, and even reduce the level of expected debt. The failure of this policy is obvious when one looks at corporate tax receipts, as we are already seeing that the Republican tax bill will not pay for itself. Corporate tax revenues dropped a massive $90 billion between 2017 and 2018, an over-30 percent drop.

Of course, determining whether the tax cuts increase revenue is not based on whether nominal revenues increase year-over-year, inflation generally leads to nominal revenue growth most years. One better way is to see how revenues stack up against prior expectation. Under this analysis, the massive corporate tax cuts will end up losing hundreds of billions of dollars.

In 2017, before passage of the tax bill, CBO estimated corporate tax revenues through 2027. They did so again this year (ultimately projecting through 2029). Among years that were projected both before the passage of the bill and after it, it becomes clear that the corporate tax cuts will never pay for themselves. It will be 6 years before annual corporate revenues reach prior expectations, and even that is fleeting. Overall, corporate revenues through 2027 are projected to be down over $500 billion.

CBO Corporate Revenue Projections

(in billions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
2017 CBO projection	340	352	382	377	381	385	396	408	422	439	**3,882**
2019 CBO projection	205	245	274	292	319	358	399	428	427	409	**3,356**
Revenue loss	135	107	108	85	62	27	−3	−20	−5	30	**526**

Looking at this, how can you continue to claim that the corporate tax cuts will pay for themselves? If you maintain that corporate revenues are not going to be $500 billion below prior expectations, please identify the year you project corporate revenues to reach the number projected by CBO in its 2017 projection.

Answer. Neither the Secretary, nor Treasury staff, have maintained that corporate tax cuts alone would cover the cost of the Tax Cuts and Jobs Act (TCJA). Rather, it has been the consistent position of Treasury that the TCJA would pay for itself through economic growth over a 10-year period. The Secretary has consistently maintained that the tax cuts through TCJA were front-loaded due to provisions such as immediate expensing, and that calculations and predictions were done over a 10-year period of time. It was never implied that the TCJA would pay for itself during the early years of its implementation. Business provisions in the Tax Cuts and Jobs Act (TCJA), including immediate expensing, lower tax rates, and deemed repatriation, are currently incentivizing economic activity and generating growth. The Department of Treasury's Office of Tax Policy's Analysis of Growth and Revenue Estimates released on December 11, 2017 correctly projected the 2.9-percent economic growth in 2018, which exceeded the Congressional Budget Office's 2.2-percent projection made just before President Trump took office. This increased rate of growth is expected to continue. According to this analysis, each 0.35 percent of incremental annual GDP growth increases tax receipts by roughly $1 trillion over 10 years. These results indicate that TCJA along with President Trump's other economic policies will generate enough additional economic growth to pay for the Joint Committee on Taxation's estimated $1.5 trillion static cost of the tax bill.

REPEAL OF ENERGY TAX INCENTIVES

Question. The National Climate Assessment, a report developed by more than a dozen Federal Government agencies, including the Departments of Defense, Transportation, Commerce, and Agriculture, determined:

> Climate change creates new risks and exacerbates existing vulnerabilities in communities across the United States, presenting growing challenges to human health and safety, quality of life, and the rate of economic growth. . . . Without substantial and sustained global mitigation and regional adaptation efforts, climate change is expected to cause growing losses to American infrastructure and property and impede the rate of economic growth over this century.

The assessment stated not only that climate change is an extraordinary threat to the health and well-being of American citizens, but also that we need to be doing substantially more to deal with this growing crisis.

Right now, what few tools we have to combat climate change include Federal tax credits for renewable energy, including solar and wind. Congress, on a bipartisan basis, provided longer-term extensions of these incentives in 2015.

But in the budget proposal, the Trump administration has called for repealing these incentives—even going so far as to tax utility rebates customers get for buying more efficient appliances and reducing their energy consumption.

Mr. Mnuchin, can you explain to me, in light of the National Climate Assessment, in light of the overwhelming international consensus on the need for action to combat climate change, why the Trump administration wants to repeal these incentives that have been extraordinarily successful in driving investment in clean energy and creating jobs?

Answer. The tax incentive was instituted to encourage investment in clean energy. Now that a market has developed, there is no longer a need to continue the subsidy and have taxpayers subsidize this industry.

INFRASTRUCTURE POLICY

Question. Mr. Mnuchin, 2 years ago, many members of the Senate Finance Committee were excited about the prospect for bipartisan action on infrastructure. It's been 2 years. Senate Democrats have put forward a plan. House Democrats have put forward proposals.

The budget contains barely more than a page of platitudes, with few specifics, and what little is there would actually reduce overall Federal investment in infrastructure. It's extraordinarily backward to think paying for a new infrastructure program by gutting existing infrastructure grant programs will lead to more investment.

Mr. Mnuchin, where is the administration's infrastructure plan? Would the Trump administration support increasing Federal revenues to pay for investments in infrastructure? If so, what are some ideas?

Answer. The administration is poised to work with Congress on an infrastructure plan. The President has stated that he would consider additional revenues in such a plan. Details should be worked out in negotiations with Congress.

CONSERVATION EASEMENT SYNDICATION

Question. Secretary Mnuchin, as you know I have been focused on the issue of syndicated conservation easement tax shelter transactions since 2016. I am a strong supporter of the conservation easement program and am concerned that these abusive transactions may threaten the integrity of the conservation easement program. In December of 2016, the IRS issued Notice 2017–10 which deemed certain syndicated conservation easement transactions to be potentially abusive listed transactions, and requires participants and material advisors of such transactions to make additional disclosures to the IRS. The IRS has, and continues to, provide the Finance Committee with analysis on these disclosures. In addition, on March 27th, Senator Grassley and I initiated a bipartisan investigation into syndicated conservation easement transactions.

In February of last year, Senators Daines and Stabenow introduced the Charitable Conservation Easement Program Integrity Act (S. 2436) which seeks to end to abuse of this critical program. Earlier this year they reintroduced an updated version of this legislation as S.170. In response to a question regarding abusive syndicated conservation easement transactions during last year's budget hearing you stated: "Treasury is encouraged to hear of congressional interest in addressing the issue. Treasury is in the process of reviewing H.R. 4459 and S. 2436. While it remains unclear if a legislative solution will ultimately be needed, Treasury supports the efforts to lay the groundwork in the case that it is."

Has Treasury completed its review of this legislation? If so, does the administration intend to endorse the policy?

Answer. The IRS continues to address the syndicated easement contributions through review of the disclosures required by Notice 2017–10 and appropriate examinations. At this point no decision has been made regarding specific legislative proposals; however, Treasury supports the bipartisan investigation and hopes that it can provide additional information which can be used to help develop comprehensive solutions to ensure the integrity of the conservation easement program.

IRS STAFFING

Question. Secretary Mnuchin, on March 26, 2019, the GAO released a report entitled "Internal Revenue Service: Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission." The report found that reductions in IRS enforcement staff have created a skills gap and affected the IRS's enforcement capabilities. Between 2011 and 2017, enforcement staff declined 27 percent, leading to a 40 percent decline in individual audits. Without a robust enforcement staff at the IRS, wealthy and well-connected individuals can cheat on their taxes and escape the consequences.

During your 2017 confirmation hearing, you stated that you were committed to addressing understaffing issues at the IRS. Yet as the GAO report shows, staffing shortages and skills gaps are continuing to prevent the IRS from carrying out its mission. Additionally, the Treasury's fiscal year 2020 budget request suggests further reducing the IRS staff by 1,639 employees. What have you done since your confirmation to improve IRS staffing? Do you plan to implement the GAO's recommendations, and if not, what is your planned response to the GAO report?

Answer. Treasury has taken a series of actions to strengthen the IRS workforce and address the long-term trends highlighted by the Government Accountability Office (GAO). The Department has also used existing flexibilities to improve hiring and has sought to restore streamlined critical pay authority.

First, Treasury has made hiring in enforcement positions a priority. The latest example of this commitment is our plan to hire approximately 4,300 additional enforcement personnel at the IRS in FY 2019, including nearly 2,000 revenue officers and revenue agents. Treasury is also improving IRS staffing by continuing to request additional human capital resources and better employ existing hiring authorities in mission critical areas. For example, the IRS is hiring up to 1,000 positions to assist with tax reform implementation. Virtually all of these positions were filled by December 2018.

