# EMPOWERING A PRO-GROWTH ECONOMY BY CUTTING TAXES AND REGULATORY RED TAPE

## HEARING

BEFORE THE

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# EMPOWERING A PRO-GROWTH ECONOMY BY CUTTING TAXES AND REGULATORY RED TAPE

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**Wednesday, June 20, 2018**

U.S. House of Representatives,
Committee on Financial Services,
*Washington, D.C.*

The committee met, pursuant to notice, at 11:04 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

Present: Representatives Hensarling, Pearce, Posey, Luetkemeyer, Huizenga, Duffy, Stivers, Ross, Pittenger, Wagner, Barr, Rothfus, Tipton, Williams, Poliquin, Love, Hill, Zeldin, Trott, Loudermilk, Mooney, Davidson, Kustoff, Tenney, Hollingsworth, Waters, Maloney, Velazquez, Sherman, Lynch, Scott, Moore, Perlmutter, Himes, Foster, Kildee, Delaney, Sinema, Beatty, Vargas, Gottheimer, Gonzalez, and Crist.

Chairman Hensarling. The committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time. And all members will have 5 legislative days within which to submit extraneous materials to the Chair for inclusion in the record.

The hearing is entitled, "Empowering a Pro-Growth Economy by Cutting Taxes and Regulatory Red Tape." I now recognize myself for 2–1/2 minutes to give an opening statement.

Tomorrow marks the 6-month anniversary of the Tax Cuts and Jobs Act, and throughout the economy, we have seen incredible good news that has made a great difference in the lives of our constituents. Not only do we have tax relief, but we have a new regulatory agenda under this Administration to right size regulation and to help market participants actually comply and to ensure that the burden of this regulatory infrastructure is minimized so that we can have economic growth. And indeed, we do.

Average economic growth is now back to 3 percent. And why is that important? It is important because, historically, no nation in the history of the world has enjoyed sustained 3 percent economic growth like the United States of America. And historically, you will see that the vast majority of job creation, the vast majority of income increases, the vast majority of poverty reduction, all happens in 3 percent plus economic years.

So far, in just 6 months, 1 million new jobs have been created. Unemployment is now tied for a 50-year low. Incomes are on the rise. Fastest in a decade. Business investment is on the rise. Consumer confidence at a 17-year high.

Small business optimism—and there is no better economic stimulus than business optimism—second highest level in 45 years. But not only do I see it in the stats, I hear it from my constituents. Just in the last couple of weeks, I heard from Brad at Wills Point: The bank my wife works for has given two raises and increased benefits since the passage of the Act.

I heard from Jim in Royse City in the 5th District: We take home $300 to $400 more per paycheck.

I heard from Eugene in Chandler: I will save about $1,500 in taxes this year. I am retired and on Social Security and a 401(k) plan. Now, I will be able to travel a little more and see my grandchildren more.

It is making a difference, but there is so much more to be done. There are some looming clouds on the horizon, including the fact that we are in a 2-decade decline in companies going public. As recent as 2016, we saw entrepreneurship at a 40-year low. If we are going to compete with China, and particularly China 2025, if we are going to make sure that we have sustained 3 percent economic growth, there is much more to be done.

The tax bill is behind us. The capital formation bill lies ahead of us. I hope that is something we can do on a bipartisan basis.

I now recognize the Ranking Member for 3 minutes for an opening statement.

Ms. WATERS. Thank you, Mr. Chairman.

Since we are taking the time today to discuss the effects of H.R. 1, the Republican tax scam, I would like to make it very clear what is really in this law.

The tax scam contains massive giveaways to the Nation's largest banks. And Americans for Tax Fairness in an analysis finds that as a result of the lowering of the corporate tax rate, the Nation's six largest banks will collectively save an estimated $14 billion in 2018 alone. Another report predicts that Wells Fargo will gain the most from H.R. 1 of any bank in the country.

Banks are already posting record profits, but that isn't enough for my colleagues on the other side of the aisle. No, instead they push through this legislation that is lining the pockets of mega banks with even more money.

The tax scam also provides huge benefits to hedge funds and other Wall Street firms, with 20 percent deduction for passthrough businesses. According to Americans for Financial Reform, 70 percent of passthrough businesses are in the financial sector. So all Americans should understand that this law has been very intentionally engineered by my colleagues on the other side of the aisle to benefit huge corporations on Wall Street and millionaires and billionaires at the expense of hardworking Americans and future generations.

Rather than using this windfall to increase wages or hire more workers, corporations are overwhelmingly using the money for stock buybacks. According to Americans for Tax Fairness, corporations have announced over $457 billion in planned stock buybacks since the GOP passed this tax scam.

Let's also be clear that this giveaway to wealthy individuals, Wall Street banks, and big corporations, explodes deficits by trillions, leaving future generations to foot the bill. And despite claims by my colleagues across the aisle, there is not one credible analysis out there that finds that the tax scam pays for itself.

So while my colleagues on the other side of the aisle are sure to sing the praises of this tax scam, the facts are not on their side.

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

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, Chairman of our Capital Market Subcommittee, for 1 minute and 15 seconds.

Mr. HUIZENGA. Thank you, Mr. Chairman.

It has been nearly 6 months, as you had said, since this overhaul. But since December, we have seen job creators of all sizes around the country, including West Michigan, respond positively despite what the Ranking Member might be saying.

Let me tell you a few examples from West Michigan. The Tyson's plant, just outside my hometown in Zeeland, Michigan, gave nearly 900 hourly employees at the facility $1,000 bonus as a direct result of this tax reform legislation signed by President Trump. It is also a direct result of this new bill, Tyson is going to invest significant resources in this plant making it even more environmentally friendly and opening a new product line that will create 65 new jobs.

Last month, Amazon announced that it was investing $150 million to build a distribution center in Gaines Township, which is expected to create 1,000 full-time positions with benefits. In fact, one of the benefits being reported is an astounding 95 percent college tuition reimbursement for its employees.

Now, we have these smaller and medium-sized businesses. ADAC Automotive, which was founded in Grand Rapids and has locations across West Michigan, announced a $20 million investment in expansion that will create 50 new jobs. Almond Products, a manufacturing company in Spring Lake, adding 72. Bekins, an appliance retailer in Coopersville, is going to add between 10 and 20.

Here is one of my favorites. Zach, the barber. Zach's Barber Shop is going from two shops to three shops, and he has also given all of his cutters a wage increase.

So there are hundreds of small businesses like that. Let's build on this success.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Kildee, for 1 minute.

Mr. KILDEE. Thank you, Mr. Chairman.

And look, let's just put the cards on the table. Under Republican leadership, all the committees are holding these hearings to try to sell what they couldn't sell 6 months ago, and that is a tax bill that disproportionately benefits people at the very top.

There was a report that was just released that shows that while people at the top of the income scale, the top 1 percent on average get $57,000 in tax relief, while a middle-income family in Michigan might get $700 bucks, they give back $1,500 through increased healthcare premiums that they end up paying as a result of the fact that the very tax bill that was supposed to provide relief increased healthcare costs for working families.

So when you see the anecdotes listed on the other side—and I get it—I am curious as to why companies are providing one-time bonuses rather than pay increases. I am also curious as to why the anecdote of $250 billion going to CEOs and wealthy shareholders through stock buybacks isn't being mentioned. That is where most of this money went.

This is a tax scam and we ought to make sure that people understand that.

Thank you. I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, Chairman of Financial Institutions and Consumer Credit Subcommittee, for 1 minute and 15 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

With economic growth expected to surpass 4 percent and unemployment matching the lowest rate in half a century, American optimism is high and our economic future is bright. Thanks to President Trump's leadership, the American economy is finally on the right track.

While I am home in Missouri, I hear stories of how tax reform is positively affecting my constituents' lives. One such story is that despite a bad winter, the local car dealer in Jefferson City told me he had one of the busiest Februarys in his history. He credits one event as the reason for his customers being able to afford new cars: Tax reform.

Another constituent of my mine, a small business owner in St. Charles told me that because of passage of the Tax Cuts and Jobs Act, she was finally able to expand her business and hire more employees.

Simply hoping this economic minute continues would be a mistake. Thankfully, the President just signed into law the most significant pro-growth banking regulatory reform bill in decades. The tax bill is imperfect and tweaks will need to be made, but economic prosperity is within reach.

A more reasonable tax structure and responsible regulatory regime will continue to support a surge in U.S. economy.

Mr. Chairman, with that, I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. A wise man said, "If I see far, it is because I stand on the shoulders of giants."

Some 15 million jobs were added to this economy between when Dodd-Frank became effective and when Obama left the Oval Office. That 15 million added to the 2 million that we have seen since has given us a low unemployment rate. But 15/17 of that job increase occurred before Trump entered the Oval Office.

As to the tax bill, you can have a 0 percent tax on the profits of your factory only if you move the factory overseas. Harley-Davidson has learned that. And as soon as the President capitulates on trade, and he will, you can be sure that other companies will learn it as well and move their factories overseas. Zero Federal tax.

And finally, imagine if Countrywide had had a program. They give you 500 bucks upfront, maybe $1,000 bonus. And then in the fine print, they increase the family mortgage by $34,500. Every one in this room would have said that is an outrageous consumer rip off.

Yes, people have gotten some $500 and $1,000 bonuses, but your share of the increase in the national debt, if you are a family of five, is $34,500. Not even Countrywide would think to increase your debt by that amount and sell it to you with a $500 or $1,000 bonus check.

I am pleased to see that our committee has done all its work and can now critique the work of the Ways and Means Committee, and I look forward to a discussion of this.

Chairman HENSARLING. The time of the gentleman has expired.

Today, we welcome the testimony of five witnesses that I will introduce.

Karen Kerrigan, I believe, has testified before. She is the President and CEO of the Small Business & Entrepreneurship Council (SBE). In addition, she chairs the Small Business Roundtable and is a member of the National Women's Business Council and the U.S. Treasury's Taxpayer Advisory Council. She received her bachelor's degree in political science from SUNY Cortland.

Next, Lori Miles-Olund, the President and CEO of Miles Fiberglass and Composites, testifying on behalf of the National Association of Manufacturers. She previously was the President of the Pacific Northwest Chapter of the Society of the Plastics Industry and the North Clackamas County Chamber of Commerce. She received a double major in marketing and in psychology from Portland State University.

Next, we have Ford Sasser, the President and CEO of Rio Bank, and is testifying on behalf of the Texas Bankers Association. In addition, he serves on the board of directors for the Texas Bankers Association, and was previously on the board of directors for the State Bar of Texas.

And if you will allow a Chairman's privilege, he is a Fightin' Texas Aggie Class of 1976. Gig 'em. I so rarely have people from my alma mater in front of me, so I thought I would take that privilege.

Damon Silvers, who has also testified before us before, Policy Director and Special Counsel for AFL–CIO (American Federation of Labor and Congress of Industrial Organizations). Mr. Silvers serves on the Investor Advisory Committee of the SEC (U.S. Securities and Exchange Commission)—or has—and is on the Treasury Department Financial Research Advisory Committee—and along with myself—had the opportunity to serve on the oversight panel of TARP. Previously worked in the Harvard Union of Clerical and Technical Workers. Received his bachelor's degree, JD, and MBA from Harvard University.

Mr. Silvers, good to see you again.

Last but not least, another fairly frequent witness before our committee, Mr. Paul Stevens, President and CEO of the Investment Company Institute. Previously, Mr. Stevens was a partner in Dechert, a financial services group, and was the general counsel of

ICI. He received his bachelor's degree from Yale and his JD from the University of Virginia.

Each of you will be recognized for 5 minutes to give an oral presentation of your testimony. For those of you who have not testified, please turn on your microphone before testifying. And pull the microphone fairly close to you.

And in addition, there is a lighting system. So green means go, yellow means you have a minute, red means please wrap it up.

Without objection, each one of your written statements will be made part of the record.

So, Ms. Kerrigan, you are now recognized for your testimony.

Thank you all for appearing.

## STATEMENT OF KAREN KERRIGAN

Ms. KERRIGAN. Thank you, Mr. Chairman, Ranking Member Waters, and members of the committee. It is an honor to be here this morning to discuss how tax relief is helping the economy and small businesses, as well as to discuss additional reforms that would enable entrepreneurs and their firms to take full advantage of opportunities in this growing economy.

This committee and its members have been very helpful in advancing important legislation to improve capital access and capital formation. Many of these bills have been supported by my organization, and on behalf of SBE Council, I thank you for your leadership and your work.

In my written testimony, I note an array of reform bills to improve capital formation, most of which are strongly bipartisan, that are especially timely and needed, given strong small business optimism, their positive outlook on the economy, and their future plans for expansion, hiring, and investment.

Small business optimism has remained strong and consistent for over a year-and-a-half, and has been buoyed by the Tax Cuts and Jobs Act. Regulatory certainty followed by tax relief has been a powerful policy mix that has markedly improved the business environment, revenues and sales for small businesses, and their growth opportunities.

All the key surveys that measure small business confidence are consistent in their findings. Confidence is exceptionally high and, by some measures, has reached historical highs.

The views of our members are consistent with these surveys and with the findings of key indexes that have reported on the effects of the new tax law. It is providing them with extra capital to compete in the economy.

The spring 2018 Bank of America report found that entrepreneurs identified the new tax law as game-changing for the health of their businesses. Seventy-one percent expect to receive savings from the new tax law, and many have plans to use these funds to fuel growth, investing back into their businesses, providing raises and bonuses, hiring more employees, expanding operations, paying off loans, and making capital improvements. A May 2018 LendingTree survey shows similar results with 65 percent of small businesses expecting to see tax savings.

Again, these savings are being channeled to productive use, and whether entrepreneurs decide to pay off loans, make capital improvements, increase wages, or higher more workers, each and all of these actions are important to the health and viability of their firms, as well as for the strength of the overall economy.

Looking forward, small business outlook for the future of their firms and the economy is very positive. The BOA reports find that 60 percent say their revenues will increase for 2018, and the same percentage plan to grow their businesses over the next 5 years.

This positive economic environment is being sustained by solid consumer confidence and stronger business investment. And I note the specific numbers in my written testimony.

So moving forward, I will wrap up where I began, and that is access to capital. It is more important than ever that the bills, the reforms advanced by this committee and the full House, in many cases, make their way into law.

The Helping Angels Lead Our Startups Act, Fostering Innovation Act, Encouraging Public Offerings Act, among others, include commonsense reforms that will improve capital access and lead to powerful results for entrepreneurs and small businesses. Also, the latest bills considered by the committee, the Main Street Growth Act and Small Company Disclosure Simplification Act, will do the same.

We believe it is also time to revisit and implement reforms to regulated or Title III Crowdfunding. It is doing what its supporters, like us, hoped it would, and with some updates to the JOBS Act, the early and positive successes will grow exponentially.

Also, thankfully, the Congress is updating thresholds across many areas of the law, and the same needs to be done to section 1224, small business stock, which allows investors to deduct losses, taking on investments in C-corp startups. The current thresholds were last updated in 1978.

These last two items I mentioned, along with the other reforms championed by this committee, are critical to helping entrepreneurs and startups take advantage of growth opportunities in this economy. They also could play a significant role in mobilizing capital and fueling the success of opportunity zones that have also been established by the new tax law.

In conclusion, Mr. Chairman, there has been great progress for entrepreneurs and small businesses. More work needs to be done. And SBE Council stands ready to work with you and the committee members to ensure vibrant and competitive U.S. capital markets, which in turn will help entrepreneurs and firms access the capital they need to grow, innovate, and compete.

Thank you.

[The prepared statement of Ms. Kerrigan can be found on page 40 of the Appendix.]

Chairman HENSARLING. You gave 30 seconds back. We appreciate it.

Ms. Miles-Olund, you are now recognized for your testimony.

**STATEMENT OF LORI MILES-OLUND**

Ms. MILES-OLUND. Good morning, Chairman Hensarling, Ranking Member Waters, and distinguished members of the committee. My name is Lori Miles-Olund, and I am president of a small family run manufacturing company based in Oregon City, Oregon, Miles

Fiberglass and Composites. We principally make products for the wind turbines, RVs, railroads, utilities, and the military.

I am also a member of the National Association of Manufacturers, NAM, the Nation's largest industrial trade association and the unified voice for more than 12 million men, women who make things in America.

Six months ago, Congress passed tax reform legislation that continues to give a significant lift to the American economy; manufacturing, in particular. Consider the brand-new NAM Manufacturers' Economic Outlook Survey released just this morning. This quarter's optimism rating of 95.1 percent is the highest ever. It is the latest in a series of record-breaking optimism ratings, thanks in large part to the tax reform.

So the economy is on a roll. And here is what you are probably thinking. What does this mean for my constituents? Here is what the NAM found when it recently polled members on the impact of tax reform.

Eighty-six percent said they plan to increase investments, 77 percent said they plan to increase hiring, 72 percent said they plan to increase the wages or benefits. This data is reflective on a palm card that is being delivered to your offices. I also have copies with me that I would be happy to share.