The administration has also proposed additional resources for enforcement in the FY 2020 budget. For example, the 2020 budget includes $34 million to expand IRS compliance analytics. These targeted investments in compliance analytics and technology will allow existing enforcement personnel to be more productive and build on our existing efforts. For example, the IRS recently deployed machine learning techniques that revealed a new form of non-compliance among partnerships that was not previously known. Similarly, new data products for employment tax investigations identified 18 cases with an average estimated tax loss 30-percent greater than traditional methods. The budget also proposes a $362-million discretionary program integrity cap adjustment in FY 2020 to fund new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's overall tax enforcement program. Additional adjustments are provided in future years to fund new initiatives and inflation. These investments will generate $47.1 billion in new revenue over 10 years and will cost about $14.5 billion, for net revenue of $32.6 billion.

Treasury agrees with GAO's recommendations and will implement them to the extent resources are available.

QUESTIONS SUBMITTED BY HON. ROBERT MENENDEZ

UNBANKED CANNABIS INDUSTRY

Question. Over 300 million Americans in 47 States have access to some form of State-legalized cannabis product. The National Cannabis Industry Association estimates that the United States marijuana industry could generate over $130 billion in Federal tax revenue and add over one million jobs by 2025 if adult use is legalized in all 50 States. However, as you know, State-legal cannabis businesses mostly deal only in cash and are overwhelmingly denied banking services, making their employees and customers become soft targets for crime, robbery, or assault.

Does the Department have any estimates on the percentage of legal marijuana-related businesses that are unbanked?

Answer. The Department of the Treasury does not receive or maintain information on the percentage of State-authorized marijuana-related businesses that are unbanked. FinCEN, however, has been tracking Suspicious Activity Reports (SARs) filed in response to FinCEN's Guidance on BSA Expectations Regarding Marijuana-Related Businesses (FIN–2014–G001). These SARs provide FinCEN with the status of reported banking relationships with marijuana-related businesses (MRBs). As of December 31, 2018, Treasury is aware of 551 Depository Institutions providing services to MRBs.[1]

Question. Since cannabis-related businesses are forced to pay their Federal taxes in cash, do you know how much time and resources are dedicated by the Department to process paper-filed tax returns as compared to electronically filed tax returns?

Answer. The Department would not be able to provide such an estimate for cannabis-related businesses. Generally speaking, all other things being equal, processing electronically filed returns requires fewer resources than processing paper-filed returns.

Question. From a fiscal perspective, is it your opinion that the U.S. would benefit if State-legal cannabis businesses could pay their fair share of Federal taxes electronically?

Answer. The Department encourages taxpayers to pay their taxes according to the processes established by the IRS. Whether cannabis-related businesses should be able to pay their Federal taxes electronically is a policy question best addressed by the U.S. Congress.

Question. Are there any discussions of expanding the current FinCEN guidance?

Answer. The SAR reporting structure set forth in the February 2014 guidance remains in place. FinCEN continues to work closely with law enforcement and the financial sector to combat illicit finance and will notify the financial sector and supervisory authorities of any changes to FinCEN's SAR reporting expectations.

Question. It is well-documented that the Russians evade our sanctions through simple corporate restructuring. Mr. Secretary, the Office of Foreign Assets Control (OFAC) has what's referred to as the 50 percent rule, which means that if an entity is owned 50 percent or more by an sanctioned person, it is automatically treated as sanctioned. The problem is that Russian oligarchs reportedly restructure their companies so that their ownership on paper is lower than 50 percent so they avoid sanctions, retain control of the company, and continue to profit. Given this reality, I strongly believe that it is in the interest of US national security to lower the standard from 50 percent to 20 percent or lower in the Russia context. You have the power to do this through regulation. Will you do so or should the Senate consider legislation?

Answer. Treasury is very focused on sanctions evasion, including through the use of ownership restructurings. The 50 percent rule does not hinder Treasury's ability to target sanctions evasion, including by designating entities on the basis of control rather than ownership. Rather, the 50 percent rule reflects longstanding industry practice and enlists global compliance departments in the effort by instructing them when to determine property is blocked. The 50 percent rule (set out on OFAC's webpage *https://www.treasury.gov/resource-center/sanctions/Documents/licensing_guidance.pdf*) establishes that any property (*e.g.,* an entity) in which a blocked per-

[1] FinCEN Marijuana Banking Updates, Frequently Requested FOIA-Processed Records, *https://www.fincen.gov/frequently-requested-foia-processed-records.*

son holds a 50 percent or greater interest is itself considered blocked, regardless of whether OFAC has added the entity to OFAC's List of Specially Designated Nationals and Blocked Persons (SDN List). OFAC's regulations, guidance, and Frequently Asked Questions make clear that ownership is only one of the bases upon which OFAC can sanction an entity. For example, if a sanctioned oligarch restructured a company to own less than a 50-percent ownership interest, OFAC retains the authority to designate the company for being controlled by the oligarch or for materially assisting, sponsoring, or providing financial, material, or technological support for, or goods or services to the oligarch.

Using different ownership thresholds for different OFAC sanctions programs could result in uncertainty and confusion in the global compliance community, which, in turn, could undermine the effectiveness of OFAC sanctions.

Question. Since the April 6th designations of Oleg Deripaska and others, the Treasury Department has not designated any other Russian oligarchs for sanctions. When can we expect additional sanctions on Russian oligarchs who are connected to Putin? How many will you sanction? Will you coordinate these actions with our allies?

Answer. This administration is aggressively pursuing the wide range of Russian malign activity, having sanctioned 287 Russia-related entities and individuals under various sanctions authorities. Of these, the administration sanctioned 188 entities and individuals under Ukraine- and/or Russia-related sanctions authorities created or codified by title II of the Countering America's Adversaries Through Sanctions Act (CAATSA), including sections 224 and 228. These actions have included individuals and entities acting for or on behalf of designated Russian oligarchs. For example, in December 2018, Treasury designated Victor Boyarkin, a former GRU officer who reports directly to Deripaska and has led business negotiations on Deripaska's behalf. Continuing outreach and collaboration with allies is a key component of the strategy to counter Russia's destabilizing behavior and sends a strong signal of transatlantic unity to the Kremlin. Treasury worked closely with allies in the EU and Canada to impose coordinated sanctions on Russian individuals and entities in March in response to Russia's continued aggression in Ukraine, specifically for Russia's attack on Ukrainian naval vessels in the Kerch Strait. Furthermore, senior Treasury officials have made several trips to European capitals to urge national authorities to take enforcement actions against Russian targets designated by Treasury. Although Treasury does not telegraph sanctions or comment on prospective actions, Treasury is committed to continue to increasing pressure on Kremlin-connected oligarchs and preventing them from being able to wield their influence directly or through proxy actors across the globe.

In addition to employing targeted financial sanctions on those advancing the Kremlin's destabilizing behavior, Treasury has worked to harden the anti-money laundering controls in countries with high levels of exposure to illicit Russian financial activity and taken measures to safeguard the U.S. financial system from being exploited by corrupt actors. For example, in February 2018 FinCEN issued a notice of proposed rule-making pursuant to section 311 of the USA PATRIOT Act against ABLV Bank, a Latvian bank it found had facilitated significant Russian-based illicit activity. FinCEN identified ABLV Bank as a foreign financial institution of primary money laundering concern and proposed a special measure that would prohibit U.S. financial institutions from opening or maintaining a correspondent account in the U.S. on behalf of the bank.

Question. I'm concerned that Treasury is not devoting sufficient resources to implementing Russia sanctions. How many people do you have working on Russia sanctions targeting at the Treasury Department? How many meetings has the National Security Council held with Treasury this year to discuss Russia sanctions targeting? How does the demand signal from the White House for sanctions on Russia compare to those on Iran?

Answer. Countering Russia's malign activities is one of the highest priorities for the administration and the U.S. Department of the Treasury. Indeed, along with North Korea, Venezuela, and Iran, Treasury's Russia sanctions program has been among this administration's most active to date. Treasury will continue to identify opportunities to use the full range of Russia-related sanctions authorities to advance U.S. national security and foreign policy priorities. Treasury will also continue to work with international partners to maintain transatlantic unity in thwarting Russian malign behavior. For example, over the past year senior Treasury officials have made multiple trips to key jurisdictions—such as Cyprus and Latvia—identified as priorities in combating Russia's illicit financial networks. This is in addition to several other trips to Europe to urge allied countries to aggressively enforce U.S. and EU Russia sanctions programs and increase transatlantic cooperation to counter Russia's malign influence. This financial diplomacy is a key component in Treasury's strategy to implement Treasury sanctions programs.

In the recent FY 19 appropriations passed by Congress, Terrorism and Financial Intelligence (TFI) Departmental Offices received $159 million, which is approximately $17 million over enacted FY 2018 budget. On top of the budget increase from last year, this represents an almost 30 percent increase from just 2 years ago. TFI does not always permanently dedicate specific full-time employees to a single sanctions program, because TFI administers approximately 30 programs and often surge resources to meet immediate priorities. Because many of Treasury's staff have specializations in multiple subjects, in certain circumstances, staff cover more than one program. Additionally, Russia's malign activity spans multiple sanctions programs. This administration has sanctioned Russia-related targets under many other sanctions programs, including the Cyber, North Korea, Syria, Venezuela, Transnational Criminal Organizations, Russia Magnitsky, and Global Magnitsky programs.

Beyond sanctions, Treasury leverages an array of measures to advance Treasury objectives and counter-threats, including engagement with the public and private sector, support for partners' actions, working in multilateral fora, and using other authorities.

Question. Why has Treasury not continued the periodic "sanctions maintenance" packages against Russia that the Obama administration used to ensure that Russian evasion was checked?

Answer. Treasury has—and has done more. Treasury believes Russia's malign activities call for a response that is stronger than mere "maintenance." Treasury's Russia sanctions program is among the most active. In a little over 2 years, this administration has sanctioned 287 Russia-related entities and individuals, including 271 subject to Treasury actions. The administration carried out over 188 of these actions under Ukraine- and/or Russia-related sanctions authorities created or codified by CAATSA, including Sections 224 and 228. Treasury's sanctions have imposed significant costs on Russia, and Treasury will continue to use all of its authorities aggressively to impose sanctions on Russia for its brazen and malign activity, including targeting and disrupting activities related to sanctions evasion.

BASE EROSION AND ANTI-ABUSE TAX

Question. I understand that the Department of Treasury is currently reviewing public comments related to its draft Base Erosion and Anti-Abuse Tax regulations. Can you provide an update on the expected timing of the final rule?

Answer. Treasury and IRS are carefully studying public comments related to the proposed BEAT regulations. Final regulations are expected to be released in early fall 2019.

QUESTIONS SUBMITTED BY HON. CATHERINE CORTEZ MASTO

IRS DETERMINATION THAT VETERANS OR SPECIAL NEEDS HOUSING INELIGIBLE FOR PRIVATE ACTIVITY BONDS

Question. Affordable housing providers have used Private Activity Bonds (26 U.S.C. 142) to build homes for veterans, people with AIDS, and other special needs populations.

How will the Treasury Department reverse the recent IRS interpretation so that "General Public Use" will once again include projects that provide housing to low-income veterans and other special needs populations?

Who is leading this effort at the IRS and at Treasury?

What discussions have you had with officials at HUD and USDA? What were there views and concerns, if any?

Answer. See answer to Chairman Grassley's question #3 (reproduced below).

STUDENT LOAN OMBUDSMAN AT CFPB

Question. On April 3, 2019, the Treasury Department and the IRS released Rev. Proc. 2019–17, which provides favorable public administrative guidance to address this issue regarding the general public use requirements for qualified residential rental projects financed with tax-exempt bonds under section 142(d) of the Internal Revenue Code (Code). Rev. Proc. 2019–17 coordinates these requirements with the provisions of Code section 42(g)(9) regarding the permissibility of certain housing preferences for purposes of the low-income housing credit. Specifically, this guidance provides that a qualified residential rental project (as defined in Code section 142(d)) does not fail to meet the general public use requirement applicable to exempt facilities solely because of occupancy restrictions or preferences that favor tenants described in Code section 42(g)(9) (for example, certain housing preferences for military veterans). Rev. Proc. 2019–17 will appear in 2019–17 Internal Revenue Bulletin, dated April 22, 2019, and can be found at the following website link: *https://www.irs.gov/pub/irs-drop/rp-19-17.pdf.*

STUDENT LOAN OMBUDSMAN AT CFPB

Question. Will you meet with the former CFPB Student Loan Ombudsman Seth Frotman to hear his concerns and recommendations?

Answer. The Dodd Frank Act requires that the Secretary, in consultation with the Bureau of Consumer Financial Protection (CFPB) Director, designate a Private Education Loan Ombudsman within the Bureau. Treasury approves the selection of an Ombudsman after an appropriate candidate emerges through the civil service process employed by the CFPB. Treasury has no operational authority over the Ombudsman.

Question. What criteria will you require in your proposed candidate to ensure the Ombudsman has a history and commitment to protect borrowers from service errors such as miscalculated payments or preventing permitted lower payments?

Answer. On May 5, the CFPB posted the Private Education Loan Ombudsman position on its website and on USAJOBS. The position description is available from CFPB. As with any position, Treasury and CFPB evaluated candidates against the knowledge, skills, and abilities set forth in the position description. On August 16, 2019, Robert G. Cameron was appointed to the position of Ombudsman.

TAX EVASION

Question. What is the IRS doing to reduce tax evasion?

Answer. The IRS is committed to reducing the tax gap and is taking several actions to reduce evasion. These efforts revolve around the hiring of an additional 4,300 personnel for exam and collection, deploying new technologies to detect and deter evasion, tapping into new data sources with analytics, issuing guidance, undertaking targeted compliance campaigns, authorized information sharing with government partners, supporting the Department of Justice Tax Division, and highlighting priority enforcement actions for the public. The IRS is also committed to promoting voluntary compliance through proactive outreach and education as well as quality customer service.

Question. What additional resources does the IRS need to punish tax evasion?

Answer. Enacting the President's budget will allow the IRS to better address tax evasion. The budget includes funding increases for enforcement personnel, increases for enabling technology, and new authorities—including authority to regulate paid return preparers and new information return reporting requirements—that will make it easier for the IRS to detect, deter, and address evasion.

Question. What penalties are assessed on firms that market illegal tax shelters?

Answer. The Internal Revenue Code penalties directed at the marketing of abusive tax shelters, also known as abusive tax avoidance transactions, are (1) section 6700, Promoting abusive tax shelters; (2) section 6701, Penalties for aiding and abetting understatement of tax liability; (3) section 6707, Failure to furnish information regarding reportable transactions; and (4) section 6708, Failure to maintain list of advisees with respect to reportable transactions.

In addition to these penalties, injunctions are available under sections 7407 and 7408 via civil actions in district courts. Section 7408 is most directed against the promotion of abusive tax avoidance transactions because it allows for an injunction when a person has taken actions subject to penalty under sections 6700, 6701, 6707 or 6708. In addition, section 7407 provides for an injunction against return preparers who have engaged in specified conduct, including conduct subject to penalty under section 6694 and any fraudulent or deceptive conduct which substantially interferes with the proper administration of the Internal Revenue laws. Ultimately, the court may enjoin the person from acting as a tax return preparer.

Question. What tax benefits are available for transactions with no economic substance, for example, a U.S. citizen who sells his U.S. home to a foreign company he controls and then pays them rent on his home?

Answer. In general, a transaction that lacks economic substance may be recharacterized or disregarded by the IRS to deny the Federal income tax benefits claimed by the taxpayers. Transactions engaged in by all taxpayers, not just individuals but also entities like partnerships and corporations, may be challenged by the IRS and recharacterized to the extent they lack economic substance. The codified economic substance provisions in section 7701(o) apply to transactions entered into after March 30, 2010, and provide that in applying the economic substance doctrine, a transaction will have economic substance only if (A) the transaction changes in a meaningful way (apart from Federal income tax effects) the taxpayer's economic position; and (B) the taxpayer has a substantial purpose (apart from Federal income tax effects) for entering into such transaction. See 26 U.S.C. 7701(o)(1). In addition, under section 6662(b)(6), significant penalties apply to transactions that are found to lack economic substance within the meaning of section 7701(o)(1), which are increased if the position is not disclosed to the IRS on an income tax return. See 26 U.S.C. 6662(i).

In addition, U.S. individuals may utilize foreign entities (corporations, trusts and foundations) and chains of entities (*e.g.,* a foreign trust owning a foreign corporation), and nominees to conceal their beneficial ownership of property, such as financial assets, entities, and real property, while retaining control and enjoyment of the property. U.S. individual taxpayers may use foreign entities to hold foreign accounts or assets for their benefit in order to keep such accounts or assets hidden from interested persons, such as creditors, law enforcement, and tax authorities like the IRS.

Question. What steps has Treasury taken to cut off access to U.S. financial markets for tax and financial professionals that facilitated offshore tax abuses?