It contains some more numbers too, like 115,000, the number of manufacturing jobs created since the Tax Code came into effect on January 1. It is about double the 63,000 created over the same time last year. It is a vast improvement over the 24,000 lost in 2016.

At my company, we have seen a dramatic increase in demand since the passage of the tax reform. Last year, we had sales of $6.8 million. This year, we are on a path to produce $12 million in sales. This demand-driven growth is resulting in tangible benefits for our employees, community, and company.

First, we are increasing our hiring. We plan to create 35 new jobs by the end of the year, which represents a huge 70 percent increase in our 50-person workforce.

Second, we are raising wages and increasing benefits for our employees. We are already increasing our starting wage by 9 percent. Now, we are implementing a new learn-to-earn program, which offers employees the ability to increase their pay further by up to $1.50 an hour for each time they get trained in a new skill.

We are also reinstituting a bonus program, offering each employee a share in the company's profits on a quarterly basis, and planning to absorb the cost of rising healthcare premiums as a company, rather than passing them on to our employees.

Finally, we have also started providing a gas stipend to make commuting to work more affordable.

Third, we are investing in our company. We are working hard to upgrade our facilities. We have plans underway, for instance, to consolidate our current two locations into a single, more modern building. Not only will this improve our efficiency, but it will also help logistically to have all our employees communicating and collaborating under one roof. We are also planning to purchase a state-of-the-art ventilating system that will be better for the environment. We also have plans to purchase our first CMC machine.

Fourth, we are helping our community. We currently offer four scholarships at our local community college, but we would like to do more. We partnered with the Scouts to help them earn their composite merit badge and had put this on hold until this year. In the fall, 50 Scouts will come to our facility and build fiberglass skimmer boats.

Manufacturers called for the passage of tax reform for many years. Now it has finally happened. As the owner of a Main Street business, I see the benefits of tax reform firsthand. We are just one small family owned manufacturer, but we expect the entire sector to deliver on the tax reform promise.

The good news is our fellow manufacturers feel the same way. The NAM recently launched a national campaign called, "Keeping Our Promise" that is helping tell the stories of how manufacturers are already helping to improve lives and livelihoods. The campaign has featured stories for many companies already, including ours. And the plan is to continue doing so on a regular basis moving forward.

Thank you for inviting me to testify before you today. I am happy to answer any questions.

[The prepared statement of Ms. Miles-Olund can be found on page 47 of the Appendix.]

Chairman HENSARLING. We now recognize you, Mr. Sasser, for your testimony.

**STATEMENT OF FORD SASSER, III**

Mr. SASSER. Thank you, Chairman Hensarling and Ranking Member Waters. My name is Ford Sasser. I am the President and CEO of Rio Bank in McAllen, Texas. Rio Bank is a community bank in deep south Texas along the Texas and Mexico border. Our market is about 90 to 95 percent Hispanic.

Our bank has approximately $350 million in total assets with eight locations in Hidalgo and Cameron Counties, and we employ approximately 110 people. The staff of our bank is 89 percent minority, with 72 percent being female. The FDIC has labeled our bank as a minority bank because of the makeup of both our shareholders and our board of directors of the company.

I am here today representing the Texas Bankers Association. The TBA is the Nation's oldest and largest State banking trade association, and we are proud to represent 433 member banks. TBA's membership is composed of commercial banks and savings and loan associations. Approximately half of our members are State-chartered organizations and the other half have national charters.

Texas is blessed to have a strong banking environment, and Texas bankers take great pride in the fact that our banks weathered the financial crisis of 2008, 2009, and 2010 as well as they did.

Today, I look forward to discussing with you how the 2017 Tax Cuts and Jobs Act affected Rio Bank, my industry, and my customers. As you are aware, my industry has seen an onslaught of new and amended regulations placed on it over the last 10 years as a result of the failures of others. This has not only caused a burden on my bank, but on my customers. While recently we are seeing steps taken to reduce the regulatory burden on my bank and on my customers, nothing has more positively impacted the bank or its customers than the 2017 Tax Cuts and Jobs Act.

At Rio Bank, we have recently announced the signing of a definitive merger agreement with another bank in our market. This merger will grow our company from a bank with $350 million in assets to $550 million in total assets.

Additionally, we are 1 month into a 19-month construction project for a new corporate headquarters that will contain 125,000 square feet in a six-story building.

This acquisition and decision to build a new building are a result of the positive direction we see the economy moving. We are very bullish on the economy, both in the Rio Grande Valley and across the State of Texas, and our capital investment is a reflection on that commitment.

In January of this year, our bank joined other banks and companies across the Nation and paid bonuses to our employees. We paid each of our employees $1,000 bonus, regardless of how long they have been working with the bank. A teller that had just joined the bank only 1 week earlier was both surprised and excited to be receiving this bonus check. It will be remembered as one of the happiest days in our bank. I had an employee tell me with tears in her eyes how good the timing was to get this check.

As a community bank, we are the lifeblood of small businesses. Lending to these small businesses is what allows them to expand their book of business. Adding new customers, property, plant and equipment, and hiring more employees are all what is necessary to facilitate that expansion. That is when they look to their community bank for loans. We have to determine a business's capacity to repay debt when qualifying those businesses for loans. Having a lower tax rate for these businesses provides more money to service debt and thereby qualifying more small businesses to get the much-needed credit that they use to grow their companies.

The 2017 Tax Cuts and Jobs Act has been a great stimulus to the economy.

I thank you for inviting me to this hearing, and I look forward to answering any questions that you may have.

[The prepared statement of Mr. Sasser can be found on page 55 of the Appendix.]

Chairman HENSARLING. Mr. Silvers, you are now recognized for your testimony.

**STATEMENT OF DAMON SILVERS**

Mr. SILVERS. Thank you. And good morning, Chairman Hensarling and Ranking Member Waters and members of the committee. I am Damon Silvers. I am the Policy Director and Special Counsel of the AFL–CIO. On behalf of America's working families, we appreciate the opportunity to testify on the Republican tax bill this morning.

What are the fundamental characteristics of the Republican tax law? The Republican tax law is regressive. It gives more money to wealthier Americans than to middle- and low-income Americans, both in total and on a percentage of income basis. And the Republican tax law is anti-labor. It shifts the tax burden from capital to labor, and rapidly accelerates the multi-decade trend shifting the Federal tax burden from corporations to households and families.

This shift in the tax burden from capital to labor is likely, by the way, to make worse the already cavernous racial, wealth, and income gap.

The Republican tax law borrows money to redistribute upward; money that America should be investing in our future through infrastructure and education. And finally, and perhaps most shockingly, the Republican tax bill is a job killer. It results in a tax system that charges lower taxes on corporate profits earned offshore than on corporate profits earned by creating jobs here in the United States. It is an intentional giveaway of your and my tax dollars to people who choose to kill U.S. jobs.

So what are the economic consequences of the Republican tax bill for working people? First, America's big companies are not reinvesting the money they are saving in taxes. They are paying that money out in the form of stock buybacks and dividends.

S&P Dow Jones now estimates by the end of 2018, just 1 year, U.S. public companies will pay out over $1 trillion in stock buybacks. As a result, the Federal Reserve's tracking of new orders of non-defense-related capital goods shows investment levels flat since the end of last summer at levels below that of the period from 2010 to 2015.

The consequences of these underlying trends is that the Republican tax bill so far has had no impact at all on job creation. Job creation in the U.S. economy continues its slow decline from peak levels late in the Obama Administration.

But the most telling failure so far is in wages. Wages have been flat in real terms and aggregate across the economy since the passage of the Republican tax bill. My fellow witnesses have described bonuses. The fact that bonuses have been the primary way in which the small minority of employers that have passed anything on is why wages are not rising. And if you break out wages by segments of the labor market, you see that in the last year, average hourly wages for four out of five workers in the private sector have gone down in real terms. And that is only the high performance of the top of the labor market that is holding the aggregate wage numbers even.

So one way of capturing what is really going on here is looking at what happened at Walmart, America's largest private employer. Walmart disclosed it expected to receive a $2.2 billion tax cut for 2018. At year end 2017, Walmart paid a one-time bonus of $400 million to its employees. It financed this bonus by laying off simultaneously 10,000 employees.

Walmart also announced it was going to raise starting pay for its lowest paid workers, which had said would cost $300 million a year. How does that add up over 10 years? What is the real numbers? $22 billion plus in tax breaks for Walmart, half of which are going to go to the richest family in the world, a group of people who could fit behind me in this room.

Cost savings from the layoffs of as much as $5 billion a year, half of which will go to those same handful of individuals. A one-time bonus for new hires that many economists say Walmart likely intended to give anyway in the context of a tightening labor market.

Punch line: 85 percent of the tax breaks go to stockholders. The super rich get the majority of that money.

Now, let me turn to financial regulation. Like other large corporations, America's largest banks have benefited handsomely from the Republican tax law. The biggest six banks that control more than 70 percent of the Nation's bank holding company assets are projected to receive $14 billion in tax breaks in 2018 alone.

This is not surprising because key features of the Republican tax law are designed to benefit the largest banks in ways that community banks cannot benefit. Because, for example, community banks cannot take advantage of the zero tax rate for offshore operations.

Consequently, it seems likely that the Republican tax bill will add to the levels of concentration in America's banking system.

In the wake of these actions, Congress should move in an entirely different direction with a modern-day Glass-Steagall that disconnects finance from speculation and facilitates lending to America's businesses.

In conclusion, we believe that Congress should amend this act by beginning, by passing the No Tax Break for Outsourcing Act sponsored by Congressman Doggett, and by ending the preference for capital gains over actually earned income.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Silvers can be found on page 61 of the Appendix.]

Chairman HENSARLING. Mr. Stevens, you are now recognized for your testimony.

**STATEMENT OF PAUL STEVENS**

Mr. STEVENS. Thank you, Chairman Hensarling, Ranking Member Waters, and members of the committee for this opportunity to testify.

ICI has a long history of supporting well-conceived regulation. We believe it is a critical ingredient in preserving the confidence that 100 million U.S. shareholders place in ICI's (Investment Company Institute) members to manage almost $22 trillion in their assets.

I will focus on three areas that the Institute believes are critical to striking the right balance between protecting investors and markets on the one hand, while preserving efficiency, promoting capital formation, and spurring economic growth on the other.

First and foremost, we must avoid regulation that is unnecessary or inappropriate or based on faulty analysis. Two recent examples illustrate how harmful this type of regulation can be. The first involves the Financial Stability Oversight Council, or FSOC, and its authority to designate nonbank financial companies as systemically important financial institutions, or SIFIs. The second relates to the Department of Labor fiduciary rulemaking.

We commend the committee for its leadership helping H.R. 4061, the FSOC Improvement Act, pass the House with strong bipartisan support. We repeatedly caution that FSOC could seek to exercise the SIFI designation authority in a manner far broader than Congress intended.

It is vitally important, in our view, that Congress act now to reform SIFI designation authority, and in doing so, enhance its ability to mitigate systemic risk.

The DOL (Department of Labor) fiduciary rulemaking also provides a cautionary tale of how not to make sound regulation. Now, ICI strongly supports the principle that financial intermediaries should act in the best interest of their clients when they offer personalized investment advice. Throughout the DOL rulemaking process, however, it was clear that the rule was premised on deeply flawed regulatory impact analysis that ignored key facts on the retirement advice marketplace.

The final rule was so misguided that the mere prospect of its application caused disruption that left hundreds of thousands of retirement savers without investment advice. We are pleased that the SEC is now taking the lead on this important issue, coordinating with DOL.

The second point I would like to make focuses on the need to avoid overly broad or overly prescriptive regulations that can impose inefficiencies, burden competition, and ultimately retard economic growth.

A good example in our industry is the SEC's liquidity risk management rule. Daily redeemability is a defining feature of mutual funds, and ICI supports requiring funds to have a formal liquidity risk management program. But the SEC goes too far by requiring that funds classify the liquidity of each and every portfolio holding and report on the liquidity at least monthly. This so-called bucketing of portfolio holdings is far too prescriptive, turning an otherwise useful rule into one that is proven to be costly and vexing to implement.

ICI believes a more principle-based approach, as recommended by a recent report from the Treasury Department, could better serve funds and their shareholders.

The SEC and Chairman Jay Clayton deserve commendation for their willingness to reexamine aspects of the rulemaking framework, and we hope the Commission will remain open to the possibility of future changes as well.

This brings me to my third and final point. Regulation has cumulative costs over time. Now, the registered fund industry is a highly competitive one. Thanks to an array of diverse players, U.S. shareholders pay lower costs than ever before, enjoy higher returns on their investment, and have a wide variety of choice. But we can't take this competition and the benefits it provides for investors for granted.

The associated costs and burdens of new regulatory requirements threaten to bring our industry to a tipping point where it is no longer economically viable for smaller or midsize firms to stay in or to enter the mutual fund business.

Exercising close oversight and considering the cumulative cost of regulation affecting registered funds will help ensure that the industry can continue to serve the interest of fund investors and also the interest of a growing economy.

I will close by offering brief recommendations in two other areas. Over the past 2 decades, the number of public companies has dwindled from more than 7,300 to approximately 3,500. This hampers individual investors trying to build wealth and meet financial goals because most cannot participate directly in these private markets, and very few mutual funds invest in private companies. Consequently, we urge the committee to support regulatory efforts to increase the attractiveness of our public capital markets.

Finally, in my testimony, I suggest a sensible change to Tax Code that would increase U.S. mutual fund's ability to compete for foreign investment dollars and help spur further innovation and job growth in our industry.

Thank you for your attention. I look forward to your questions.

[The prepared statement of Mr. Stevens can be found on page 71 of the Appendix.]

Chairman HENSARLING. I thank you and all the witnesses for their testimony.

The Chair now yields himself 5 minutes for questioning.

Ms. Miles-Olund, would you consider—would you characterize a $500 or $1,000 bonus as a scam?

Ms. MILES-OLUND. No. Our—

Chairman HENSARLING. Would you characterize a 233 percent 401(k) increase in contribution, would you characterize that as a scam?

Ms. MILES-OLUND. No, sir.

Chairman HENSARLING. Would you consider a $4 increase in hourly wages, would you characterize that as a scam?

Ms. MILES-OLUND. I don't believe so.

Chairman HENSARLING. I think you just testified that your company is now giving a gas stipend for employees?

Ms. MILES-OLUND. Yes.

Chairman HENSARLING. Is that a scam?

Ms. MILES-OLUND. No, I don't believe so.

Chairman HENSARLING. I wouldn't think so. And yet we hear these stories throughout the economy.

Mr. Sasser, your organization, the Texas Bankers Association, of which I have had a long association with—I have appreciated your testimony before—I have heard from a number of banks in your organization. One said: Due to the new tax law, our bank provided each employee 50 shares of our bank stock.

Heard from another one that says: Our bank has seen a dramatic increase in loan demand, 10 percent in the first 5 months of 2018.

We had another bank that said: We awarded internal bonuses. We have seen an uptick in loan demand with capital formation. We have expanded hiring throughout our bank.

Heard from another one of your member banks: We are increasing our employer match and our 401(k) plan from $1,500 to $5,000.

Heard from another one that said: We have hired two additional loan officers and paid substantial bonuses to employees.

What is going on?

Mr. SASSER. Well, Mr. Hensarling, I think that what you are seeing is the economy is improving, the tax reduction is providing more funds for—as I said in my oral statement—for banks to make more investment in their facilities, in their employees, and more important, we are starting to see our customers are able to do more because they have more.

We can talk more about this later, but we are able to qualify more customers because they are able to take less of their income to pay taxes and have more available to service debt. That is how we qualify borrowers.

Chairman HENSARLING. Well, that is obviously quite important.

Mr. Stevens, you have heard a number of people, for lack of a better term, actually vilify stock buybacks. Is that a particularly unhealthy economic activity, in your opinion?

Mr. STEVENS. Mr. Chairman, in the simplest terms, a stock buyback is an exchange of stock for the same value in cash. It reduces the number of outstanding shares of the company and can increase earnings per share. Any benefits of a stock buyback accrue to all of the company shareholders, including shareholders who own the shares of the company through a mutual fund. Mutual funds, in fact, hold about a quarter of all the outstanding stock of U.S. public companies.

Chairman HENSARLING. So a lot of this would include seniors and working families trying to make car payments and—

Mr. STEVENS. Absolutely.

Chairman HENSARLING. —healthcare premiums?

Mr. STEVENS. Half of all mutual fund-owning households have annual incomes of $100,000 or less. A third of them have incomes of $75,000 or less. So they participate in the benefit of these stock buybacks just as all other shareholders in the company would.

Chairman HENSARLING. Ms. Kerrigan, you have said that reforms are still needed to help small businesses leverage the growing economy. In my opening statement, I alluded to the fact that we roughly have now half the IPOs (initial public offerings) today that we had 20 years ago. Yet China's IPO market seems to be quite healthy. And we know about China 2025.