Answer. The Office of Professional Responsibility (OPR) supports the Treasury Department's strategy to enhance enforcement of the tax law by ensuring that tax professionals (including attorneys, certified public accountants, enrolled agents, enrolled actuaries, enrolled retirement plan agents, appraisers, and unenrolled/unlicensed return preparers) adhere to tax practice standards and follow the law. The OPR is the governing body responsible for interpreting and applying the regulations governing practice before the IRS, which are set out in title 31, Code of Federal Regulations, subtitle A, Part 10, and which are released as Treasury Department Circular No. 230. The regulations prescribe the duties, obligations, and restrictions relating to such practice and prescribe the disciplinary sanctions for violating the regulations. The OPR has exclusive responsibility for practitioner conduct and discipline, including instituting disciplinary proceedings and pursuing sanctions. The OPR has the authority to prescribe, among others, the following disciplinary sanctions for violation of the applicable standards: (i) disbarment from practice before the IRS for a minimum period of 5 years; (ii) suspension from practice before the IRS; and (iii) censure in practice before the IRS.

An IRS employee who believes a practitioner has violated any provision in Circular 230 is required to make a written report to the OPR. A mandatory referral must be made to the OPR when the following penalties or sanctions are asserted against a practitioner: (i) understatement of taxpayer's liability by tax return preparer due to willful or reckless conduct (section 6694(b)); (ii) aiding and abetting understatement of a tax liability (section 6701); (iii) promotion of abusive tax shelters (section 6700); (iv) actions to enjoin tax return preparers for engaging in unlawful conduct (section 7407); and (v) actions to enjoin specified conduct related to tax shelters and reportable transactions (section 7408).

Question. Are foreign financial firms sending staff of private banks into the USA to recruit and service U.S. clients participating in offshore tax evasion schemes? How big of a problem is this?

Answer. Based on prior IRS enforcement and Department of Justice–Tax Division (DOJ–Tax) prosecutions, it is clear that foreign firms were sending staff into the United States to recruit and service U.S. taxpayer clients, particularly in the time period extending from approximately 2000 to 2010.

As a result of IRS-Criminal Investigation enforcement work within the international banking arena, DOJ–Tax announced the Swiss Bank Program (SBP) in August 2013, to provide a path for Swiss banks to resolve potential criminal liabilities in the United States. As a result of the SBP, DOJ–Tax has finalized Non-Prosecution Agreements (NPA) with 81 Swiss financial institutions, some of which provided information indicating bank personnel traveled into the U.S. for client meetings.

Question. Are there international financial firms opening accounts in the name of shell entities, concealing money transfers, ignoring disclosure obligations, thwarting subpoena requests and extradition requests to punish tax evaders in the U.S.? If so, how many and what is Treasury doing about this?

Answer. The IRS frequently observes cases in which shell entities formed in the U.S. and in foreign countries are used to conceal beneficial ownership for the purpose of avoiding U.S. tax reporting requirements. Recent investigations have revealed an increase in foreign financial firms and "professional enablers" assisting U.S. persons in the concealment of offshore assets and transactions.

Question. Please give me examples of where the U.S. Treasury is working with foreign allies to prosecute financial corruption in other nations. Corruption is in the end a problem of criminal law. How can Treasury help make criminal law regarding financial corruption from heads of state work in a multi-jurisdictional environment?

Answer. Treasury, through IRS-Criminal Investigation (IRS–CI), is involved in several international collaborations with foreign partners to combat financial corruption.

For example, IRS–CI was instrumental in the investigation of misappropriation of funds from the 1Malaysia Development Berhad (1MDB), where $4.5 billion was allegedly diverted out of the Malayan sovereign wealth fund by its officials, their relatives, and other associates. The funds were reportedly laundered through a series of shell companies in the U.S. and abroad. IRS–CI worked with international law enforcement partners to successfully trace the flow of funds through multiple jurisdictions and through a web of shell companies.

Question. In 2017, and 2018 if available, what percent of the profits of U.S. corporations were in tax-haven countries? These are countries where the firm has few staff or employees, no physical presence, or any real economic presence.

Answer. There is not a universally agreed upon list of a tax-haven countries, but many scholars consider countries with very low tax rates to be tax havens. While data for 2018 and 2017 are not available yet, the IRS's Statistics of Income division has published information on profits and income tax of large U.S. multinational corporations for tax year 2016 by jurisdiction. In particular, tax data in Table 3: Country-by-Country report (*https://www.irs.gov/statistics/soi-tax-stats-country-by-country-report*) shows the effective tax rate of a multinational enterprise group by tax jurisdiction.

Question. Should corporate income tax be imposed where the value is created?

Answer. Income subject to tax within a multinational enterprise is determined in part based on the prices charged between related parties. The U.S. continues to be a strong advocate for the "arm's length standard" used in determining those prices. Recognizing that there is growing international dissatisfaction with these existing profit allocation rules, and in consideration of a view these rules may not be fit-for-purpose in a modern economy, the U.S. is willing to consider alternatives that would provide more certainty and stability to the international tax system.

OUR NATION'S HOUSING FINANCE SYSTEM

Question. How would Treasury experts structure the government's role in our housing finance system to increase access to homes affordable to families earning less than $40,000 a year? What would your housing finance experts recommend as an approach to increase the supply of rental homes, manufactured homes and home ownership to families who cannot afford to pay more than a $900 a month for housing?

In Nevada, much of the only available housing available in rural areas is manufactured homes. What recommendations will you make to ensure manufactured home buyers have access to affordable financing that sustains their homeownership choice?

How will your proposed plan ensure that home buyers in rural areas benefit from national pricing rather than pay higher fees and interest rates due to fewer financial firms serving their counties?

How will your plan increase the percentage of African American, Latino, Asian Pacific American and Native American home buyers who are able to sustain homeownership?

Please identify which housing and consumer groups your staff has met with to discuss changes to our housing finance system?

Answer. On March 27th, President Trump signed a Presidential Memorandum directing Treasury and the Department of Housing and Urban Development (HUD) to each develop a housing reform plan. Treasury's housing reform plan must make recommendations for administrative and legislative reforms to achieve the following housing reform goals: (a) ending the conservatorships of the Government-Sponsored Enterprises (GSEs) upon the completion of specified reforms; (b) facilitating competition in the housing finance market; (c) establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and (d) providing that the Federal Government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market.

Treasury is in the process of preparing its housing reform plan, and as part of that process it continues to engage with stakeholders and other interested parties to identify issues and challenges facing the housing finance market. As required by the Presidential Memorandum, Treasury's housing reform plan will propose reforms that, among other specific objectives, define the GSEs' role in promoting affordable housing without duplicating support provided by the Federal Housing administration or other Federal programs.

Treasury looks forward to working with the Federal Housing Finance Agency, HUD, Congress, and other stakeholders to address the need for comprehensive housing finance reform as laid out in the Presidential Memorandum.

KILLING MYRA

Question. I'm disappointed that the Treasury Department killed the myRA program. Half of workers do not have access to a retirement account at work. The national savings rate is going down.

How does the Treasury Department plan to help more people save for retirement?

Answer. With respect to its retirement agenda, Treasury is prioritizing issuing guidance in response to EO 13847, Strengthening Retirement Security in America. The EO states it is the policy of the Federal Government to expand access to workplace retirement plans for American workers and notes that regulatory burdens and complexity can be costly and discourage employers, especially small businesses, from offering workplace retirement plans to their employees. The EO also states that outdated distribution mandates may reduce the effectiveness of plans, requiring retirees to take larger than necessary withdrawals and possibly leaving them with insufficient retirement saving in later years. To address these issues, the EO directed Treasury to consider issuing guidance, and Treasury is considering issuing guidance: (a) regarding the circumstances in which a multiple employer plan may satisfy the tax qualification requirements of the Code, including if one or more of the participating employers fails to take action to satisfy those requirements, given that (i) these plans provide an efficient way to reduce administrative costs of establishing and maintaining retirement plans and (ii) providing clear guidance on these issues should make the plans more attractive, especially among small employers; and (b) to update the life expectancy tables in regulations on required minimum distribution from retirement plans and individual retirement arrangements to reflect current mortality data.

PUBLIC MONTHLY HOUSING SCORECARD

Question. For 90 months, HUD and Treasury released a Monthly Housing Scorecard providing information on the health of the Nation's housing markets. It was insightful, expansive and public.

When will Treasury and HUD resume jointly producing the Monthly Housing Scorecard?

Answer. Treasury will consider your request.

FINANCIAL SERVICES FOR CANNABIS

Question. As you may be aware, the State of Nevada legalized recreational use of cannabis in 2016. While the cannabis industry in the State, and across much of our Nation, is thriving, I am troubled by the public safety concerns presented by a lack of financial services for cannabis and cannabis affiliated businesses.

Does the Department have estimates on the number of legal marijuana-related businesses that are unbanked? If so, please provide the number.

Answer. The Department of the Treasury does not receive or maintain information on the percentage of State-authorized marijuana-related businesses that are unbanked. FinCEN, however, has been tracking Suspicious Activity Reports (SARs) filed in response to FinCEN's Guidance on Bank Secrecy Act (BSA) Expectations Regarding Marijuana-Related Businesses (FIN–2014–G001). These SARs provide FinCEN with the status of reported banking relationships with marijuana-related businesses (MRBs). As of December 31, 2018, Treasury is aware of 551 Depository Institutions providing services to MRBs.[2]

Question. Does the Department have estimates on how many individuals who work for legal cannabis-related businesses are unbanked? If so, please provide the number.

Answer. The Department has not prepared an estimate of how many individuals work for State authorized MRBs, nor how many are unbanked.

Question. Does the Department support additional regulatory clarity to allow financial institutions to facilitate services for legal cannabis-related businesses?

Answer. Marijuana remains a controlled substance under U.S. law (the Controlled Substances Act), making it illegal under Federal law to manufacture, distribute, or dispense marijuana. Many States have passed or are considering laws which conflict with Federal law. To the extent a legislative solution is being sought, it must address these conflicts. The Department of the Treasury will continue to operate consistent with Federal law. The Department has not expressed an opinion on whether financial institutions should bank marijuana-related businesses or any other services in which banks engage. Treasury has consistently stated that financial institutions are expected to follow the law and reasonably manage their anti-money laundering risks. Treasury's approach remains consistent with the guidance it issued in 2014, setting forth BSA obligations for financial institutions that provide services to marijuana-related businesses. Private institutions make their own risk decisions regarding their banking relationships, which in this case could include marijuana's status as a controlled substance under U.S. law.

Question. Please provide any actions the Department could take to facilitate financial services for cannabis-related industries.

Answer. Marijuana remains a controlled substance under U.S. law (the Controlled Substances Act), making it illegal under Federal law to manufacture, distribute, or dispense marijuana. Many States have passed or are considering laws which conflict with Federal law. To the extent a legislative solution is being sought, it must address these conflicts. The Department of the Treasury will continue to operate consistent with Federal law.

MISSING TAX DOLLARS RELATED TO CANNABIS

Question. An audit by the State of Nevada found that the State missed at least $500,000 in missed tax revenue.

Does the Department know how much Federal tax revenue was collected from cannabis-related businesses in 2018? If so, please provide the number.

Does the Department have an estimate of missed Federal tax revenue by cannabis and cannabis-affiliated businesses? If so, please provide the estimate.

Answer. The Department has no information on, nor any estimates of, Federal tax revenue collected or not collected specifically from cannabis-related businesses in 2018 or any other year. The Department does not track this information.

[2] FinCEN Marijuana Banking Updates, Frequently Requested FOIA-Processed Records, *https://www.fincen.gov/frequently-requested-foia-processed-records.*

QUESTIONS SUBMITTED BY HON. ROBERT P. CASEY, JR.

Question. Secretary Mnuchin, were you aware, prior to enactment of the TCJA, that 66 percent of the benefit of the legislation's pass-through deduction would go to the wealthiest 5 percent of eligible taxpayers?

Answer. The pass-through deduction provided a much needed tax relief for the country's small businesses. Additionally, the majority of the beneficiaries of the pass-through deduction are in the bottom four quintiles of the income distribution. As a result of the tax cut, small business optimism soared and strong economic growth followed. The solid economic growth the U.S. has experienced since the enactment of the TCJA has led to higher compensation and more employment opportunities for American workers, providing financial benefits for middle- and lower-income families beyond what is captured in conventional tax distribution analysis.

Question. Were you aware, prior to the enactment of the TCJA, that over 50 million households making under $100,000 a year would see a tax increase or a tax cut of less than $9 a month?

Answer. When working closely with colleagues in Congress in designing tax reform, many ways to put money in workers' pockets were considered. In addition to providing tax cuts for the majority of families, the TCJA was projected, and has worked, to incentivize economic activity and thereby boost GDP. Most importantly, the resulting wage and job growth since the passage of the TCJA has increased the take-home pay and improved the well-being of the country's middle- and lower-income families.

Question. Were you aware, prior to its enactment, that the TCJA would make the U.S. tax system less progressive?

Answer. As stated in the responses above, prior to its enactment, it was expected the TJCA would boost U.S. economy and increase take-home pay for working families. This growth effect is generally not captured in the tax distribution analysis.

According to the Joint Committee on Taxation (JCT),[3] the TCJA will provide a total tax cut of $259 billion in 2019, benefiting, on average, families across all income levels. While the majority of families will see their tax liability decline, 3.8 percent of families are projected to have a tax increase of more than $500. Of all income categories, the top-income families—those with economic income of $1 million or more—will have the highest percentage (13.8) with tax increases of more than $500. Moreover, the share of Federal taxes paid by these highest earners will increase from 19.3 percent to 19.8 percent in 2019 due to the TCJA.

Question. Were you aware, prior to the enactment of the TCJA, that the tax legislation will allow corporations to exempt more income from US tax when they build a new factory overseas?

Answer. Section 951A (GILTI) exempts from taxation a routine return attributable to certain offshore tangible assets determined based on a formula (generally, 10 percent of an asset's tax basis). This tax basis measurement was chosen because it is administrable and avoids disputes. It is also subject to many exceptions and limitations and is thus not susceptible to easy generalizations about the tax effect of building new factories overseas versus in the United States. In certain cases, overseas investments in new plants and equipment will materially increase a taxpayer's overall and U.S. tax burdens.

Question. Do you continue to have a financial relationship with Eddie Lampert—through ESL Investments, Inc., Seritage, or any other entity? That is, are you invested in any of his firms?

Answer. No.

Question. Prior to the enactment of the TCJA, did you ever discuss with Mr. Lampert the net operating loss carryforward provision that was made law through the 2017 tax bill?

Answer. I do not believe that I ever discussed that issue with Mr. Lampert.

Question. Do you have a personal financial interest in the net operating loss carryforward provision that was enacted into law through the 2017 tax bill?

Answer. I do not believe that I have any such personal financial interest.

[3] *https://www.jct.gov/publications.html?func=startdown&id=5173.*

SUBMITTED BY HON. SHELDON WHITEHOUSE,
A U.S. SENATOR FROM RHODE ISLAND

From *The Washington Post*

LARRY KUDLOW'S CLAIM THAT "WE HAVE VIRTUALLY PAID FOR" TRUMP'S TAX CUT

By Salvador Rizzo

Judy Woodruff, PBS: *"You are hanging a lot of this on these tax cuts, but we now have a number of experts who are watching those tax receipt numbers that come in regularly, and they are saying that they do not add up to what is anything like the kind of growth that the administration had projected off these tax cuts."*

National Economic Council Director Larry Kudlow: *"Well, actually, overall revenues are up about 10 percent. So that's a pretty good number. And let me say, one of the people that are skeptical of us, the Congressional Budget Office, nonetheless, their estimates before taxes and most recently after the taxes, they have argued, they have said, there's roughly $7 trillion of higher nominal GDP, and from that comes about 1.2 trillion in extra revenues, so that the tax cuts are about 80 percent paid for overall."*

—Exchange on PBS's "NewsHour," March 11, 2019

"Even the CBO, with which we generally disagree—I'm not breaking news here on my part—but they just published their new numbers. You know, from the point of pre-tax-cut to now, we have had about $7 trillion unexpected increase, $7 trillion over 10 years in terms of GDP. And that kind of calculates to roughly 1.2, 1.3 trillion in additional revenue. That's the CBO numbers. These are all 10-year estimates. I apologize for that, but that's the convention. So, what am I saying here? The tax cut was about 1.5 trillion scored. We have virtually paid for it—I guess 80 percent paid for it—and that's by the CBO's own numbers."

—Kudlow, in an interview on CNBC's "Squawk on the Street," March 8, 2019

President Trump's chief economic adviser says new numbers from the Congressional Budget Office show that 80 percent of the administration's tax cuts will be paid for in a decade. Even when accounting for lost revenue, the tax cuts will "virtually" pay for themselves because of increased economic activity, Kudlow suggests.