So, again, the banking bill is behind us. The Senate has committed to act on a capital formation bill. Fortunately, there is a history of those being bipartisan, as you well know. The Jobs 1.0 Act was signed into law by President Obama, who said it was an important step in the journey to lower barriers to capital for small businesses and entrepreneurs.

What else do we need to do? Why should this committee be focused on this?

Ms. KERRIGAN. Well, the good news is the committee is already focused and has passed—

Chairman HENSARLING. You noticed.

Ms. KERRIGAN. —so many of these measures. All of them in total will really do a lot to improve entrepreneurship, encourage capital formation and access.

The bills that you recently marked up, more to come, all of these are very important for our capital markets and for the entrepreneurial ecosystem.

So I list a lot of those in my written testimony. And I think the key is getting the Senate to act. And I know they are taking steps right now, and we are working as much as we can over on that side to get some of these things enacted into law.

Chairman HENSARLING. Thank you. My time has long since expired.

The Chair now recognizes the Ranking Member for 5 minutes.

Ms. WATERS. Thank you very much.

Mr. Silvers, we are currently in an affordable housing crisis, and in particular, an affordable rental crisis. According to the National Low Income Housing Coalition, 11 million rental households in the United States pay over 50 percent of their income on rent. And nearly three-quarters of those households are extremely low income.

In the context of the current rental housing crisis, the Low Income Housing Tax Credit program is a critical resource for the production and preservation of affordable housing. Unfortunately, under the Republican tax scam, the value of these tax credits has decreased. In fact, according to one estimate, the tax scam law will reduce affordable rental housing production by nearly 235,000 homes over 10 years. This will also have ripple effects resulting in the loss of jobs and businesses and business income associated with affordable rental housing development, as well as a loss of tax income for the Government due to the loss of income.

Can you elaborate on the damage that this will have, not just to the rental housing market, but across the economy?

Mr. SILVERS. Representative Waters, you raise an important issue that I think runs through both the tax bill and larger public policy right now, which is that there is interest on the part of the majority party in lifting, in moving the numbers in our tax law that benefit wealthier people, according to inflation, but not doing so when it benefits working people.

The low income housing tax credits in the context of runaway inequality in our major cities is critical, both to the well-being of the folks who will then be able to afford housing for their families through increased rental development, but it is also critical to maintaining diversities and workforces necessary to sustain prosperity. But as you said in your question, the value of those credits is diminished dramatically and over time by the Republican tax law.

I have to add here that in addition to this, the obvious number in our country's public policy that doesn't seem to ever move with inflation is the minimum wage, which is profoundly connected to the issues of housing affordability. You need to have affordable rental housing. You also need to have an income that can support it.

As my fellow witnesses testify, even the most generous American businesses, which I recognize I am seated among, are not actually raising wages; they are generally simply paying one-time bonuses. One year from now, inflation will have eaten away these companies' employees income.

Ms. WATERS. I am so pleased you mentioned minimum wage. And as you have said, we have all of this bragging about the bonuses that have been given, but do you know or do you have the information to help us to understand how many of these businesses that have received these big tax breaks are increasing the minimum wage to at least $15 an hour?

Mr. SILVERS. Ranking Member Waters, I do not know of any large business which in reaction to the Republican tax law has raised their minimum wage to $15 an hour. There are some businesses that have done so. They have pretty clearly done so in reaction to mass protest by their employees or local and State efforts to raise the minimum wage.

In general, those businesses that seem motivated in some respect by the tax bill have offered bonuses, one-time bonuses that will not add to the long-term prosperity of their employees. But the reality here, and you see it if you dig into the testimony of my fellow witnesses, is the businesses that are even offering the bonuses are a tiny minority, both businesses by number and by employee count.

So depending on what number you look at, the number of businesses actually doing anything for their employees in any kind of coincidence with the tax bill is somewhere between 5 and 15 percent.

Ms. WATERS. And you alluded to inflation and how a lack of the increase in wages really harms the average worker who has not gotten an increase in wage, and this one-time bonus is being described as something significant that the businesses have done as a result of the tax increase. You want to elaborate on the lack of increase in wages?

Mr. SILVERS. Yes. Well, thank you. I will be very brief about this. What we are seeing in the economy as a whole and for the work force as a whole, which is, after all, the real measure of the tax bill, is flat wages. But it is worse than that, because it is quite clear that the majority here in Congress intends to whack workers with substantial increases in healthcare and retirement costs that are going to eat away at their income.

Frankly, the wealthy here are laughing all the way to the bank and the bankers are laughing there too.

Ms. WATERS. Thank you very much.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, Chairman of our Financial Institution Subcommittee.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

After listening to Mr. Silvers, it is just amazing that our tax bill is doing anything. It must be the worst thing; it is a ball and chain around our economy, around our workers that we have ever done. And in spite of the fact that we have the lowest unemployment since 1969, job creation is going through the roof, consumer confidence is going through the roof, I was understood last night that we actually got nine separate car companies that are expanding or moving to Michigan.

Ms. Miles-Olund, you represent National Association of Manufacturers. What have you seen?

Ms. MILES-OLUND. Well, for me, particularly in Oregon, our sales are way up, and we can't find enough workers. And that is where we are, as well as when I talk to other constituents in Oregon, it is the same problem; you can't find enough workers.

Mr. LUETKEMEYER. Prior to the tax bill, there were companies leaving this country with their headquarters—it was called inversion—to be able to take advantage of a lower tax rate in other countries. Since that, since we have passed the tax bill, my understanding is that that has stopped. Is that correct?

Ms. MILES-OLUND. That is what I have seen. Our phones started ringing off the hook in January, just from Genie, Lift, Vestus, all kinds of—

Mr. LUETKEMEYER. And, in fact, some of those companies actually have come back.

Ms. MILES-OLUND. Yes.

Mr. LUETKEMEYER. I was talking to one just the other day. They had 600 employees. They took it out of the country, went to Southeast Asia, and now have come back to the United States. It is amazing how that works.

Ms. Kerrigan, you represent small business entrepreneurs. In this committee back last spring, we had Chairman Yellen of the Fed in here, and she was quoting a Fed survey that talked about how great everything was with small businesses and 35 percent. And so my comment to her was, well, you are only telling part of the story, Madam Chair, because 35 percent of them were able to get money. The other 65 percent weren't getting any loans at all because they didn't want to get any loans at all.

Since we have passed the Regulatory Relief Act, for what we have done, as well as all the new rules and regulations that we have taken off the books and the tax cuts, businesses now have money to invest, and it seems as though they are back in the game. Would that be a fair statement?

Ms. KERRIGAN. Oh, very much so. There was a lot of confidence over the past year-and-a-half. And definitely the tax relief has fueled growth and has fueled investment. And the demand is so high, and I would agree in terms of the whole worker issue, that many of our members, because of demand, because they need the workers are raising wages in order to attract workers and retain those workers as well.

Mr. LUETKEMEYER. So the statistics that I see, and which are obviously different than Mr. Silvers, are that the average wage growth is there. Average workers' wages are going up across the board around the country. Is that what you see?

Ms. KERRIGAN. I do. And I know the NFIB report, the recent one that they put out, when they found that the compensation increases are historically a 45-year high. A Gallup Small Business Index also finds that 60 percent of small businesses plan to increase wages over the next several months.

Mr. LUETKEMEYER. Mr. Sasser, as a banker myself, I can tell stories all day about how important it is for the individuals to have increased wages by allowing them to keep more of their money. This is what they did. They allowed—the tax cut allowed people to keep more of their money.

It is not the Government's money. It is their money, which is a very important point. Which, right now, many members on the other side of the aisle support a tax increase, which means they believe that the Government has a right to the money in your pocket.

As a banker, have you seen an increase in loan demand as a result of people being able now to afford to come in and perhaps purchase things that they couldn't afford before with a bonus check and with funds that they now have extra in their pocket?

There was a statistic out by the Federal Reserve, I think, that 46 percent of the people can't afford a $400 bill tonight. What do you see in that regard, sir?

Mr. SASSER. Well, we are certainly seeing consumers being able to buy more. But just as important, I am also seeing businesses able to grow. I see their profits up. I see them, because of having to pay less taxes, they are able to borrow more money in order to grow their businesses.

Mr. LUETKEMEYER. Isn't it wonderful that they actually get to keep their money and invest it as they see fit rather than the Government investing it for them.

Mr. Stevens, I have a, very quickly, just one quick question, a follow up on the Chairman here with regards to buybacks. You were just saying a minute ago that when you buy it back, that the entity or the individuals you purchased that stock back from, they get cash for that, do they not? And then they get to reinvest it again, right?

Mr. STEVENS. Correct.

Mr. LUETKEMEYER. And that is how you stimulate growth, with all less. Also, do you not have a stronger company whenever you have a company that is buying its stock back, and they can leverage that strength to do more things?

Mr. STEVENS. It can certainly be accretive, and there are lots of reasons they would do it. Dividends are another way of returning capital to shareholders.

Mr. LUETKEMEYER. Thank you very much. My time is expired. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Good morning. Thank you, Mr. Chairman and the Ranking Member, for holding this hearing. I want to thank all the witnesses for helping this committee with its work.

And, Mr. Silvers, in particular, thank you for all of your work on behalf of working families in this country for a very long time. I have appreciated your counsel and your advocacy on behalf of workers and their families.

One of the more bizarre aspects of the Republican tax bill which was really mystifying to me was the fact that it treated companies better who ship their jobs overseas than—at least their affiliates that moved overseas and created jobs in other countries, than it did the companies that stayed here and put Americans to work. I could not figure that out. And then on repatriating the profits that they made overseas, again, they were treated very generously, I would say, better than American companies.

And we were hoping here, and we had debate in committee, and I know on Ways and Means about, if we could just put a decent tax rate on that money coming back into the country, we could have paid for a huge infrastructure bill where no American company or taxpayer would actually pay for that. It would come from foreign profits from those companies that move jobs overseas. I thought it was a perfect solution, but it was a missed opportunity in this bill.

Can you talk about that, about creating the incentives to create jobs in this country for Americans, instead of giving more favorable treatment to companies to move their jobs overseas?

Mr. SILVERS. Congressman, thank you for asking about that. I view this particular provision of the tax bill as the most egregious provision in the bill and the one that is most misleading. I have been careful in my testimony not to characterize the bill, as a whole, as a scam, but I believe this provision is a scam in the sense that when President Trump ran for office in 2016 he talked extensively about how we had a system—about a complicated system of corporate taxation called deferral that subsidized companies moving jobs offshore by enabling companies not to pay taxes until they brought the money back.

One would assume that if you were saying that there was something wrong with that you wouldn't be in favor of a tax measure that didn't tax companies' offshore profits at all, right? And it seems to me that campaigning against a kind of complicated tax benefit, and then instead of fixing it, making it a thousand times worse, is the textbook definition of a scam.

Now, I think this is even more egregious because you really are making it very difficult for the leaders of America's businesses to do the right thing. It is very difficult to ask a corporate CFO to make the choice between building a plant on Main Street, for example, Mr. Sasser's hometown, when the tax rate even in this bill will be 22 percent, whereas, if you build that plant in a tax haven, Ireland, one of the export processing zones in the Caribbean, you can get a 0 percent tax rate in the company you are operating in and a 0 percent tax rate here.

A person, a fiduciary is going to have a hard time doing the right thing. I am not sure it is that person's fault who makes that decision. I think that responsibility lies here in Washington at the White House and in the offices of the leadership of this Congress.

Mr. LYNCH. Thank you. Thank you, Mr. Silvers, I agree. There are a lot of people that had opinions on the tax bill, but—and I like to get a diverse set of opinions. I do want to note that Goldman Sachs, one of the reports that I read, Goldman Sachs reported—it basically led out the bill and predicted winners and losers, and it projected that the single biggest winner in the banking sector, from this Republican tax bill, will be Wells Fargo, Wells Fargo, who robbed, robbed their own—their own customers.

Set up fake accounts, charged them fees without any authorization, basically robbed their own customers, got billion dollar fines, but then to the rescue rides the Republican tax bill and makes them the biggest winner, biggest winner, permanent tax cuts and regular working Americans who got robbed, they get a temporary tax cut only to be dealt with later.

So I want to thank you, Mr. Silvers, again, for your great work, and I yield back the balance of my time.

Chairman HENSARLING. The gentleman yields back. The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, Chairman of our Capital Markets Subcommittee.

Mr. HUIZENGA. Thank you, Mr. Chairman. And I am just stunned by some of the conversations that are happening here about these bonuses. This is the equivalent of calling these crumbs, and that doesn't matter to people, and that somehow or another this is not going to move the needle at all.

And this notion of having $15 an hour and that the ludicrous statement that there hasn't been a major company that has announced any of these kinds of movements of wages. I guess the 940,000 employees that work at Charter Communication wouldn't qualify as a large company, apparently, or in our space with the Financial Services Committee that we work with: PNC Bank, Bank One. I have a list here that I am tempted to submit that is regional banks, Great Western Bank Corp, Regions Bank, Humana increased its wages, Wisconsin based—sorry, I am stealing your thunder with Johnson Bank raised it. Key Corporation, MB Financial, Marsh & McLennan, SunTrust. It goes on and on and on.

So, Mr. Stevens, I have a question for you. So we have seen about these bonuses, $1,000, $2,000. In the long run what would a $1,000 investment today translate 30 years from now if someone were to take that bonus and invest it?

Mr. STEVENS. Albert Einstein called compounding the most powerful force in the universe. So if you took a $1,000 bonus today and you decided to invest it, and you invested it in an individual retirement account quite conservatively in a 60–40 mix of stocks and bonds over a 30-year period you would have $20,000 for retirement before taxes.

Mr. HUIZENGA. That crumb just got bigger.

Mr. STEVENS. A lot bigger.

Mr. HUIZENGA. OK. It might even be a loaf of bread at that point.

Mr. STEVENS. Well, and, Chairman Huizenga, there are also reports that companies are using this opportunity to improve their 401K plans and so—

Mr. HUIZENGA. So people can take part of that wage increase that they have gotten, add it to their own retirement and the company then matches it oftentimes or sometimes—

Mr. STEVENS. It could be an increased employer match. So if you think about an employee that is earning $50,000, and there is a 1 percent increase in the employee match over a working life that is going to be on the order of $100,000 additionally.

Mr. HUIZENGA. Now we are talking about a bakery. We went from crumb to loaf to now we got a bakery going here. So OK—

Mr. STEVENS. That is right.

Mr. HUIZENGA. I think that is the point. This is all about making sure that we have an active economy. And you want to talk about minimum wage, there is nothing greater that moves wages than economic activity rather than having a Federal Government mandate coming down—oh by the way, we have tried some—tried some of those shovel-ready stimulus package programs that have gone out. I was in the State legislature in Michigan when those not-so-shovel-ready programs were getting jammed in, and many believed that at least a good significant portion of that was wasted taxpayer dollars.

Very quickly in the last minute and a half we have here I want to talk a little bit about IPOs and the lack of what is happening and why these companies are turning to private capital instead of going to public because I think we all agree very few Joe and Jane six-pack and Joe and Jane 401K are able to invest in these private companies. They are able to invest in these public companies, but what are some of the drawbacks why companies aren't doing this?

Mr. STEVENS. Why they are not becoming—

Mr. HUIZENGA. Why they are not becoming public companies?

Mr. STEVENS. Well, I think there are two major forces at work, Mr. Chairman. One is they are incredible sources of private capital they can now tap. That is the whole private equity market. And a second is because there are downsides, regulatory burdens, and other things about becoming a public company. I really commend the SEC and Chairman Clayton for looking at how some of those might be addressed to reduce the disincentives, and I do agree with him that once a company goes through the process of becoming a public company they are a stronger and better company for it.

The reason that we are concerned about this is because the hundred million ordinary investors that we serve can't access those private equity markets. We depend upon a robust and growing public sector.

Mr. HUIZENGA. And so what do you think is the biggest deterrent? Is it the regulatory side of that hurdle? We have seen estimates of it being millions of dollars to convert from a privately held company to a publicly held company.

Mr. STEVENS. It is certainly a costly process, but it has costs and consequences that, over a longer period of time, because you are subject to disclosure, you are subject to reporting, you are subject to a whole series of SEC requirements.

Mr. HUIZENGA. My time has expired. Thank you.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognized the gentleman from California, Mr. Sherman.

Mr. SHERMAN. I want to address Mr. Stivers' discussion with Mr. Stevens. Says that $1,000 bonus could be $20,000 30 years from now, but this tax bill increases your family's share of the national debt by $34,500 over the next 10 years, but then to make things even, since we are talking 30 years from now, you take that same rate of increase for another 20 years, to the year 2048, and you are looking at nearly $200,000 as your share of the—of your family's share of the increased national debt all to get that $1,000 that if you invest with Mr. Stevens grows to $20,000.