He's not the first Republican to claim tax cuts pay for themselves. But he is the first to twist what the CBO's nonpartisan number-crunchers said in a Feb. 28 analysis.

CBO Director Keith Hall factored in several big developments in this analysis. One was the estimated effect of the tax cuts Trump signed in December 2017. Another was "changes to federal spending resulting from legislation enacted early in 2018." The biggest change came from "revised historical data and changes in the economic outlook . . . before accounting for the effects of the tax act."

The CBO breaks down the effect of the tax cuts by themselves—but Kudlow isn't using that specific, smaller number. He's citing the much larger estimate that folds in all the changes.

The Facts

The Tax Cuts and Jobs Act lowered rates for individuals and businesses. The CBO in 2018 estimated that in the 10 years between 2018 and 2027, the bill would reduce revenue by $1.65 trillion and boost the deficit by almost $1.5 trillion, before accounting for the cost of additional deficit borrowing. The CBO also estimated that the tax cuts would spur net economic growth at the same time that they drove up the federal debt.

On Feb. 28, Hall gave an updated economic forecast. Kudlow accurately noted that CBO analysts revised upward by $7 trillion their estimate for nominal GDP for the 10-year period from 2017 to 2027.

But Kudlow went on to say that the added tax revenue from that $7 trillion—roughly $1.2 trillion to $1.3 trillion, he said—would cover 80 percent of the cost of Trump's tax cuts.

On CNBC, he attributed this to "the CBO's own numbers." On PBS, anchor Judy Woodruff mentioned experts who have challenged the administration's economic projections. Kudlow, offering the CBO analysis as a defense, said "there's roughly $7 trillion of higher nominal GDP, and from that comes about 1.2 trillion in extra revenues, so that the tax cuts are about 80 percent paid for overall."

That's a bunch of spin.

Hall broke down the added $7.17 trillion in nominal GDP into several different buckets:

> Close to 38 percent, or $2.7 trillion, "consists of the effects of revised historical data and changes in the economic outlook after January 2017 and *before* accounting for the effects of the tax act." (Emphasis ours. Hall is saying specifically that these changes were *not* tied to the tax cuts.)
>
> Nearly 32 percent, or $2.33 trillion, "is the effect of the 2017 tax act on CBO's projection of GDP." This is where Hall isolates the estimated economic gains from Trump's tax cuts.
>
> Around 18 percent, or $1.29 trillion, stems from "other policy changes . . . especially the changes to federal spending resulting from legislation enacted early in 2018." No tax-cut talk here.
>
> The remaining 12 percent, or $846 billion, represents "revisions to the economic outlook and changes to data." This is not tied to the tax cuts, either.

When Kudlow mentions the added $7 trillion in GDP covering 80 percent of the tax cuts' cost, and cites the CBO analysis, he misses the point and ends up in deceptive territory. The question is really whether the tax cuts generate more revenue than they remove from the equation. If you have economic growth from other sources and you're using it to cover the cost of the tax cut, you're forgoing other uses for that money.

The CBO is estimating that $2.33 trillion, or one-third of the extra $7 trillion, will come from economic activity sparked by Trump's tax cuts.

The budget analysts don't make the claim that this economic activity would cover 80 percent of the cost of the tax cuts. Hall wrote that "macroeconomic feedback from the tax act offset about 30 percent of CBO's estimate of the act's increase in budget deficits through 2028—or 20 percent after debt-service costs are accounted for." (The tax cut increases the deficit, which means the government would be borrowing more money to cover some expenses over the 10-year period.)

So, you take the increased economic activity (deficit-reducer), the interest on the borrowed funds (deficit-raiser) and the lost revenue (deficit-raiser). Then you do the math. Looking solely at the tax cut, the CBO says the increased economic activity offsets 20 percent of the growth in the deficit over 10 years. Overall, the tax cut would increase the projected deficit by more than $1.8 trillion through 2028, the CBO said. (Note that this is a slightly different 10-year budget window than the original estimate.)

"Kudlow seems to be counting the entire difference in GDP between two CBO projections as being caused by the TCJA," said Kyle Pomerleau, chief economist and vice president of economic analysis at the Tax Foundation. "While it is completely possible CBO is off in its projection and the tax cut is contributing to more (or less) than estimated, Kudlow is still misstating what CBO is projecting here."

"There were a bunch of reasons that CBO revised their forecast up—revised economic data, policy changes—in addition to the Tax Cuts and Jobs Act, and the TCJA itself," said Benjamin R. Page, senior fellow at the Urban-Brookings Tax Policy Center.

Kudlow was making this claim that the tax cuts were "virtually paid for" even before the CBO revised its GDP forecast in February. It hasn't aged well. (Here's an August 2018 article from *FactCheck.org.*)

The White House did not respond to our requests for comment.

The Pinocchio Test

Kudlow's comments are misleading because he's twisting what the CBO analysis says. He's doing it repeatedly and in front of TV cameras. He has made these claims before and after the updated forecast from the nonpartisan budget office.

The CBO's analysis says increased economic activity from Trump's tax cuts would offset 20 percent of the growth they're adding to the deficit over 10 years. That's a big net negative. It's a far cry from saying economic growth would cover 80 percent of their cost. And it's the kind of spin worth Four Pinocchios, especially when Kudlow misstates the sober analysis of the CBO for political purposes.

From *Politico*

THE BOGUS NUMBER AT THE CENTER OF THE GOP'S GREEN NEW DEAL ATTACKS

By Zack Colman

Republicans' estimates that the climate plan would cost $93 trillion are based on a think tank study that doesn't endorse that total.

Republicans claim the "Green New Deal" would cost $93 trillion—a number that would dwarf the combined economic output of every nation on Earth.

The figure is bogus.

But that isn't stopping the eye-popping total from turning up on the Senate floor, the Conservative Political Action Conference and even "Saturday Night Live" as progressive Democrats' sweeping-yet-vague vision statement amps up the political conversation around climate change.

The number originated with a report by a conservative think tank, American Action Forum, that made huge assumptions about how Democrats would implement their plan. But the $93 trillion figure does not appear anywhere in the think tank's report—and AAF President Douglas Holtz-Eakin confessed he has no idea how much the Green New Deal would cost.

"Is it billions or trillions?" asked Holtz-Eakin, a former director of the Congressional Budget Office. "Any precision past that is illusory."

The Green New Deal isn't even a plan yet—at the moment it's a non-binding resolution that calls for major action to stop greenhouse gas pollution while reducing income inequality and creating "millions of good, high-wage jobs." But top Republicans have embraced the $93 trillion price tag, using it to argue that the climate plan would bankrupt the United States.

Democrats say Republicans are using the number to dodge responsibility for decades of denying climate science, while the White House continues to disregard the evidence linking human activity to rising temperatures and extreme weather.

To come up with the $93 million total, Republicans added together the cost estimates that the AAF report's authors had placed on various aspects of a Green New Deal platform. Most of those were based on assumptions about universal health care and jobs programs rather than the costs of transitioning to carbon-free electricity and transportation.

"There's a race for think tankers, analysts and academia to be the first to come up with a number, and you can see why—look at how many people latched on to that $93 trillion number," said Nick Loris, an economist at the conservative Heritage Foundation. "A lot of times you just see the number and you don't get a lot of the backstory behind the number."

Holtz-Eakin told *Politico* that he was interested only in "ballparks," adding that the study is best viewed as "a sincere but a heroic estimate of a not very well-specified proposal." When asked whether he had a problem with the way Republicans had characterized his study and the $93 trillion figure, Holtz-Eakin said: "We did try to play it straight here. We never added it up."

Green New Deal supporters acknowledge that their preferred polices won't be free, but they say Republicans are acting in bad faith by painting the resolution with a specific brush so early and refusing to acknowledge that unchecked climate change poses its own economic risks. For instance, a United Nations report last fall estimated a global cost of as much as $69 trillion from even a modest rise in global temperatures.

"We all knew this vacuum was here, but you can't put a price on it until you have a piece of legislation that you can score," said Greg Carlock, Green New Deal research director with the progressive think tank Data for Progress. He said the AAF study "was an attempt to fill that vacuum, but it does it in a mean-spirited way."

Yet the figure is already a fixture of GOP talking points about the Green New Deal—echoing attacks the party has made on environmental regulations for decades.

"That's always been the crux of the Republican argument against making all these changes," said Rory Cooper, a Republican strategist and managing director at Purple Strategies, a bipartisan consulting firm. "It's significant lifestyle changes in exchange for an undefined benefit."

The GOP's eagerness to wield the price estimate underscores the prominence that climate change has achieved in Washington for the first time in nearly a decade.

When they set out to put a price tag on the Green New Deal last month, Holtz-Eakin and his associates had no real policy or plan to evaluate, so they made one up to perform back-of-the-envelope calculations. AAF's analysis extrapolated from the various ideas laid out in the non-binding resolution from Representative Alexandria Ocasio-Cortez (D–NY) and Senator Ed Markey (D–MA)—such as switching the electric grid off fossil fuels and providing jobs and health care for all Americans.

Democrats dismiss the AAF study as a fabrication. And on Wednesday, as Republican senators railed on the floor about the $93 trillion estimate and the dangers of socialism, several Democrats interrupted them to demand that the GOP acknowledge the reality of climate change.

"That is a completely made up number by the Koch brothers," Markey, who co-sponsored the 2009 cap-and-trade bill, said on the Senate floor.

Markey interrupted a speech by Sen. Thom Tillis (R–NC), who is expected to be among Democrats' top targets in next year's elections.

"I don't care if it is $93 trillion, $43 trillion or $10 trillion—it is unsustainable," Tillis shot back. "We can sit here and question the sources, but at the end of the day, we all know that this was theater."

Senate Majority Leader Mitch McConnell kept pushing the talking point, noting that $93 trillion is "more than the combined annual GDP of every nation on Earth"—as well as more than enough to "buy every American a Ferrari."

The figure has been a fixture of GOP messaging since AAF released its report on Feb. 25.

Senator David Perdue (R–GA) wielded the $93 trillion figure at the recent Conservative Political Action Conference. Senate Environment and Public Works Chairman John Barrasso (R–WY) cited the price estimate in a USA Today op-ed. Senator John Cornyn (R–TX) displayed it on a poster on the Senate floor. It worked its way into an online skit from "Saturday Night Live" that parodied Democratic Senator Dianne Feinstein's interaction with a group of young climate activists.

The number is so large it is nearly incomprehensible, but it dwarfs other massive endeavors like building the interstate highway system, which cost an equivalent of $241 billion in today's dollars, for example. And the AAF study does not distinguish between government and private-sector spending, nor does it attempt to quantify the benefits of reducing pollution or other policies. For example, Stanford University civil and environmental engineering professor Mark Jacobson estimated that eliminating the electricity sector's carbon emissions would avoid $265 billion in annual U.S. damages beginning in 2050.

"A central challenge to climate policy-making is there are costs right away and the benefits emerge over time," said Michael Greenstone, an economist and director of the Energy Policy Institute at the University of Chicago. "But just because the benefits happen over time doesn't mean it's not real."

In fact, $80.6 trillion of the costs in AAF's study come from a jobs guarantee and universal health care. The Green New Deal resolution calls for "guaranteeing a job" and providing high-quality health care to everyone, but it is primarily focused on outlining a set of goals to get the U.S. economy to net-zero carbon emissions by mid-century. While liberal activists say economic justice must be a part of any eventual policy based on the resolution, most see the Green New Deal itself as a vehicle for an energy transition and industrial economic policy, rather than something more sweeping, like "Medicare for All."

"Given that the [Green New Deal] is at this point simply a set of long-term goals, without any specification of how those goals would be achieved, any estimate of cost is itself likely to be exceptionally speculative," Robert Stavins, an environmental economist at Harvard University, wrote in an email.

Many studies that warn of dire economic effects of climate change overstate the potential harm, according to a Pew Charitable Trusts review of environmental policies.

Nevertheless, having a specific figure to cite can define the contours of policy conversation, said Margo Thorning, a senior economic policy adviser with the American Council for Capital Formation. Thorning was a frequent Capitol Hill witness when Congress debated cap-and-trade legislation in the early years of the Obama administration. She was coveted partly because her organization published an influential study that used Energy Information Administration statistics to show that the policy would have curbed economic growth by $3.1 trillion between 2012 and 2030.

Similarly, a National Association of Manufacturers-backed study on the potential effects of tightening standards for ground-level ozone said the measure would cost $1.1 trillion and surrender $1.7 trillion in economic growth between 2017 and 2040.

"I think it helped shape the debate because if people realized we were going to be losing 2 to 3 percent of GDP or more and other countries weren't, we were going to be losing a lot," Thorning said of her organization's study on cap and trade.

Climate hawks say Republicans dismissing the Green New Deal as unaffordable are ignoring the costs of doing nothing, like property damage from extreme weather and public health effects from continued fossil fuel pollution. The AAF study makes no attempt to address potential benefits of avoiding those consequences.

"Not talking about the cost of inaction is incredibly misleading," said Rhiana Gunn-Wright, policy director with New Consensus, one of the groups working on the Green New Deal. "It's about how, when and where you want to spend your money, because you're going to spend it."

The United Nations' Intergovernmental Panel on Climate Change said in October that the global cost of temperatures rising 1½ degrees Celsius—the target the Green New Deal aims to avoid—would be $54 trillion in 2100. That would rise to $69 trillion in a 2-degree scenario. Those targets also served as the basis of the 2015 Paris climate agreement, which Trump has announced plans to abandon.

Global temperatures are on track to rise by at least 4 degrees by the end of the century, according to projections from the Trump administration. That would lead to even greater economic devastation—for example, damaging $3.6 trillion of coastal property by 2100 without measures to adapt to climate change, according to the National Climate Assessment published last November.

Some GOP strategists see a long-term risk in a dismissive approach to climate policy.

"With the Green New Deal, Republicans are excited to talk about climate change for the first time because we can point out how silly Democrats are being," said Alex Conant, a GOP strategist and partner at Firehouse Strategies. "It's likely not a long-term position. Ultimately Republicans, if we want to be taken seriously on climate change, we will have to offer conservative solutions to it."

At least one Republican has kept her criticism of the Green New Deal more muted: Alaska Senator Lisa Murkowski, whose home state is warming more quickly than the rest of the country. Chairing an Energy and Natural Resources Committee hearing on climate Tuesday, Murkowski pointed to dwindling fisheries and melting permafrost, which her constituents are already dealing with. She has never publicly cited the American Action Forum study.

"This has got to be a priority for all of us," she said of confronting climate change. "It is directly impacting our way of life."

From *The Washington Post*

PUTIN AND OTHER AUTHORITARIANS' CORRUPTION IS A WEAPON—AND A WEAKNESS

By David Petraeus and Sheldon Whitehouse
March 8, 2019

David Petraeus is a retired U.S. Army general and the former director of the Central Intelligence Agency. Sheldon Whitehouse, a Democrat, is a U.S. senator from Rhode Island.

Thirty years after the end of the Cold War, the world is once again polarized between two competing visions for how to organize society. On one side are countries such as the United States, which are founded on respect for the inviolable rights of the individual and governed by rule of law. On the other side are countries where state power is concentrated in the hands of a single person or clique, accountable only to itself and oiled by corruption.

Alarmingly, while Washington has grown ambivalent in recent years about the extent to which America should encourage the spread of democracy and human rights abroad, authoritarian regimes have become increasingly aggressive and creative in attempting to export their own values against the United States and its allies. Russian President Vladimir Putin and other authoritarian rulers have worked assiduously to weaponize corruption as an instrument of foreign policy, using money in opaque and illicit ways to gain influence over other countries, subvert the rule of law and otherwise remake foreign governments in their own kleptocratic image.

In this respect, the fight against corruption is more than a legal and moral issue; it has become a strategic one—and a battleground in a great power competition.

Yet corruption is not only one of the most potent weapons wielded by America's authoritarian rivals, it is also, in many cases, what sustains these regimes in power and is their Achilles' heel.

For figures such as Putin, the existence of America's rule-of-law world is intrinsically threatening. Having enriched themselves on a staggering scale—exploiting positions of public trust for personal gain—they live in fear that the full extent of their thievery could be publicly exposed, and that the U.S. example might inspire their people to demand better.

Corrupt regimes also know that, even as they strive to undermine the rule of law around the world, they are simultaneously dependent on it to a remarkable degree. In contrast to the Cold War, when the Soviet bloc was sealed off from the global economy and sustained by its faith in communist ideology, today's autocrats and their cronies cynically seek to spend and shelter their spoils in democratic nations, where they want to shop, buy real estate, get health care and send their children to school.

Ironically, one of the reasons 21st-century kleptocrats are so fixated on transferring their wealth to the United States and similar countries is because of the protections afforded by the rule of law. Having accumulated their fortunes illegally, they are cognizant that someone more connected to power could come along and rob them too, as long as their loot is stuck at home.