So as long as—Countrywide executives were pikers, why didn't they come up with this? You slap a $34,000 mortgage on a family's home, you give them a $500 or a $1,000 bonus, you tell them you have done something spectacular, and then you illustrate it further by saying that $1,000 bonus could grow to 20,000 while, of course, the debt on your house is growing just as quickly.

Mr. Chairman, if you go and you want to see a horse race and you want it to be interesting, you may have to put a handicap on one of the horses. If you have a thoroughbred racing against an old nag, you put 300 pounds on the thoroughbred. And now we have a debate here about an old nag of a tax bill, one that will increase the debt for every family of five by $34,500.

And so what you do is you have four presenters on one side and one presenter on another. Four times as many opening statements on one side as the other. But this tax bill is so bad I don't think that is enough. I think you need to have 20 witnesses on one side and Mr. Silvers on the other, and even then you are not going to be able to sell this thing.

We are talking a lot here about red tape. Let me just say that if there are 100 pages of regulations affecting an industry, then a few hundred companies have to read 100 pages of regulations. Every small business in this country is going to end up reading 10,000 pages of case law just on the issue of what qualifies as pass-through income eligible for this 20 percent exclusion. Not people in one industry, the whole economy, not regulations designed to answer your questions but the mutterings of judges about an individual case from which you will hope to divine what that incredibly impossibly drafted provision will provide.

Mr. Silvers, I want to go back to this international thing because we do know that the President is going to completely capitulate on this trade issue, it is just a matter of whether he does it before or after the midterm elections. And then every company in our country will know that they can have a 0 percent U.S. tax, perhaps a 0 percent total tax just by moving their factory overseas.

Under our present—there is an answer to this called worldwide unitary taxes, which is a whole different system. All the corporations in the world are united in hating us, all the multinationals. And I will ask you—well, if a television set is designed in Japan and manufactured in Taiwan and sold in the United States where are the profits earned under our present tax accounting system? I won't ask you that question because it is a trick question. The answer is the Cayman Islands.

And until we move to a worldwide unitary system it will continue—we will continue to see not only will the profits of that factory not be taxed in the United States, but the intellectual property created in the United States with research that is eligible for research credits and research deductions will then be parked in the Cayman Islands and the royalties distributable to that intellectual property.

Mr. Stivers—what else have we missed about this tax bill, Mr. Silvers.

Mr. SILVERS. What have we missed? I think that the real—in addition to the incentives to kill jobs, which you have just talked about—

Mr. SHERMAN. Right. Not kill them just move them overseas.

Mr. SILVERS. From the perspective of the working people from the United States that would be kill them. I think that the most troubling thing about this bill is the way in which it drains our future. It takes money that should be—takes money that should be used for the desperate needs of this country and infrastructure and education and hands it to the people who least need it.

Mr. SHERMAN. Thank you.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Wisconsin, Mr. Duffy, Chairman of our Housing and Insurance Subcommittee.

Mr. DUFFY. Thank you, Mr. Chairman. This is a rich, rich conversation. Republicans want to send jobs overseas? In the last year and a half there are more jobs that are open than we have people who can fill those jobs, and our bill is sending jobs overseas? That is rich. And I think if you look at this debate some people might sit and scratch their head and say what is going on here?

This is a simple debate between American style capitalism, also known as free enterprise, and a collectivist socialist model that has been taken over by the Democrat party. That is the debate we are having.

So if I say, Ms. Miles, you can keep more of your money and you can invest it in your business, and you might have a little less rule and regulation, we over here think that is a good thing. You are going to probably innovate more, you are going to create more and probably provide more jobs for the families in your community.

Over here on the other side they will say oh, no, we are letting you take too much of our money. Mr. Silvers believes that the profit that you make is his money. Did he ever sweat in your factory? Did he ever invest one dollar of capital in your family's business? Has he?

Ms. MILES-OLUND. I don't believe so.

Mr. DUFFY. Sweat at all in your factory?

Ms. MILES-OLUND. No.

Mr. DUFFY. Take any risk in your factory?

Ms. MILES-OLUND. No.

Mr. DUFFY. But lo and behold, guess what, he owns part of your profit, it is his. And if we let you keep a little more of your money, I am stealing from him. I am a thief. That is what they believe. This is amazing stuff. Tax scam? Impeach Trump? The economy is rocking. People are enthused. If you lose your job, you go on the street and you can get another one, and they will pay you more and probably give you better benefits.

Two years ago under Obama leadership you lost your job, you were out of work. You were on unemployment and food stamps. Not today because free enterprise wherever tried works. This model that they are advocating for, old Soviet Union, Cuba, Venezuela. It destroys economies. It guts the middle class. They are eating zoo animals in Venezuela. And you can laugh, but when women are prostituting themselves in Venezuela to put food on the table, it is no joke. You can laugh at that all you want. But that is what is happening with socialism. I have to tell you—

Mr. SHERMAN. Will the gentleman yield?

Mr. DUFFY. No, I will not yield. I will not.

Mr. SHERMAN. Will you identify any elephants eaten in the United States under the Obama Administration?

Chairman HENSARLING. The time belongs to the gentleman from Wisconsin.

Mr. DUFFY. I want to make another point about the debate that is happening today. You have in California, you have unions who support usually different folks in this Congress to say I am fighting for the little guy. I am fighting for a minimum wage. I want to fight for $15 an hour of a wage in California because I am fighting for the little guy.

But as the unions in California are fighting for a $15 minimum wage, one that Mr. Silvers works for, all the while they will say, but if you unionize, guess what? Anyone know? You can pay our people less than $15 an hour. So it is not really about giving people a higher wage. It is about empowering a union. Otherwise, why would you say $15 an hour is right. It should be right whether you are in the union or not in a union.

In Wisconsin, one of our largest employers, which I know the gentlelady from Wisconsin knows well, they are paying no-skills-out-of-high-school-full-time work 15 bucks an hour. And if you work the second shift you get another dollar an hour. And if you work Saturday it is 2 more dollars an hour. So if you work the second shift on Saturday and Sunday, 18 bucks an hour with a high school graduation. That is amazing. What a growing economy and free enterprise can offer an economy in the middle class. What it does for upward mobility.

But I am shocked to listen in here. People tell America that they did your work. They sweated in your shop. They took risk to grow and expand. They are the ones that feed the families in your community. And when this Congress gives you a tax break you are stealing.

What do you think, Ms. Miles-Olund, when we give you a little tax break and let you keep a little more of your money, what do you do with it?

Ms. MILES-OLUND. We reinvest it in the company, and we pass it on to our employees.

Mr. DUFFY. God bless you. I yield back.

Chairman HENSARLING. The time of the gentleman is expired. The Chair now recognizes the gentlelady from Wisconsin, Ms. Moore.

Ms. MOORE. Well, thank you so much, Mr. Chairman. And I too am from Wisconsin, and I walked in on the discussion of communism and the free market, so is this the right committee?

I want to direct my questions starting with Ms. Kerrigan from the Small Business and Entrepreneurship Council. Thank you so much for your testimony. I did take time to peruse it, and you talk a great deal about consumer confidence and some surveys that you have done, the optimism that this tax bill has provided. Then you went on to talk about how increased wages and benefits, you talked about 15 percent of these proceeds from the tax bill would go toward wage increases and bonuses. Can you just give us a breakdown of what percentage of those wage increases went to CEOs versus regular employees?

Ms. KERRIGAN. The surveys that I mention are surveys of all small business owners, so these are—they are surveying small business owners asking them what they are doing with their tax savings.

Ms. MOORE. So 15 percent—

Ms. KERRIGAN. So they are passing them on to their employees in the form of higher wages. Different surveys have different results. I think the one that you are referring to—

Ms. MOORE. OK, OK. Thank you very much for that. I don't have my glasses on, so I am having a hard time seeing names here, forgive me, but our banker I have a question for you. The presidency of a real bank on behalf of the Texas Bankers Association.

One of the things that many of my colleagues have noted is that Wells Fargo was the major beneficiary of this tax bill, and what we have also noticed is that the structure of the tax bill 70 percent of the benefits went to businesses in the financial sector, brokers, hedge fund managers, and so on.

And so I guess my question for you is twofold. Number one, the year-end bonuses that people got, is that customary? Did this tax bill incentivize banks to give bonuses or is this something that they do regularly.

Mr. SILVERS . Ms. Moore, the bonus that I spoke of that our bank gave in January was purely the result of the—

Ms. MOORE. So you never gave bonuses before then—

Mr. SILVERS . We did. We also gave our traditional bonus the first of December, which we were doing even before the tax—

Ms. MOORE. Exactly. You gave bonuses year end all the time, so this tax bill didn't have any—

Mr. SILVERS . Yes ma'am this was above and beyond that.

Ms. MOORE. OK, so you gave wage increases. How much did you give the CEO versus the workers?

Mr. SILVERS . We adjust our employees' salaries on an annual basis. The reason that we gave the bonuses in January is because, as you well know, a lot of companies were giving those bonuses.

Ms. MOORE. Exactly—

Mr. SILVERS. I am not—

Ms. MOORE. Bonuses versus—OK. I don't have much time, but you did answer my question.

Mr. SILVERS . Well, I just want to make sure you understand. I compete with those companies that also got the same tax breaks, and I have to keep those employees.

Ms. MOORE. I got you. Mr. Silvers, was this tax bill worth it? We have heard people, have waxed on about the bonuses and consumer confidence. I can't bake a consumer confidence. When you consider the increase in the healthcare bills that people are going to pay as a result of destroying the Affordable Care Act, the $1,000 bonuses that people have, was this tax bill worth it in terms of the increase in the debt?

We heard so many people talk about compound interest, which is going to work against us when you consider the added debt, the $34,000 that we have added to each person's debt. Was this tax bill worth it to the average person out there?

Mr. SILVERS. Congresswoman, all I can tell you is that despite the efforts of a number of people in this room to hide this, you can't find the tax bill in the economic data. Wages are flat in real terms. Wages are down for most Americans in real terms. GDP growth is flat trending slightly downwards. It is not 3 percent, it is 2.2. Job growth, again, trending slightly downwards.

There is no significant trend in the U.S. economy, which can be seen to have been affected by the tax bill at all. The only thing the tax bill appears to have done is distributed several trillion dollars from working people to rich people.

Chairman HENSARLING. The time of the gentlelady has expired.

Ms. MOORE. Thank you so much. My time has expired.

Chairman HENSARLING. The Chair wishes to alert all members that there are currently three votes pending on the floor, approximately 10 minutes left in the first vote. We will recognize one more member and then recess for the vote series.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr, Chairman of our Monetary Policy and Trade Subcommittee.

Mr. BARR. Thank you, Mr. Chairman, and we have heard a lot of commentary today, editorial commentary about the tax cuts mostly positive. Mr. Silvers has expressed some reservations about the tax cut bill. Interestingly, with all of his discussion about the criticisms of tax cuts, we are actually seeing some pretty strong numbers in the economy.

Surveys are showing the highest level of business optimism in 34 years, consumer confidence is a near 2-decade high. Unemployment at a 17-year low on track to fall to a rate not seen since the late 1960's, and my own State of Kentucky unemployment is the lowest rate it has ever been recorded in 42 years since the Bureau of Labor Statistics began providing that data.

The labor participation rate for people in their prime working years is at the highest level in a decade. The economy has added over one million jobs since the tax cuts were enacted. There are now more job openings than unemployed Americans. Despite Mr. Silvers' statement that—and his statement contradicting the testimony of job creators right here in the room that wages aren't going up, the Department of Labor recently announced the largest annual increase in wage growth since the end of the Recession and following three consecutive quarters of economic growth averaging 3 percent, the nonpartisan Congressional Budget Office is now forecasting growth to be nearly 3–1/2 percent. All of this corroborates the anecdotal evidence in my own district.

Darryl in Estill County, Kentucky told me as a retired railroader he has a taxable pension. He is getting over $49 a month increase in his paycheck. The owner of a small community bank in my district told me that despite what my friend on the other side of the aisle was saying about increased healthcare costs, he said that because of the tax relief for his community financial institution he was going to be able to contribute more to the bank tellers' healthcare costs and lower their premiums because of tax cuts.

And then there was the owner of—the CEO of a medical clinic, who told me that because of tax cuts the ownership of the medical clinic was going to be able to expand creating construction jobs and expanding medical services to their patients.

And then there is Chris who started as a deliveryman for a pizza franchisee. He worked his way up. He started buying franchises, and now he owns multiple franchises. He told me because of tax cuts he was going to hire more workers. He was going to give them all a raise. He was going to open up a new franchise because of tax cuts.

And then there was—then there was the lady who worked in the factory in Berea, Kentucky, who told me that because of tax cuts she and her husband were going to be able to afford to buy a bigger home so that their kids would no longer have to share a bedroom. They could live in two rooms now.

So it is statistics. It is data. It is facts. And it is also anecdotes. It is just as plain as the nose on everyone's faces. These tax cuts are working. They are working. And so, Ms. Kerrigan, what would you say to Mr. Silvers who says that wages aren't going up? Ms. Miles-Olund, what would you say when the survey of the National Association of Manufacturers says that over 75 percent of manufacturers in America are going to raise wages? What is the disconnect? And, Ms. Miles-Olund and Ms. Kerrigan.

Ms. MILES-OLUND. I am just speaking to what I am seeing on the street, and I am talking with my constituents, my colleagues, it is just—it is going—they are going up. The minimum wages and the base wages are going up. And one thing is it is the demand for workers. We have to be more competitive, and as we are more competitive we have to raise that rate because we want those people to come work for us.

Mr. BARR. Ms. Kerrigan?

Ms. KERRIGAN. Well, I think the same. I think the set of statistics belies things that are actually happening on the ground with our small business owners in terms of the demand, the economy, B to B, more customers buying things, but also, the indicators and the trends. Everything from wage growth investment going up.

Mr. BARR. In my last 30 seconds if I can reclaim my time, Mr. Silvers talks about this tax cut bill being a win for the rich. You hear this narrative that this is a win for the rich. Here are the facts. The nonpartisan Tax Policy Center, households in the top 20 percent of income earnings will pay 87 percent of the Federal income taxes collected in 2018 compared to 84 percent last year. By the way, last year that is a large percentage.

By contrast, those in the lower 60 percent of income earnings will contribute only 4.3 percent of Federal income taxes compared to 5.3 percent last year. That is not a win for the rich. That is a win for the lower and middle income Americans. Yield back.

Chairman HENSARLING. Pending the conclusion of votes on the floor the committee stands in recess.

[Recess.]

Chairman HENSARLING. The committee will come to order. The Chair now recognizes the gentleman from Georgia, Mr. Scott, for 5 minutes.

Mr. SCOTT. Thank you very much, Mr. Chairman. This is indeed a very interesting and very informative hearing on the tax bill, which normally we would have in Ways and Means being a tax bill, but it is here, but it raises some very interesting, profound questions because we have a frequency on this committee of putting up—I don't see it up now, but just a tickety-tickety-tick of the growing national debt. And here we are exploring a bill that would very definitively add over $1 trillion to that national debt, and it is not just me saying it, it is according to a nonpartisan joint committee on taxation found that the Republican tax bill will cost this country to its debt $1 trillion even when accounting for the estimated effect on economic growth.

And it brings me to the big picture here of economic growth because in a way it could very well hamper economic growth, and that is why I think that this is a good hearing because it gives us a chance to explore it. There is a growing gap between the haves and the have-nots in this country. There is a shift of jobs going overseas. This is what makes it so attractive to many of our industries. We yet don't know the full impact of that.

So, Mr. Damon Silvers, now you said something very interesting, and I can't remember it all, but you said, and I want you to repeat this because you said a lot of brilliant things this morning, and I was trying to write them down, but you said something, and this is what I caught, that this bill takes money away that could be used to really help, to deal with what I talked about closing the haves and the have-nots dealing with other issues that would better lay more of equality of economic benefits distribution than harrowing it to people who need it really the least, and I think that is pretty much what you were saying. And I want you to explore on that.

But I also want you to deal with particularly your opinion on the effects of H.R. 1 on the overall economic growth, and when I say overall economic growth, I am talking about economic growth for everybody. You can't have economic growth if it is just position up to the top 1 or 2 percent of the wealthiest people in this country. Can you?

Mr. SILVERS. Congressman, let me address your first point first. As I said earlier, this country has a severe need for public investment. We have a $3 trillion plus infrastructure deficit, most of which is in public assets. That is infrastructure—that is our inheritance from responsible prior generations that built this country that is deteriorating. In order for us to be competitive with countries like Germany, and China, and India that are rapidly investing in the technologies of the future we probably need to put something between another $2 and $3 trillion into our Nation's infrastructure on top of the maintenance.

This bill is borrowing money to redistribute to the wealthiest among us money that would be better used, in the view of the AFL–CIO, to invest in our Nation's infrastructure. The same thing can be said for our Nation's educational system.

Now, you talked about the question of distribution. The key thing we need to do in this country in order to be competitive and in order to tap the productive capacity of our laborforce is to ensure that our infrastructure is universally available. This was the genius of the New Deal. We live in a prosperous country because the New Deal brought electric power to every household. In the world we live in today we need broadband to every household. I would then say that in relation to your second question—the Chairman is telling me my time has expired.

Chairman HENSARLING. I believe the Chairman is. The time of the gentleman from Georgia has expired.

The Chair now recognizes the gentlelady from Missouri Mrs. Wagner, Chair of our Oversight and Investigations Subcommittee.

Mrs. WAGNER. I thank you, Chairman Hensarling. Last year Boeing, which employs over 5,000 of my constituents not to mention the multiplier effect on the supply chain side of that announced that they would be investing $300 million as a direct result of the Tax Cuts and Jobs Act. Those dollars, which will be divided equally between charitable giving, workforce training, and workplace improvements will have a real impact for a generation of workers in St. Louis.

In addition to news like that from companies across the country, GDP growth is, in fact, on the rise, on the rise for 6 consecutive quarters and then some. Our job market is strong. Unemployment is at a record low. And small businesses are finally optimistic along with the American people and consumers about the prospect of growing and reinvesting.

Ms. Miles-Olund, your company isn't the size of Boeing, so to speak, but are you seeing these same opportunities? Are you making increased capital investments in your company as a result of tax reform and how has tax reform enabled you to make these investments?

Ms. MILES-OLUND. We have seen an uptick in large contracts with larger companies, such as Genie, Winnebago, larger companies, not so much the small onesies, twosies jobs that we had been getting. We are using these to get ISO certified, that is something that we had not been before, and also to implement our training program to be more competitive and to deal with the labor shortage issue that we have as well as invest in our community college so we can partner with them for labor.

Mrs. WAGNER. You are investing in the community college, investing in training, things of this nature?

Ms. MILES-OLUND. Yes.

Mrs. WAGNER. Wonderful. U.S. Bank, which is based in my home State of Missouri and has a large presence in my district announced in January that they would give $1,000 bonuses to almost 5,000 employees in Missouri while increasing wages for another 1,300 employees to $15 per hour.

Mr. Sasser, you actually know how this feels since your bank also gave $1,000 bonuses to your employees. Can you tell me why that is important to your employees?

Mr. SASSER. Well, certainly our employees appreciate, appreciated the bonus that we had given to them, but let me also say that we didn't just give a bonus just because it made us feel good one time. My competitors, other banks in my market they also got the same tax break that I did, and I not only compete for deposit customers, compete for loan customers, but I compete for qualified employees. And so it is imperative that I pay my people a competitive wage. These are trained people that are very good at what they do. They are what makes our company successful, and so, paying the bonus, sure it made us feel good, but it was something we have to do in order to be competitive. We want our people to be well paid.

Mrs. WAGNER. And all boats rise for all employees across the board.

Mr. SASSER. Exactly. We want everybody to be successful. That is why I am in the banking business. I love making people be successful.

Mrs. WAGNER. So do I. Ms. Miles-Olund, during the first quarter of 2018, U.S. private sector wages saw their biggest gain since 2008, and I think Mr. Sasser has just given testimony to that. How has tax reform enabled you to pay your employees more?

Ms. MILES-OLUND. We increased our minimum wage by a dollar and then with the training program that we put in we have made it so that every time they learn a new skill they receive a $1.50 raise.

Mrs. WAGNER. Wow. Well, we have seen it time and time again now that companies are also investing in training for their employees and offering increased benefits. How does this afford new opportunities for your employees that they otherwise might not have had?

Ms. MILES-OLUND. I did see an uptick in our 401K people opening up a 401K, which—

Mrs. WAGNER. So they are investing for their future?

Ms. MILES-OLUND. That really made me happy. I think three or four people bought a new home this year, too, so, again, very happy about that.

Mrs. WAGNER. Buying new homes, investing in their retirement savings or for a rainy day, investing in communities, training, wages, I thank you for your testimony here today. Mr. Chairman, I think my time has expired, and I shall yield back.

Chairman HENSARLING. The gentlelady yields back. The Chair now recognizes the gentleman from Illinois Mr. Foster.

Mr. FOSTER. Thank you, Mr. Chairman. And I would like to thank the committee here for their anecdotes. I come at this as someone who started a small business with $500 from my parents, and that company now manufactures approximately 70 percent of all the theater lighting equipment in the United States. We have kept all the manufacturing in the midwest. Our total employment just went over 1,200 people. And so I am very proud of that and as well as proud of my brother, who has actually been running the business for a while. But I speak I believe for both me and my brother when this tax cut that we got was not something that we asked for and not something that we need.

And now, Mr. Sasser, you said something interesting that your customers do more when they have more. OK. I actually agree with that. I believe the real job creator is a customer. Customers come from the middle class, and we have to focus on making the middle class healthy. Now, there is actually a number for this. If I can have the household net worth slide, if that is coming up I believe there is a third one. That one.

In the last couple weeks, the Federal Reserve made the historic announcement that household net worth has now gone over $100 trillion, and so I think that is a number that is interesting to compare to the $15 trillion of publicly held debt that our Government has when people say there is no money and we must cut Social Security and that we must cut Medicaid and so on that I think the narrative that there just isn't enough money is demonstrably false. $100 trillion is the wealth of Americans, and it is historic.

Interestingly, it is up by $45 trillion during the Obama recovery, and that is a fundamental number. Unfortunately, of course, your customers and all Americans lost about $13 to $15 trillion during the Republican crisis of 2007–2008.

Now, Mr. Sasser, when your families in America lost $15 trillion, did they do less because they had less?

Mr. SASSER. Well, obviously, Mr. Foster, when people have less they do less. My customers are like me. They are like my bank. And that is they learn to live within their means. Whatever your income is if you live beneath your means you are going to grow your net worth. Has nothing to do with the amount of income you have. It is purely how you manage those revenues you have coming in.

Mr. FOSTER. So you believe that the drop of $15 trillion of household net worth during the Republican collapse of 2008 was due to mismanagement of individual finances?

Mr. SASSER. I am not sure that I understand your question about a Republican crash.

Mr. FOSTER. I would like to move on here, but I think people should keep the $100 trillion in mind. It is a fundamental number when people say that there isn't enough money in this country and we must cut Medicaid and Social Security.

Second, and as well if you look at this it is hard to see any effect of either the election of Donald Trump or the tax cut on the trajectory here. And I think, I am also in addition to being a businessman I am a scientist, so I am sort of a numbers guy, and if you look at any of the numbers there has been nothing since the election of Donald Trump or the tax bill that looks very different than a simple continuation of the trajectory set by the Obama recovery. This is one example of it. If we can go to the next slide.

Another interesting thing that has changed actually in terms of banks is that after many years of strong growth in business loans by banks they have flat-topped since the election of Donald Trump, and I think this is an interesting observation to make. What is it about the election of Donald Trump that caused bank loans to businesses, Main Street businesses to flat-top? Mr. Sasser, do you have any theories about that?

Mr. SASSER, I am not familiar with the chart that you have or where those numbers came from.

Mr. FOSTER. They come from the Federal Reserve. They come from the Federal Reserve.

Mr. SASSER. OK. That is not what I am seeing in my bank.

Mr. FOSTER. I understand the anecdotes, but I am a numbers guy, and I would like—if you have any theories if you could answer for the record, any theories for why things have flat-topped since the election of Donald Trump I would appreciate it. And the last slide here, if I could.

We have heard a lot about the job market here, and so, it is interesting to look at the effect of layoffs. This is—the plot here is the number of layoffs it is what our initial claims for unemployment insurance, what economists use as a proxy, and you can see the big effect here happened in March 2008 when without a single Republican vote the Democrats passed the stimulus, and the Federal Reserve stimulated the economy as best they could. And so that is the fundamental change. Again, you can see no change at all since either the election or the tax bill. What we see continuously if you look at the numbers are a continuation of the economic growth triggered under President Obama. Then the best you can say is that so far President Trump has not wrecked the Obama recovery. Thank you. I yield back.

Mr. PITTENGER [presiding]. The gentleman's time has expired. The Chair recognizes the gentleman from Florida, Mr. Ross, for 5 minutes.

Mr. ROSS. I thank the Chairman. I thank the panel for being here. While I am excited by the outstanding performance of today's economy, the strength of our job market, and the optimism of businesses and consumers alike, I want to underscore how important it is for us not to become too complacent.

As we have seen over the course of the last 2 years elections do have consequences, dramatic consequences at that. And while we were fortunate to have President Trump and his progrowth agenda succeed in the last election our ability to turn around the economy by cutting red tape and passing tax reform just shows how quickly change can be made.

I get on the website of GDPNow and the Federal Reserve Bank of Atlanta shows that we are right now in a trend for a 4.7 percent GDP. That is phenomenal. We haven't seen growth of this economy over 3 percent in the previous two—the previous Administration for over 8 years. So we are on a progrowth plan. That is why I think it is absolutely critical for Congress to continue to pass laws that protect Americans from red tape and regulatory overreach while empowering regulators to do their job efficiently and effectively. I think reform of the Financial Stability Oversight Council and specifically passage of a bill which I introduced with Congressman Delaney, the FSOC Improvement Act must be a top priority.

Mr. Stevens, I would like to ask you a few questions about the FSOC Improvement Act with which I believe you are familiar. In your testimony as an example of the unnecessary or inappropriate regulation you cite that FSOC and its process for designating nonbank financial companies are systemically important institutions. What is problematic about this? Let's face it, I get it about bank-centered institutions, but nonbank-centered institutions being designated as a SIFI under the current system is problematic, and it could pose serious problems for capital markets and investors. What say you?

Mr. STEVENS. Well, it is the consequences of the designation because the consequences under Dodd-Frank are that a nonbank will be regulated as if it were a bank.

Mr. ROSS. And not by its prudential regulator.

Mr. STEVENS. No, by the Federal Reserve in a system of enhanced—

Mr. ROSS. And with no method or manner by which to correct it or for that matter to rehabilitate.

Mr. STEVENS. The Federal Reserve understands the banking system. I do not think it understands asset management, and I think fundamentally asset managers don't fail like banks, they don't resemble banks, they don't pose the risks of banks.

Mr. ROSS. And there is never a run on asset managers, is there?

Mr. STEVENS. The long-term mutual funds stock and bond funds weathered the financial crisis better than any other part of the financial system.

Mr. ROSS. Do you think that making—that we are making FSOC's job harder by depriving them of the expertise of a prudential regulator in the remedial powers available to them?

Mr. STEVENS. Actually, I think the contrary. You are putting the subject-matter experts, the capital markets regulators that understand our industry up front and under your bill, which I appreciate your leadership on it, the Fed stands as a last reserve if the risk that is identified can't otherwise be addressed.

Mr. ROSS. Ms. Kerrigan, we have talked about the JOBS Act, and we want to continue to build on the JOBS Act especially in light of the enacted progrowth tax reform. How do you see the progrowth provisions of tax reform interacting with the JOBS Act and any other regulatory reform efforts originating out of this committee aimed at increasing access to capital in a capital markets?

Ms. KERRIGAN. Well, a couple things. One, we have a growing economy, and there is a lot of opportunity for entrepreneurs and small businesses in this economy, so now they need capital more than ever to take advantage of those opportunities. AXIS Capital has been an enduring challenge for entrepreneurs.

Mr. ROSS. It is the lifeblood of commerce.

Ms. KERRIGAN. Well exactly. But now a lot of these businesses have tremendous opportunities to grow, to invest, to do businesses with large businesses they need the capital in order to—

Mr. ROSS. And we are starting to see the flow of capital, aren't we, because of the tax reform plan, as well as what now we have just seen as the first couple weeks of a regulatory relief under the Dodd-Frank light, as I call it, we are starting to see capital come back into the markets, are we not?

Ms. KERRIGAN. We are. And so there is working capital and capital they currently have right now because of the Tax Cuts and Jobs Act that is allowing them to reinvest and expand, but I think if you really want to help a lot of these entrepreneurs and small businesses they need access to growth capital. And this is where the reforms that the committee has done that have already passed the House that they are considering to improve the capital markets and strengthen capital access is really, really needed right now.

Mr. ROSS. Thank you. Mr. Sasser, real quickly, I have only got a couple of 20 seconds. A key progrowth provision of tax reform can be the difference maker for a company and allow them to make significant capital improvements. Have you noticed your customers making capital improvements in their business as a result of immediate expensing?

Mr. SASSER. Yes, we have.

Mr. ROSS. It is another form of capital, if you will, with immediate expensing.

Mr. SASSER. That is exactly right. The revenue pie is only so big, and when the Government takes a big slice of it then that is less money available to service debt. As the Government shrinks the amount of money it takes from these businesses, that is more money available to service debt.

Mr. ROSS. I agree.

Mr. SASSER. And with more money available to service debt, then we are able to provide more capital for businesses and growth.

Mr. ROSS. For business and growth. Thank you. My time is up. I yield back.

Mr. PITTENGER. The gentleman yields back. His time is expired. The Chair recognizes himself for 5 minutes.

In 2003, I was elected to the North Carolina Senate and served there 3 terms. North Carolina at that time was the highest tax State in the southeast, both marginal rates and the corporate rates. As such, we were ranked around 44th in economic development.

Following 2015 tax cuts in North Carolina, and regulatory reform, North Carolina is now a leader in economic development in this country. I am grateful that the good wisdom of our Congress followed the pattern, the direction of what we did in North Carolina to reduce these corporate rates that allowed companies to expand.

Let's take a look at just what has happened in my own district. Frankly, Mr. Silvers, I would have been very depressed about the future of our country if I didn't understand the reality check of what has really happened not just in my State, in my city, but frankly, around the country.

Randy Marion, a car dealer in Mooresville, North Carolina, he sells GMCs, Buicks, Chevrolets, and Fords. Last year he sold 12,000 cars. This year he predicts he will sell 13,000 or more. That is an 8 to 10 percent increase. He attributes that because the consumer has more money in his pocket and more capability to go and buy a car. These are cars, American cars built by union folks.

Another car dealer Felix Sabadas, Felix owned the biggest Mercedes dealership. Now he has acquired just a couple months ago, a big Ford—or started a new Ford and Lincoln dealership all because of a growing, emerging economy.

Let's look at the banking system, something that I served on our community bank for a decade. 2010 since that time in North Carolina we lost 50 percent of our banks. Now just this year in the last 2–1/2 months, we have six de novo banks, new charter banks in North Carolina. This hasn't happened that much around the country during 2015, 2016, or 2017.

These banks are in small towns. That have been depleted from capital and credit from the consumers. Now they are going back into those communities. North Carolina now will be a leader again in our economic development, but let's look at what has happened around the country.

According to the housing market, our home prices are fastest pace since 2006. Zillow says it is up 8.7 percent. ABC says the Zillow estimates almost—are almost $40 billion that it will now be injected into the American housing market as a result of tax cuts to the Americans in 2018. This is not your conservative bit organization.

Let's look at historic low black unemployment. Well, for the first time in U.S. history, the unemployment for African Americans fell below 6 percent as reported by NPR. A dramatic drop occurred in black unemployment, which fell to a record low of 5.9 percent, suggesting that African Americans are also benefiting from job gains in this booming economy. The jobless rates for Hispanics, teenagers, and those with less than a high school education are likewise at or near multidecade lows.

BB&T, a major North Carolina banking institution announced $1,200 bonuses for 27,000 employees. Their base wage now will rise from $12 to $15 per hour. This wasn't mandated by the Federal Government. This is as a result of the demands of our economy. They have also injected and provided $100,000,000 in charitable donations.

IET Insurance Group out of Raleigh, $3,000 a person bonuses for 685 employees. They were nonexecutive individuals. Requested Financial Holdings in Cornelius, $1,000 bonuses to 95 employees. Their base wage hike went up to $15 an hour. This is market driven, not as a result of mandates. Apple Computers, now they are considering establishing their operation in the triangle area of North Carolina. There can be 10,000 jobs, but already we have five Apple stores here. They have given out $2,500 employee bonuses in the form of restricted stock units. Nationwide $30 billion in capital expenses over a 5-year period. These are remarkable results, something that is clearly attributed to a progrowth economy resulting from these legislative actions by our Congress. I hope and pray that we will stay on the same course to contribute to the American economy in the same manner. My time has expired.

Ms. WATERS. Mr. Chairman, a unanimous consent request.

Mr. PITTENGER. Yes.

Ms. WATERS. I would like to submit for the record an article entitled, "Blue-Collar Trump Workers Are Struggling at Their Tax Cuts."

Mr. PITTENGER. Without objection, so ordered.

Are there any other witnesses? Yes, sir. Mr. Mooney, you are recognized for 5 minutes.

Mr. MOONEY. Thank you, Mr. Chairman, and thank you so much for coming to testify.