Fortunately, the United States has begun to take steps to harden its rule-of-law defenses and push back against foreign adversaries. The passage of the Global Magnitsky Act in 2016, for instance, provided a powerful new tool for targeting corruption worldwide that is being increasingly utilized. But there is more to do.

In particular, the United States should make it more difficult for kleptocrats, and their agents, to secretly move money through the rule-of-law world, whether by opening bank accounts, transferring funds or hiding assets behind shell corporations. Failure to close loopholes in these areas is an invitation to foreign interference in America's democracy and a threat to national sovereignty.

Congress should tighten campaign-finance laws to improve transparency given that U.S. elections are clearly being targeted for manipulation by great-power competitors.

At the same time, the United States must become more aggressive and focused on identifying and rooting out corruption overseas. Just as the Treasury Department has developed sophisticated financial-intelligence capabilities in response to the threat of terrorism and weapons of mass destruction, it is time to expand this effort to track, disrupt and expose the corrupt activities of authoritarian competitors and those aligned with them.

Hardening the nation's rule-of-law defenses is not, of course, a substitute for traditional forms of U.S. power, including military strength and economic dynamism. But it can provide an additional set of tools to bolster national security.

In the intensifying worldwide struggle between the rule of law and corruption, the United States cannot afford neutrality. Complacency about graft and kleptocracy beyond U.S. borders risks complicity in it—with grave consequences both for the nation's reputation abroad and Americans' well-being at home.

United States Senate

WASHINGTON, DC 20510

February 6, 2019

Honorable David Kautter
Assistant Secretary (Tax Policy)
Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220

William M. Paul
Acting Chief Counsel
Internal Revenue Service
1111 Constitution Ave., NW
Washington, DC 20024

Dear Messrs. Kautter and Paul:

Last year, a broad bipartisan coalition successfully included the Furthering Carbon Capture, Utilization, Technology, Underground Storage, and Reduced Emissions Act (FUTURE Act) in the Bipartisan Budget Act of 2018. The FUTURE Act enhanced the existing carbon sequestration credit under section 45Q of the Internal Revenue Code, expanding the credit to a wide range of carbon capture technologies.

It has been a year since the bill's passage, and we write today to request that Treasury commit staff and resources to finalize a revised guidance promptly. Recent reports have cited that several project developers are interested in using the expanded credit, but require updated guidance from Treasury. These projects have long lead times, and therefore developers need certainty in order to commence construction by the January 1, 2024 deadline.

We also request a staff briefing on the status of the revised guidance at your earliest opportunity. Thank you for your work, and we look forward to hearing from you soon.

Sincerely,

Sheldon Whitehouse
United States Senator

John Barrasso
United States Senator

Shelly Moore Capito
United States Senator

PREPARED STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON

The Finance Committee is back for Round Two on the budget, and we're joined by Secretary Mnuchin. Since the Treasury budget is largely about taxes, and taxes pay for the bulk of Federal programs, I want to start with a hard look at the overall picture.

This isn't a budget as much as it's an economic smash and grab perpetrated on the American people.

Get rid of the Washington lingo, and it's obvious. Cuts to Medicare. Cuts to Medicaid. Cuts to Social Security. Cuts to education. Cuts to housing. Cuts to cancer research. Cuts to job training. Cuts to anti-hunger programs. Cuts to anti-poverty programs. I could go on.

Then you have the impact of the Trump tax law. Hundreds of billions of dollars in tax handouts to corporations and billionaires. An overall price tag that will reach $2 trillion in a single decade. Secretary Mnuchin famously declared that the tax law would pay for itself and more. He was off by multiple trillions of dollars.

The law kicked off a stock buyback bonanza. It's been a nonstop joyride for corporate executives, who get a lot of their compensation in the form of corporate stock. So that makes two special breaks that are unavailable to cops and nurses. They can defer their taxes on their stock holdings, and they got a lower tax rate on their salaries and bonuses.

In addition, new data released by Syracuse University shows the effect of years of Republican austerity imposed on the IRS. With audits of corporations and high-earners steadily dropping year after year, enforcement of our tax laws is in the worst shape that it's been in decades. Not in modern memory has there been a better time to be a wealthy tax cheat in America.

So under Donald Trump, corporations and the wealthy don't have to pay a fair share, and there's a good chance they can get away with paying virtually nothing at all. It should come as no surprise that deficits crossed the trillion-dollar mark under unified Republican control of government.

Unveiling the budget at a press briefing on Monday, Acting OMB Director Russell Vought drummed up fears over what he called the "unsustainable national debt."

He warned that, "annual deficits are continuing to rise" without any recognition of what's driven that increase. Echoing so many Republican budget cutters before him, he declared that "Washington has a spending problem."

Then it was off to the races, outlining exactly how the Trump administration wants to dismantle the system that created a vibrant middle class in America.

For too long, the full burden of Republican budget cuts has fallen on the middle class and working people trying to get there. Not on powerful special interests. Not on billionaires.

What the Trump administration put forward is not across-the-board belt tightening. It's not a fair, even-handed reduction in spending. Middle-class families lose, but the budget would send more taxpayer dollars to Defense contractors. It gives them even more than what the Pentagon asked for.

The bottom line is, just about every warning that came from this side of the committee about the Republican tax bill and its aftermath is proving to be true. The $4,000 raises American workers were promised—nowhere to be found. The tax handouts are not paying for themselves. New Fed data projects that the economy is growing this quarter at a rate of 0.2 percent.

The nonpartisan experts at CBO forecast that as the corporate tax-cut sugar high wears off, economic growth will slow to 1.7 percent in the years ahead. And as the public has seen this week, the deficits driven upward by the tax law are now the justification for draconian budget cuts.

This cycle has lasted for decades. It's past time for it to end.

Communication

Center for Fiscal Equity
14448 Parkvale Road, Suite 6
Rockville, MD 20853
fiscalequitycenter@yahoo.com

Statement of Michael G. Bindner

Chairman Grassley and Ranking Member Wyden, thank you for the opportunity to submit these comments for the record to the Committee on Finance on the FY 2020 Budget.

The federal budget process is broken. The solution must include incentives to keep the process moving. Automatic appropriations would occur at *Joint Budget Resolution* marks, and if no resolution is passed, revised *Budget Control Act* spending caps would end this difficulty and spur action by both parties. Because BCA levels are too low, the marks in the Act could be increased by the legislation amending the process itself. These marks should be realistic rather than punitive. Part of any reform must include new caps be set through 2025, when parts of the TCJA expire as well.

As long as the current tax cuts are in force, the money not collected in taxes should be made up with bond sales, else all sorts of mischief occur in the area of asset accumulation and inflation. Such accumulations are not economic growth, they are the manufacture of speculative investment bubbles that always lead back to recessions and depressions. There is no such thing as a business cycle, only rich people who are undertaxed who invest in garbage and then sell it to the public, like any Ponzi scheme.

We remind the Committee that in the future we face a crisis in net interest on the debt, both from increased rates and growing principle. This growth will only feasible until either China or the European Union develop tradable debt instruments backed by income taxation, which is the secret to the ability of the United States to be the world's bond issuer. At some point, however, we need incentives to pay down the debt.

The national debt is possible because of progressive income taxation. The liability for repayment, therefore, is a function of that tax. For every dollar you pay in taxes, you owe $13 in debt. People who pay nothing owe nothing. People who pay tens of thousands of dollars a year owe hundreds of thousands. The answer is not making the poor pay more or giving them less benefits, either only slows the economy. Rich people must pay more and do it faster. My child is becoming a social worker, although she was going to be an artist. Don't look to her to pay off the debt. Your children and grandchildren and those of your donors are the ones on the hook unless their parents step up and pay more. How's that for incentive to raise taxes?

We have added a Carbon Value-Added Tax to the first bullet of our comprehensive four part approach to tax reform. A 25% Asset Value-Added Tax will be added to the second bullet so that capital gains taxes can be repealed, making automatic filing possible based on submissions to the IRS from federal NBRT income and tax credit data provided by state revenue agencies (see bullet four). Aside from these changes, our proposals are identical to what we have stated previously, and can be found in Attachment One.

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.

Attachment One: Center for Fiscal Equity Detailed Proposals

Our four part tax reform plan provides 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. This would include a Carbon Value-Added Tax.
- 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%. Capital Gains Taxes will be replaced by a 25% VAT on Asset Sales, making automatic filing possible.
- 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. Collection would be accomplished by the states, who would forward data to the IRS.

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 most discretionary and entitlement spending is 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 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 choose 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 E 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.

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