And the goal of this committee is to get our economy moving again. We are seeing that this year, whether it is the tax cuts or the deregulation bills. I know some people want to see us fail, but frankly, free market works. Either you believe in free market or you believe in Government running everything and basically socialism. This country is founded on free market values.

So we want to unleash the economy, let small businesses, individuals be successful. So I really appreciate, I have looked at your testimony, the organizations you represent, small businesses, manufacturers, investors. I really appreciate your being part of this process so we can hear from you and get bills passed and help our economy.

So in that vein, I know that, well, in 2012, so we can see the results now, it has been over 5 years when we passed the JOBS Act to some SEC relief and hopefully get some small business startups and this could be for anyone, maybe Ms. Kerrigan or Mr. Stevens might have a little more information on it, but how has the JOBS Act helped small businesses and ECGs access the capital markets so far?

Either of you want to try on that one?

Ms. KERRIGAN. Well, it has been terrific in many regards. Number one, if you look at debt inequity credit funding and allowing ordinary investors to invest in startups and regulated platforms that got off to a slow start only because the SEC took 4 years to implement that rule, those rules, but now you are seeing hundreds nearly 1000 startups being able to raise funds, start businesses, and in very competitive businesses. So that has been very, very promising, and we think with more reforms there is a tremendous opportunity to see growth in that regard.

Just the commonsense things in terms of the JOBS Act in terms of scaling some of the rules and regulations, developing this emerging growth company designation has really initially helped to power the IPO market. I think now we need to make additional reforms to sort of get that going again. But the JOBS Act has been really terrific for capital formation and capital access and certainly there is a lot more regulatory reform and streamlining that can get done to improve—to improve the capital markets further.

Mr. MOONEY. Thank you.

Mr. Stevens?

Mr. STEVENS. It is vitally important, Congressman, that we attend to the entire ecosystem as we think about capital formation, and that is from the smallest to the largest.

Our members, their registered funds tend to focus on the larger of those, but you don't become a big company unless you are a successful small company first.

We particularly want to see companies become publicly listed because then they are really eligible for us. And the reality is that small- and middle-size capitalization companies are more or less disappearing from U.S. exchanges, and we need to do something about that.

Mr. MOONEY. So as a follow up, I think Ms. Kerrigan mentioned, but it has been 5 years, we have seen what has happened with it, but are there more improvements now?

We are passing lots of bill out of this committee. We are even getting some through the Senate. That is why I said at the beginning, we appreciate you being part of this process. It can be frustrating, but my mother fled a communist country, Cuba. At least here we have a process where people can have their grievances and their issues brought to Congress, pass the House, pass the Senate. I know it is a long process, but we have to work that process.

We finally got a bill through. It wasn't as much as I wanted to do with the CHOICE Act, but we got something through, and we can continue to do that on other bills that help our economy.

So now that it has been 5 years since the JOBS Act, any specific ideas of bills that we should pass here? Hopefully, the Senate will do their job. I do think our President will sign those bills. He is very pro free market economy.

So any specific ideas you might want to share?

Ms. KERRIGAN. Well, I list many in my testimony. Some of those have already passed the committee, passed the House, and it looks like we are going to have to do it again or the Senate actually is moving on some things. There will be a hearing next week, and we will be testifying at that.

The Helping Angels Lead Our Startups Act, the Fostering Innovation Act. I must list at least 10 reform bills in my testimony.

I think one of the things that will be considered tomorrow by the committee is to extend the emerging growth company designation. It was a 5-year shock clock, if you will, but extending that to 10 years will help those existing companies, I think will even incentivize the IPO market even more.

So just a lot of those commonsense things that, again, the committee is looking at and will be looking at in the near future.

Mr. MOONEY. Only 10 seconds left. Well, I will yield my time back to the Chair. Thank you.

Mr. PITTENGER [presiding]. The gentleman yields back.

I would like to thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 12:45 p.m., the committee was adjourned.]

# A P P E N D I X

June 20, 2018

SBE COUNCIL
Small Business & Entrepreneurship Council

# Empowering a Pro-Growth Economy by Cutting Taxes and Regulatory Red Tape

**Testimony of**

**Karen Kerrigan**
**President & CEO**
**Small Business & Entrepreneurship Council**

**Before the**

**Committee on Financial Services**
**United States House of Representatives**

**The Honorable Jeb Hensarling, Chairman**
**The Honorable Maxine Waters, Ranking Member**

***Protecting small business, promoting entrepreneurship***

Chairman Hensarling, Ranking Member Waters and members of the committee, thank you for hosting this important hearing today and for the opportunity to provide testimony on the impact of the "Tax Cuts and Jobs Act" on economic growth and entrepreneurial risk-taking, along with future policy actions that can be taken to encourage entrepreneurship, capital formation and access, and strong small business growth.

My name is Karen Kerrigan and I serve as President & CEO of the Small Business & Entrepreneurship Council (SBE Council), a nonprofit, nonpartisan advocacy, research and education organization dedicated to protecting small business and promoting entrepreneurship. For nearly 25 years, SBE Council has worked on a range of private sector and public policy initiatives to strengthen the ecosystem for healthy startup activity and small business growth. The work of this committee has had a significant impact on our members, entrepreneurs and the small business community and SBE Council appreciates its bipartisan efforts to improve capital formation and capital access for small businesses and entrepreneurs.

**"Tax Cuts and Jobs Act" Fueling Confidence and Growth**

As we cross the six-month point of the newly implemented "Tax Cuts and Jobs Act," many indicators find that its effect has been very positive for small businesses. The new tax law is helping to fuel momentum in the economy, improve consumer confidence, and enable job creation, higher wages and more business investment. The combination of regulatory relief and certainty, along with tax relief, is a powerful policy mix that has markedly improved the business environment, revenues and sales for small businesses, and their growth opportunities.

**Small Businesses Are Confident**

The significant uptick in small business confidence that followed the 2016 elections continues to this day. Various surveys report comparable findings: small business confidence is exceptionally high.

• According to the second quarter 2018 Wells Fargo/Gallup Small Business Index survey, "small-business owners' optimism continues to be strong -- near a 10-year high."

• The NFIB's Small Business Optimism Index for May 2018 reported that optimism reached its second highest level in the organization's 45-year history.

• The Spring 2018 Bank of America Business Advantage Small Business Report (released April 26, 2018) reported that "confidence in the economy – both at the national and local levels – is the highest it's been since 2015 and the second-highest in the history of the report."

An important take-a-way from these various reports is that small business confidence has stayed strong and consistent over a year and a half, which is producing positive activity from this sector

- such as expansion, hiring, and investment – all of which are critical for innovation, our economy and its competitiveness.

Such confidence has translated into actions by small businesses that help build local communities and job opportunities. For example, NFIB's May 2018 Index showed that "compensation increases hit a 45-year high at a record net 35 percent." The Spring 2018 Bank of America (BoA) Report aligns with the NFIB's finding in terms of how the growing economy, along with tax relief, are providing a boost to small businesses and allowing small firms to better compete in the economy. In fact, entrepreneurs surveyed in the BoA report identified changes to the tax code as a "game-changer" for the health of their businesses. As noted within the report:

- *Fifty-eight percent cite the new tax policy as a 'game-changer' for small businesses overall, and 63 percent say it's made them more optimistic about their own business' outlook.*
- *Thirty-seven percent have altered their 2018 business plans as a result of the new code. – 34% say it will significantly alter their business trajectory*
- *Seventy-one percent expect to receive savings resulting from the new tax policy, and many plan to use these funds to fuel growth, including investing back into their business (37%), awarding raises and bonuses to employees (21%) and hiring more employees (14%), expand operations (14%), pay off a loan (12%), make capital improvements (12%).*

A LendingTree survey (May 2018) also found that small businesses expect to benefit from the new tax law, with 65% responding that they plan to see savings. According to the survey, 35% will pay down debt, 15% plan to pass tax savings onto employees thru increased wages and benefits, 9% will invest more in the business, and 7% will hire more employees. Each and all of these actions taken by small business owners are important to the health and viability of their firms, as well as for the strength of the economy.

Obviously, extra capital for small businesses provides these firms with the resources they need to retain and compete for human capital – a growing challenge for many businesses, but especially small businesses. Tax savings and a growing economy (more revenues) are helping small businesses in this regard, as noted by each of the surveys highlighted in my testimony. While some small businesses are boosting wages immediately due to tax relief, a significant number of others plan to do so over the coming year. For example, the Wells Fargo/Gallup Small Business Index (Q2 2018) finds "59% of owners say they are very or somewhat likely to offer salary or wage increases to their workers over the next 12 months, and 52% say they are likely to offer bonuses or new benefits."

While these surveys demonstrate that many small business owners generally understand the new tax law and are using it to their advantage in the growing economy, there are many others business owners who are still working to determine its impact and provisions. In that regard, SBE Council is providing regular education and information through our platforms, enews and communications to help entrepreneurs navigate and understand the new provisions to ensure they can leverage the changes to their advantage in 2018.

**Consumer Confidence Boosting Small Business Growth**

According to The Conference Board *Consumer Confidence Index*, consumer confidence rose in May to a three-month high, and is the best in 17 years: "Overall, confidence levels remain at historically strong levels and should continue to support solid consumer spending in the near-term." Confident consumers are active consumers, and small businesses are benefitting from their confidence and buying activity.

In terms of retail sales, the Census Bureau's report on May's data showed an increase at double the expected rate, registering at 0.8% (versus an expected 0.4%). It is also worth noting that 0.8 percent growth is double the average monthly growth rate looking at data back to 1992. Over the past year, total retail sales were up 5.9 percent, and 6.4 percent excluding autos, 4.9 percent excluding gasoline, and 5.1 percent excluding both autos and gas.

Confidence about the future of the economy, the positive job outlook, tax cuts benefitting families and individuals, and wage increases generated by small, mid-size and large businesses are all having an impact on consumer activity. As noted by the NFIB May 2018 Index, small businesses are the beneficiaries of this activity as sales trends are at the highest level since 1995.

SBE Council members are reporting much stronger activity from their larger corporate clients and general B2B activity as well. Business investment has picked up markedly, which is a dramatic departure from the "investment gap" that the economy experienced from the great recession throughout the recovery period. This "gap" was substantial as noted by my organization's "Gap Analysis" series published during the course of 2016, which reported that "Real gross private domestic investment grew at an average annual rate of 1.8 percent from 2007 to 2016, compared to the 4.9 percent average growth rate from 1956 to 2016." This difference left a real gross private domestic investment gap of at least $1.4 trillion (in 2009 dollars) in 2016.

Thankfully, business investment is on the rise. In the second estimate of first quarter GDP released by the U.S. Bureau of Economic Analysis on May 30, fixed nonresidential investment growth was revised up from an original estimate of 6.1 percent to 9.2 percent, including structures investment growth upgraded from 12.3 percent to 14.2 percent, equipment from 4.7 percent to 5.5 percent, and intellectual property products from 3.6 percent to 10.9 percent. Such investment serves as a positive for future economic growth.

It is also very encouraging to see money returning (repatriated) to the United States from abroad, which is capital that can be re-deployed for investment purposes. Business spending by large companies significantly benefits small business in their supply chains. In fact, a September 2010 Business Roundtable report (Mutual Benefits, Shared Growth: Small and Large Companies Working Together) found that "the U.S.-parent operations of the typical U.S. multinational buys goods and services from more than 6,000 American small businesses; buys a total of more than $3 billion in inputs from these small-business suppliers; and relies on these small-business suppliers for more than 24% of its total input purchases." The Business Roundtable estimates that "U.S. parents of U.S. multinationals purchase an estimated $1.52 trillion in intermediate inputs from U.S. small businesses, which is about 12.3% of their total sales."

This fertile environment consisting of a better business environment, strong consumer confidence, and improved revenues and sales for small businesses means entrepreneurs have a very favorable outlook moving forward. The recent BOA report for the second quarter of 2018 reflects that buoyancy:

• *Fifty-four percent expect the national economy will improve over the next 12 months (vs. 52 percent in spring 2017, 29 percent in spring 2016 and 48 percent in spring 2015).*

• *Sixty percent believe their revenue will increase in 2018 (vs. 48 percent in spring 2017 and 51 percent in spring 2016).*

• *Sixty percent plan to grow their business over the next five years (vs. 56 percent in spring 2017 and 55 percent in spring 2016).*

• *Twenty-two percent plan to hire (vs. 18 percent in spring 2017 and 22 percent in spring 2016).*

There are many solid signs in the economy for entrepreneurs and small businesses. The policy ecosystem and positive business environment are helping to strengthen small firms and provide growth opportunities. To fully benefit from these positive conditions, many entrepreneurs and small businesses require or will need capital to help launch new enterprises, scale, compete for business or expand. That makes the work of this committee, including the many valuable bipartisan reforms it has already passed, all the more important.

**Reforms Are Still Needed to Help Small Business Leverage the Growing Economy**

The House Financial Services Committee and its members have championed and advanced many significant reform initiatives. If enacted into law these reforms will help entrepreneurs and small businesses take advantage of growth opportunities. Capital is the fuel that drives entrepreneurship and economic growth, and small businesses and startups need a continuous flow of capital to launch, compete and grow.

Conditions have certainly improved since the Great Recession and its aftermath. Lending is on the rise (but still not back to pre-recession levels), and hopefully the "Economic Growth, Regulatory Relief, and Consumer Protection Act" (S. 2155), recently signed into law by President Trump, will help ease lending to small businesses. As I noted above, capital provided by the "Tax Cuts and Jobs Act" is helping many entrepreneurs self-finance business expansion and investments, but growth and startup capital remains elusive for many others, which is why regulatory improvements and fixes are needed.

There's been improvement in the online lending space as some of the nation's largest "FinTech" small business lending platforms are quietly helping many entrepreneurs with their capital needs. A May 31, 2018 study, "The Economic Benefits of Online Lending to Small Businesses and the U.S. Economy" reported that just five of the largest lending platforms funded nearly $10 billion in online loans from 2015 to 2017, generating $37.7 billion in gross output, creating 358,911 jobs and $12.6 billion in wages in U.S. communities. The study found that 24 percent of these borrowers are microbusinesses with less than $100,000 in annual sales and two-thirds have less than $500,000 in annual sales. So online lenders are definitely filling an important niche, and small business borrowers are becoming better educated about this type of financing.

The Jumpstart Our Businesses Startup Act (JOBS Act) included solid reforms that have helped boost Initial Public Offerings (IPOs) and deliver many startups the funding they need through regulated crowdfunding (Title III crowdfunding). It took the Securities and Exchange

Commission (SEC) four long years to develop and implement the rules around regulated crowdfunding, which is why it has taken longer than expected to get traction through this promising funding approach. Regulation crowdfunding is quietly funding companies and doing what its supporters, like us, hoped it would. To date, there are nearly 1,000 active campaigns (about 600 of those are fully funded), where $132 million has been committed from 133,883 backers (investors). The average raise is $247,456. A wide array of sectors are represented, with application software companies leading the pack followed by beverages (alcoholic), computer hardware, entertainment and the autos industry.

There is great promise with regulated crowdfunding, again a bipartisan effort that began in this committee. With some reforms and tweaks, the leaders of this community believe it can flourish as a solution for startups and small businesses. Such changes to improve crowdfunding and to make it more appealing for small businesses include raising the amount that can be raised (which is currently $1 million), allowing issuers to "test the waters," allowing for special (or single) purpose vehicles, provide simplified rules for advertising, legal clarity for platforms, and removing the caps for accredited investors, among other changes.

SBE Council, along with the economic development community at large, are excited about the "opportunity zones" created by the "Tax Cuts and Jobs Act." The Opportunity Map is now complete – meaning all the zones have been selected by Governors, and the U.S. Treasury has certified these zones. Now the market can be engaged and investment can begin. Regulated crowdfunding can have a positive impact in these areas, along with impact investing. The various reforms that have already passed this committee will also add greatly to the capital needs of these zones (if enacted into law), which largely have not benefitted from the economic recovery.

This committee has focused on reforms that modernize/streamline rules and update thresholds, and the same needs to be done with Section 1224 Small Business Stock.

Qualified Small Business tax (loss) treatment under Section 1244 of the I.R.S. code (QSB 1244) allows for investors to deduct losses taken on investments in C Corp startups to be deducted against ordinary income. QSB 1244 was passed as part of the Small Business Investment Company Act of 1958, the spirit of which was to mobilize more capital into innovate startups. The current thresholds were last updated in 1978, which are: the first $1,000,000 of outside, individual tax payer(s) (angel investors) capital receives 1244 treatment; $100,000 per year of 1244 losses deductible against ordinary income (for joint tax returns); $50,000 per year of 1244 losses deductible against ordinary income (for single filers).

The Consumer Price Index has risen 363% since 1978. If the above thresholds were inflation adjusted, the levels would be: $3,630,000 of outside investors' capital would qualify for de-risking under 1244; $363,000 per year of 1244 losses could be deductible for joint filers: $181,500 per year for single filers. These changes would be consistent with the laudable changes recently made to the QSB 1202 laws, which now provide for the first $10M of profits that qualify under 1202 to be excluded from taxes.

This change can help up-and-coming entrepreneurial ecosystems outside Silicon Valley as well as Opportunity Zones where many new investors and family offices are interested in impact investing.

SBE Council continues to support the many bills that were born from this committee's work. Getting these bills signed into the law will strengthen and improve the capital markets and encourage capital formation and access for our most innovative firms. As many of the committee members know, SBE Council is on record in support of the "Helping Angels Lead Our Startups Act" (H.R.79/ S. 588), "Fostering Innovation Act" (H.R. 1645/S.2126), "Encouraging Public Offerings Act" (H.R. 3903/S. 2347), "Small Business Audit Correction Act of 2018" (H.R. 6201/S.3004), Micro-Offering Safe Harbor Act (H.R. 2201), and "Small Business Mergers, Acquisitions, Sales, and Brokerage Simplification Act of 2017" (H.R. 477) to name just some of the bills that will lead to powerful results for entrepreneurs and small businesses.

Also, recent action taken by the committee on H.R. 5877 Main Street Growth Act (H.R. 5877), the Small Company Disclosure Simplification Act of 2018 (H.R. 5054), and H.R. 5756, to require the Securities and Exchange Commission to adjust certain resubmission thresholds for shareholder proposals are supported by SBE Council.

With regard to giving small businesses a permanent voice at the SEC, we look forward to seeing progress in finding an Advocate for Small Business Capital Formation, a position that was required by law in December 2016. The office, and advocate, will be an important point of contact for entrepreneurs and small businesses and can help to spur change and new approaches that will be beneficial to capital formation. The position has yet to be filled.

I would be remiss if I did not mention the need for additional tax reforms that modernize and simplify the tax code for small businesses. I would urge committee members to take a look at the "Small Business Tax Simplification Act" (H.R. 3717), a bipartisan product of the House Small Business Committee. Several Financial Services Committee members also serve on the Small Business Committee, including Ranking Member Nydia Velazquez one of the chief sponsors and architects of the legislation, which provides common sense administrative fixes and solutions that reduce costs, complexity and uncertainty for small businesses. H.R. 3717 will make a meaningful difference for small businesses.

Once again I thank committee members for inviting SBE Council to be a part of the important hearing today, and I look forward to your questions and a discussion on how we can strengthen entrepreneurship and small business success in the growing economy.

Respectfully submitted by,

Karen Kerrigan

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**Protecting Small Business, Promoting Entrepreneurship**

**TESTIMONY OF LORI MILES-OLUND, PRESIDENT, MILES FIBERGLASS & COMPOSITES**

**BEFORE THE U.S. HOUSE COMMITTEE ON FINANCIAL SERVICES**

**HEARING ON**

**EMPOWERING A PRO-GROWTH ECONOMY BY CUTTING TAXES AND REGULATORY RED TAPE**

**JUNE 20, 2018**

Good morning Chairman Hensarling, Ranking Member Waters and distinguished members of the committee. Thank you for the opportunity to appear before you and for holding this hearing today on the important subject of tax reform.

**My name is Lori Miles-Olund, and I am president of a family-run manufacturing company in Oregon.** My father started our company in 1963 at the age of 19, and I have been involved in the business for more than 35 years.

**Our company, Miles Fiberglass & Composites is based in Oregon City, Oregon.** With more than 50 years of experience in the fiberglass and composites industry, we are dedicated to providing our customers with quality products that meet or exceed their expectations. At Miles, we believe that staying on top of the industry's technology is important. We put time and effort into keeping up with the changing marketplace and environmental standards of the fiberglass and composites industry. We make products for wind turbines, RVs, railroads and utilities. We also manufacture products for the military, including panel kits for Humvees, to protect and repair vehicle hoods and reduce maintenance downtime. Last year, we had sales of $6.8 million; this year, we are on a path to produce $12 million in sales. We are considered a medium-sized composite company. Thanks to tax reform, we anticipate generating an additional $336,000 to invest in our business this year.

**I am also a member of the National Association of Manufacturers (NAM).** The NAM is the nation's largest industrial trade association and the unified voice for the more than 12 million men and women who make things in America. The NAM is deeply committed to achieving a policy agenda that helps manufacturers grow, create jobs and spread more opportunity and prosperity throughout the broader economy. So am I. That's why I am very happy to appear before you today on behalf of the NAM to describe the effect of tax reform on manufacturers like Miles—today, almost exactly six months after its passage through Congress—as well as our dedicated employees and the community we call home.

**Overview**

It is no secret that America's tax code was in desperate need of an overhaul before Congress acted last December. For decades, manufacturers of all sizes faced an outdated tax system that put us at a tremendous disadvantage relative to other countries. In some instances, the *American* tax system actually *encouraged* companies to invest overseas instead of here in the United States. That's absurd, and it obviously presented many challenges for small and medium-sized companies like mine.

The tax reform bill Congress passed last year made tremendous strides toward leveling the playing field for manufacturers in the United States. It's just the kind of reform manufacturers had advocated for over many years. And, already, it is giving a significant lift to the American economy—in particular, manufacturing. Consider the brand-new Manufacturers' Outlook Survey numbers, released just a few minutes ago by the NAM. This is a survey of manufacturers like Miles that the NAM releases every quarter. It asks a lot of questions, but the headline metric is this: just how optimistic are you?

Well, here's what the latest survey found for manufacturers across the country: *Very. Extremely. Historically.* **This quarter's optimism reading of 95.1 percent is the highest in the history of the survey.** That means more than 95 percent of manufacturers are optimistic about the future of their companies. It's also the latest in a series of record-breaking optimism readings over the past year and half or so of these surveys. In other words, we keep breaking our own records. And you can probably imagine why. The *prospect* of tax reform alone was enough to get manufacturers excited—not just excited actually, but *historically* excited—and that trend is obviously continuing now as we mark six months since tax reform's passage.

So, the economy is on a roll, manufacturers are on a tear, and here's what you're probably thinking—so what does this mean for my constituents? Here's what your constituents are probably thinking—so what does this mean for me? These are the questions Americans *should* be asking. Manufacturers fought hard for tax reform over many years, and as we did, there was promise implicit in our advocacy: if Congress can deliver a pro-growth tax code, then manufacturers can be freed to deliver on that growth—to hire more, to pay more, to invest more. You, in Congress, fulfilled your end of the bargain. Now, we, in manufacturing, are fulfilling ours.

Let's look at the big picture first.

**Manufacturers' Response to Tax Reform**

The NAM recently polled its members on the impact of tax reform for their own companies. The responses were almost entirely positive:

- **86 percent** said they planned to increase investments.
- **77 percent** said they planned to increase hiring.
- **72 percent** said they planned to increase wages or benefits.

This data is reflected on a palm card that is being delivered to your offices. I also have copies with me that I would be happy to share.

That palm card contains some other numbers, too.

There is 95.1 percent—the manufacturer optimism rate I mentioned earlier, which, again, is the headline reading from today's brand-new quarterly Manufacturers' Outlook Survey.

There is also 115,000—that's the number of manufacturing jobs created since the new tax code came into effect on January 1 of this year. It's about double the 63,000 manufacturing jobs that were created over the same time last year. It's a vast improvement over the 24,000 manufacturing jobs lost in 2016.

So, the trend here is clear. Of course, I know I'm throwing a lot of big numbers at you. 115,000 jobs created sounds like a lot. It *is* a lot, in fact, but it means far less as a singular number and far more in terms of what it collectively represents: each of the individual manufacturing jobs created across the country, at firms large and small, in tax reform's wake. In particular, I'd like to note the plans for 35 new jobs by the end of the year at one small, family-owned fiberglass manufacturer in Oregon City—our company, Miles.

Since the passage of tax reform, we've seen a dramatic increase in demand at Miles. Not only is this demand-driven growth indicative of the historically high levels of optimism that the NAM has been seeing across the manufacturing sector during the tax reform era, but it's also resulting in tangible benefits for our employees, our community and our company. Here are some of the things that have been happening at Miles lately:

- **First, we are dramatically increasing our hiring.** Those 35 new jobs I mentioned are coming on top of the 50-employee workforce we started with at the beginning of the year. In other words, our hiring plans represent a 70 percent increase in our workforce. That's what tax reform has meant for job creation at Miles.

- **Second, we are raising wages and increasing benefits for our employees.** We already increased our starting wage by 9 percent. Now, we are implementing a new "Learn to Earn" program, which offers employees the ability to increase their pay further, by up to $1.50 an hour, for each time they get trained on a new skill. We are also reinstituting a bonus program, offering each employee a share in the company's profits on a quarterly basis and planning to absorb the cost of rising health care premiums as a company rather than passing them on to our employees. Finally, we have also started providing a gas stipend to make commuting to work more affordable. That's what tax reform has meant for the dedicated men and women who work at Miles. It has changed their lives—four of our employees were even able to buy their first homes.

- **Third, we are investing in our company.** We are working hard to upgrade our facilities. We have plans already underway, for instance, to consolidate our current two locations into a single, more modern building. Not only will this improve our efficiency, but it will also help logistically to have all our employees communicating and collaborating under one roof. We are also planning to purchase a state-of-the-art ventilation system that will be better for the environment. In addition, we have plans to purchase our first CNC machine. That's what tax reform has meant for growth and investment at Miles.

- **Fourth, we are helping our community.** This also means we can do even more for our community. We currently offer four scholarships at our local community college, but we would like to do more. We partner with the Scouts to help them earn their Composite Merit Badge; we had put this on hold until this year. In the fall, 50 Scouts will come to our facility and build fiberglass skimmer boards. That's what tax reform has meant for our community.

We are just one small, family-owned manufacturer. But we expect the entire sector to deliver on tax reform's promise. The good news is, our fellow manufacturers feel the same way. The better new is, our fellow manufacturers *are delivering.* The NAM recently launched a national campaign called "Keeping Our Promise" that is helping tell the story of how, after manufacturers called for tax reform and Washington delivered, manufacturers are already taking up the mantle to help improve lives and livelihoods. The campaign has featured stories from many companies already, including ours, and the plan is to continue doing so on a regular basis moving forward.

**The most recent featured company is Glier's Meats from Covington, Kentucky.** Since the passage of tax reform, the company has grown from 25 to 29 employees—and the company plans to add five more. All employees have received multiple pay raises this year. Glier's is also bringing back comprehensive health insurance, which it had previously offered since the 1950s but had to cut back six years ago due to burdensome costs and regulations. The company also plans to invest in critical new equipment that will position it for the future, including a $250,000 sausage-stuffing machine. As company president Dan Glier explained, "Tax reform has changed the economics. With the ability to recoup taxes, big changes are now possible."

**Another featured company is AZZ Incorporated from Fort Worth, Texas.** For more than 70 years, AZZ has helped build and protect critical infrastructure around the country. Like Miles, not only is AZZ benefiting from tax reform as a company, but it is ensuring that its employees and community are benefiting from tax reform, too. The company is hiring 100 new workers, investing $1.75 million in a new employee bonus and incentive program and accelerating plans to build a new plant. AZZ has a great story to tell and, in fact, right about now, the company's president and CEO is testifying before Congress on tax reform, too—in the House Energy and Commerce Committee.

Small and medium-sized manufacturers like Miles, Glier's and AZZ are feeling the positive effects of tax reform. We are passing the benefits on, just as we said we would, and we want to continue doing so—we're certainly planning to do so at my company.

Larger manufacturers are feeling the positive effects, too. They are passing along the benefits as well. And, if the tax survey numbers I shared earlier are anything to go by, we have more good news to look forward to from manufacturers of all sizes in the days and months to come.

And, if you're interested in finding out more, visit the NAM's "Keeping Our Promise" website at **www.nam.org/taxstories.**

**Tax Reform: Provisions That Support Manufacturing Growth**

It's clear that manufacturers are doing well thanks to tax reform. It's clear that they're passing on the benefits of tax reform, too. But just what is it about tax reform that is making this all possible? Well, last month, the chairman of the NAM—David Farr, chairman and CEO of Emerson—appeared before the House Ways and Means Committee to speak on this very topic. He highlighted a few key provisions from the new tax law that are particularly important to manufacturers:

- **The reduced burden on many small and medium-sized companies like mine,** which account for more than 90 percent of NAM members;
- **The lower tax rates overall,** which are allowing manufacturers in the United States to compete better globally;
- **The move toward a territorial tax system,** which is encouraging more dollars to flow back into the United States; and
- **The robust rules for capital cost recovery and a permanent research and development (R&D) tax credit,** which is especially important to us at Miles. We manufacture a lot of prototype products for customers. These are usually a breakeven or loss for us. We do it in hopes that it turns into production work, but it is a risk. There is a lot of R&D involved in these products. The R&D tax credit allows us to recoup some of the risk and not shy away from producing those products.

So, it's no wonder why tax reform has been such a boon to manufacturers across the country. As Mr. Farr put in in his own testimony last month, tax reform accomplished a lot of manufacturers' long-sought goals. That doesn't mean it was perfect. Tax reform could have gone even further to support manufacturing. It still can. Indeed, as Congress looks for ways to not only sustain but deepen our country's recent positive economic trajectory, I urge you to consider the following suggestions.

Again, as Mr. Farr laid out last month, the biggest priorities are:

- **Repealing several changes set to take effect in the coming years that serve as disincentives to investment and innovation,** such as a planned phaseout of full expensing, modifications to the treatment of deductible R&D expenses that would make it more expensive to perform research and imposing further limitations on the ability of businesses to deduct interest expense; and

- **Further reducing the tax burden on small businesses** by implementing a more robust incentive for pass-throughs.

**Finally, as a general principal, manufacturers also urge you to continually re-evaluate the international competitiveness of our tax system.** It took years of sustained effort to move our tax rate from one of the highest in the world to slightly better than average. Let's not let things get that bad again. Let's not wait another three decades to pass needed reforms. What we are asking is for Congress to stand vigilant to ensure our tax code is always focused on helping make the United States a more attractive place to start and grow a business—that it remains globally competitive, both in rates and structure.

Be assured that we manufacturers will stand with you in that effort, too, just as we did when it came to passing tax reform.

**Conclusion**

This Congress achieved what eluded so many lawmakers over the years. You developed and enacted a pro-growth tax reform bill. That's a big deal. It's great for manufacturing. It's huge for our economy and jobs. The reason is because of the legislation's unique combination of lower rates, incentives to upgrade capital equipment and its moves toward a territorial system. That is fueling unprecedented levels of optimism among manufacturers—a feeling of optimism that ripples up and down the supply chain and one that is priming small and large companies for growth.

As the owner of a Main Street business, I see the benefits of tax reform firsthand. Optimism and demand are skyrocketing. I am investing in my business, my employees and my community. I also know that I am not alone. Manufacturers across the country are buying capital equipment, providing raises, giving bonuses and increasing benefits.

These positive effects are being felt across all manufacturing sectors, all industries and all regions. More importantly, as we see in example after example these days, tax reform is helping strengthen communities, build new career opportunities and increase paychecks for the men and women of America's manufacturing workforce. Indeed, the true beneficiaries of tax reform are the hardworking men and women who make things in America. Investments that my company and others are making will help us continue to grow and thrive.

Manufacturers called for the passage of tax reform for many years. Now, it has finally happened. Was it perfect? No. But it certainly makes America more competitive. It's certainly helping us out in Oregon City. I know the same is true for so many others across the country. I urge this committee to continue pushing for policies that make the United States a more attractive place to start and grow a business.

Thank you for inviting me to testify before you today. I am happy to answer your questions.

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Congressional Testimony
U.S. House of Representatives
Committee on Financial Services
*Empowering a Pro-Growth Economy by Cutting Taxes and Regulatory Red Tape*
Ford Sasser III
President & CEO of Rio Bank
on behalf of the Texas Bankers Association
June 20, 2018

My name is Ford Sasser. I am a 1976 graduate of Texas A&M University with a BS in Agricultural Economics. After college, I went to work for the Texas Department of Banking (TDB) as a state bank examiner. After examining banks for four years, I went to work in a community bank in Beeville, Texas. In 1986, I moved back to the Rio Grande Valley of Texas where I had been a bank examiner and went to work at a local bank. In 1999, I became the President and CEO of Rio Bank which is a community bank in Deep South Texas along the Texas and Mexico border. Our bank has approximately $350 million in total assets with eight locations in Hidalgo and Cameron Counties. We employee about 110 people.

Texas is blessed to have a strong banking environment, and Texas bankers take great pride in the fact that our banks weathered the financial crisis of 2008, 2009 and 2010 as well as they did. Texas Bankers also went through a very difficult economic time in the mid to late 1980's because of the downturn in oil prices. This economic crisis in the 1980's was not felt in other parts of the nation to the extent that it was in Texas. Texas had numerous bank failures.

I personally believe that the Texas bankers that survived the 1980's came out of that crisis with a better understanding about how to manage their banks and minimize many of the different kinds of risks in their balance sheets. That is why the Texas banks did not have the level of problems in 2008 to 2010 that banks in other parts of the nation had. Nevertheless, Texas has not been exempt from industry consolidation trends where the number of FDIC-insured banks headquartered in the State has declined from 650 to less than 450 over the last ten years.

Today I look forward to discussing with you how the 2017 Tax Cut and Jobs Act has affected Rio Bank, my industry and my customers. As you are aware, my industry has seen an onslaught of new and amended regulations placed on it over the last 10 years as a result of the failures of others. This has not only caused a burden on my bank, but more importantly, it has been a burden on my customers. While recently, we have begun seeing steps taken to reduce this regulatory burden, nothing has more positively impacted Rio Bank and its customers than the 2017 Tax Cut and Jobs Act.

In January of this year, our bank joined other banks and companies across this nation and paid bonuses to our employees. We paid each of our employees a $1,000 bonus regardless of how long they had been working with the bank. A teller that had joined the bank only one week earlier was both surprised and excited to be receiving this bonus check. It will be remembered as one of the happiest days in our bank. I had employees tell me, with tears in their eyes, how good the timing was for getting this check.

As a community bank, we are the life blood for small businesses. Lending to these small businesses is what allows them to expand their businesses. Adding new customers; purchasing property, buildings and equipment; and hiring more employees are all important components in growing a business. That is when businesses look to their community bank for loans. We have to determine a business' capacity to repay debt when qualifying those businesses for loans. Having a lower tax rate provides a borrower more money to service debt and thereby qualifies more small businesses to get the much needed credit that they use to grow their companies.

Being a community bank, we have the opportunity to provide banking services to both consumers and commercial customers. The majority of our business is on the commercial side and that is for a couple of reasons. There are more regulatory burdens placed on retail lending. Fair lending regulations have become very burdensome and are causing pricing models to have us charging higher interest rates to people. The mandates of the Dodd Frank Act also drove us out of the home lending business. Another reason we are able to do more commercial business is that the large money center banks are not active locally in this market. Therefore we see the large money center banks focus more on consumer customers while we get the commercial business.

When underwriting loans, we focus primarily on a business' capacity to repay the debt. We do that by looking at a business' current debt, what the monthly debt obligation is to service that total debt, then add the new debt obligation we are considering and comparing that total monthly debt service to the business' historical net income. We call this a debt coverage ratio. With the reduction in tax rates, we are now seeing the cash available for debt service going up thereby qualifying more businesses for loans by increasing the debt coverage ratio.

The TBA asked its members how the 2017 Tax Cut and Jobs Act affected their customers, employees and shareholders. The responses range from positive to little to no effect. Those responses are listed below with the bank's name removed for confidentiality reasons.

The 2017 Tax Cut and Jobs Act has been a great stimulus to the economy. I thank you for inviting me to this hearing and I look forward to answering any questions that you may have.

# Addendum: Responses from Texas bankers on benefits from tax legislation

1. Yes, [our bank] has experienced several positive outcomes since the tax legislation. We have awarded internal bonuses, we have seen an uptick in loan demand along with capital formation, we have expanded our hiring throughout our Bank, we have invested in updated technology, and noticed a more optimistic demeanor from our customer base for expanding in our markets.

2. Due to the new tax law change [our bank] provided each employee (that were not in the Long-Term Incentive Stock plan) 50 shares of [our bank] stock. This covered approximately 300 of our 340 employees.

3. Our bank has seen a dramatic increase in loan demand. Organic loan growth of 10% in the first 5 months of 2018 has already exceeded our annual budget for loan growth. We believe that much of the growth is fueled by increased investment due to the 2017 tax legislation.

4. We haven't changed anything about our lending or pricing structure; however, as a direct result of the tax relief, we have upgraded product delivery systems to provide better service to customers. We have upgraded our loan document production platform with integrated *esign* for customer convenience. We have re-designed and upgraded our website to facilitate a better user experience from mobile devices. We have budgeted significantly more money for employee training and we have increased the employer matching portion of our employee 401k plan. We also plan a mid-year bonus for all frontline employees.

5. We are increasing our employer match in our 401(k) plan. We currently have a $1,500 cap on the match and are moving that up to $5,000.

6. [Our bank] with two locations has benefitted from the tax legislation via increased loan request. Our commercial borrowers and consumers have more cash flow to work with via the tax reduction which also gives them the confidence to move forward with expansion of their business as well as increased hiring. Many of them also have higher confidence in the current administration that the anti-business sentiment that existed for 8 years is being addressed. The bank was more generous in the way we approached bonuses and raises with our employees than prior years. We have also added two staff members that were not planned in our 2018 budget due to the extra cash flow available via the tax act.

7. We have hired two additional loan officers and paid substantial bonuses to employees.

8. As a result of the tax plan passed, we paid every employee a $500 cash bonus. Also, the lower tax bill and resulting higher income made it easier for us to do a study of the competitiveness of the salaries for our non-officers. We believe this will result in a 10% increase for these folks.

9. We raised our minimum wage from $10 per hour to $14. We increased our life insurance coverage from 1X to 2X annual salary for everyone. We added additional benefits to our financial wellness program for our employees. Over half our workforce is involved with that.

10. We gave all employees with a base salary less than $100,000 a $1,000 bonus. We also increased our 401-k match 50%.

11. Due to the tax legislation [Our Bank] provided a one- time bonus to our employees.

12. [Our Bank] has benefited greatly from some of the recent legislation and tax changes. Some of these include the following:

1. Higher raised in 2018 due to tax reductions. Our average raise was 5% compared to an initial 2.5% we were planning on implementing before the tax change.
2. The increased small bank holding company act will allow for further expansion of [Our Bank]. This will result in additional hires for the bank. We are up approximately 35 employees from this same time last year. This is providing more job creation in West Texas for [Our Bank].
3. Customers/borrowers seem to be purchasing more equipment as a result of accelerated depreciation write offs.
4. Extension of examination period to 18 months for our bank will give us significant time to focus on customer service and business development.
5. We are looking into additional small lending programs.

13. [Our Bank's changes include:]

1. Increased all hourly employees' wages and increased our starting wages for hourly employees. Our starting wage is now $12.00. All hourly employees were increased to $12.00 per hour. Those already making over $12.00 were increased at least 25 cents per hour.
2. We expanded our training in many areas and budgeted for internal and external training that otherwise would not occur.
3. We purchased equipment and software that we would not have without the tax savings.

14. We instituted some pay raises.

15. When the President signed The Tax Cuts and Jobs Act into Law, the effect of that new law lowered individual and corporate tax rates in 2018. In addition, it removed the alternative minimum tax credit. [Our Bank] benefited significantly as a result of the new tax law and voted to pay a special bonus to all full and part-time employees in February 2018. We followed this benefit in May with a new increase in bank paid life insurance for all full-time employees. Employees now receive double the life insurance coverage or two times their annual salary, up to a maximum of $200,000.
Our Shareholders also benefited from the tax credit windfall, receiving a special dividend that was paid in April.
Our bank customers have also benefited due to the expected increase in net income with the lower corporate tax rate. We have been able to increase deposit rates to our customers while still maintaining our superior revenue performance.

16. Our bank increased salaries by about $100,000 for 2018. We will also pay a bonus at the end of the year based on our income. We will possibly pay an extra paycheck in August if our board approves which will also be around $100,000.

17. After reviewing our 2017 hourly paid employee expenses and turnover and discussing the new tax rates, our Board of Directors approved an across the board pay raise for all hourly employees of $100,360 effective February 1, 2018. We are a small community bank with 89 employees total and 48 are paid hourly.

18. [Our Bank's] Board of Directors, based upon the tax relief bill and the general improvement in the economy, approved a 2018 budget that increased our investment in associates, markets we serve and new markets. Our budget includes the following:

1. 5% increase in salaries across the entire team
2. Added 2 new positions (from a base of 53) to better serve current and future clients
3. Increased community development spending by over 10%
4. Expand our footprint in two markets that will create up to 5 additional jobs in 2019.

The Tax Relief Bill had a direct impact on our budgeting process and through 5mos'18 it has positively impacted our capital base and as such we are positioned to invest in our communities and our associates.

19. Yes, we have paid bonuses and increased salaries due to the effects of the tax reduction. We have also increased accruals for year-end bonuses and are anticipating higher dividends.

20. We have not done any of the things you listed in your "ask." However, we did increase our dividend last year and will look at it again this year. We have also invested more than $1 million in technology upgrades and are actively looking for additional branch sites, all as a result, in-part, to the income tax relief. All of these things, we believe, will in turn provide for additional consumer loans, competitive rates and additional compensation for our employees.

21. Due to the 2017 tax reform, we were able to switch back to a C-Corp allowing us to retain capital and loan more money to consumers. Also, because of the savings we paid an unscheduled bonus to all employees (approximately 275). Needless to say, this legislation was a major benefit to our customers in every market as well as our employees and shareholders. Win/Win/Win.

22. In our case, we increased year-end bonuses by approximately 25% and 2018 salary increases were about double what they would have been without the corporate reduction.

23. We have made more funds available to lend to our small business customers as a result of the tax change and we have also given some salary adjustments to our lending staff including loan administration.

24. [Our Bank] joined in with our other affiliates to increase the compensation of over 5,000 of our colleagues. Through a combination of salary increases, one-time bonuses paid in January 2018 and January 2019 (if still employed), we passed through approx. $17 million of our estimated $95mm in tax savings to our employees paid less than $40,000 annually.

25. In response to the expected financial benefits of the tax legislation, [Our Bank] did the following – effective March 1, 2018:

- provided a 5% salary or pay rate increase to all employees; and
- provided an increase in the pay rate for all employees to a minimum of $11.00 per hour.

26. [Our Bank] has been able to add three new positions as well as increase incentive compensation percentages to the entire staff. The tax break was very welcome in our company.

27. Our Bank had previously budgeted for a pay increase to our employees for 2018, however when the Tax reform bill was passed, the bank determined that the salary adjustments could be

dramatically increased from our previously budgeted amounts. This additional increase in pay to our employees is directly related to the corporate tax rate reduction.
The Tax reform also allowed us to implement some technology banking products that Our Bank had been planning in the future. These products such as Zelle, and Docusign, do not necessarily add to the bank's bottom line, so we have to weigh the bank's cost compared to the service to the customer. With the tax reform, we found that we could justify the monetary expense to offer these products to our customers several years sooner than we originally projected.

**TESTIMONY OF DAMON A. SILVERS**

**POLICY DIRECTOR AND SPECIAL COUNSEL**

**AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS**

**BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE**

**ON THE ECONOMIC EFFECTS OF THE TAX CUTS AND JOBS ACT OF 2017**

**June 20, 2018**

Good morning Chairman Hensarling and Ranking Member Waters and Members of the Committee.. My name is Damon Silvers, I am the Policy Director and Special Counsel of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"), on whose behalf I am giving this testimony. The AFL-CIO is America's labor federation, comprising 55 member unions and 13 million union members. The AFL-CIO is grateful to be able to appear this morning to discuss the effects of The Tax Cuts and Jobs Act ("The Republican Tax Law") and the question of what financial regulatory policies would best contribute to long-term prosperity in the 21st century in light of the passage of that law.

What are the fundamental characteristics of the Republican tax law?

The Republican tax law is regressive—in the sense that it gives more benefits to wealthier Americans than to middle and lower income Americans- both in total and on a percentage of income basis. According to the Urban Institute and Brookings Institution Tax Policy Center, the top quintile of Americans will see a percentage change in after tax income that is seven times higher than the percentage change of the bottom quintile. https://www.taxpolicycenter.org/publications/effects-tax-cuts-and-jobs-act-preliminary-analysis/full Not surprisingly, the top quintile will capture 65% of the total gains from the tax cuts, while the bottom 40% will only capture 6%. And the Republican tax law is anti-labor in a very specific way according to the Urban Institute's Tax Policy Center—it shifts the tax burden from capital to labor, and rapidly accelerates the multi-decade trend shifting the federal tax burden from corporations to households. The result of the Republican tax law is it will worsen inequality of both wealth and income. As the Tax Policy Center put it, "The bill encourages more of national income to accrue to businesses and less in the form of wages." https://www.taxpolicycenter.org/publications/tax-cuts-and-jobs-act-missed-opportunity-establish-sustainable-tax-code/full

This shift in the tax burden from capital to labor is likely to further exacerbate an already cavernous racial wealth and income gap. This is because while the typical white household has an income about 60% higher than the typical African American household, the typical white household has wealth—assets—TEN TIMES—1000%-- greater than the typical African American household.
https://www.epi.org/publication/racial-inequalities-in-wages-income-and-wealth-show-that-mlks-work-remains-unfinished/

The Republican tax law is revenue negative—at the end of the day the United States government will have to borrow money to fund the tax cuts enacted by this bill—between $1.9 and $2.3 trillion in the ten year budget window according to the CBO depending on whether dynamic modeling is used.
https://www.taxpolicycenter.org/publications/effects-tax-cuts-and-jobs-act-preliminary-analysis/full. This is borrowing capacity that will not be available to meet the U.S. increasingly urgent needs for investment in infrastructure and education. This effect is compounded by the capping the deductibility of state and local taxes, which is of course the primary way the United States funds both infrastructure and education.

And the Republican tax law is a job killer in at least one sense—it results in a tax system that charges lower taxes on corporate profits earned offshore than on corporate profits earned by creating jobs here in the United States. This is the exact opposite of what President Trump said he wanted to do in the 2016 campaign. It really can't get much more simple than this—the U.S. government now taxes a corporation that creates jobs here in the U.S. 22% of the profits it makes. But if that same corporation sets up a foreign subsidiary to do the same work, and moves those jobs offshore, it will owe the U.S. government sbsolutely nothing on "normal" profits from those operations. Even if a firm is earning extraordinary profits, the effective maximum US tax rate is 13%. And it rewards those companies that stashed $2.6 trillion offshore in anticipation of just such a political bonanza with a retroactive tax rate of no more than 15.5%- -as opposed to the 35% statutory rate companies that did business in the U.S. in those years had to pay.

This is a giant reward to move jobs outside of the United States. It's not complicated. It's not a mistake. It's an intentional giveaway of your and my tax dollars to people who chose to kill U.S. jobs.

How does it play out in a real American community? For twenty years Harley Davidson manufactured motorcycles in Kansas City, MO. Two weeks after the Republican tax bill passed, Harley Davidson announced it was closing the plant, laying off 800 workers. The company said it was moving production to York, PA, where it added 400 workers. Net U.S. job loss—400 jobs. But meanwhile Harley Davidson is building a plant in Thailand to meet growing foreign demand—a plant on whose profits as a result of the Republican tax bill Harley Davidson will pay no U.S. taxes.
http://thehill.com/homenews/news/387120-harley-davidson-to-open-plant-in-thailand-after-closing-one-in-kansas-city

The advocates of the Republican tax bill argued that if we worsened economic inequality, shifted the tax burden away from big corporations and onto families, and borrowed money to do these things, the result, in classic 'trickle down theory" would be an avalanche of business investment that would lead to more job creation and rising wages as businesses reinvested the tax cuts and put cash that had been sitting on the shelf to work with the lure of higher profits. President Trump promised that his corporate tax cuts would give the typical American household a $4,000 pay raise, lead corporations to "shower their workers with bonuses," produce "massive investments" and stop corporations from outsourcing jobs and shifting profits offshore.

Of course it has only been six months since the Republican tax law passed, but the Committee's charge was for us witnesses to examine whether there has turned out to be any truth to those predictions. And so far there is a clear answer. The predictions with which this Act was sold to this Congress have turned out to have been wrong so far.

America's big companies are not reinvesting the money they are saving in taxes. They are paying that money out in the form of stock buybacks and dividends. In many cases they are paying out more than the tax cuts they received from this bill.

The broad based coalition Americans for Tax Fairness compiled a comprehensive data base of employer behavior in the aftermath of the Republican tax law's passage. They found that just 67 companies out of the Fortune 500 gave ANY wage increase or bonus to their employees as a result of the tax bill. Out of the Fortune 1000, only 9% have announced any wage increase or bonus tied to the Republican tax law. Out of all U.S. employers ATF could identify only 402 companies that gave any bonus or pay increase. Out of the relative handful of companies that did give some money to their workers, most were either in the form of one time bonuses or in the form of pay raises for new hires.

By contrast, 317 public companies have announced stock buyback programs since the tax bill was passed, totaling over $484 billion paid out. This is more than 68 times the $7 billion estimated amount that the ATF could identify corporations were giving workers in pay raises and bonuses. And this number keeps growing. S&P Dow Jones now estimates by the end of 2018 U.S. public companies will pay out over $1 trillion in stock buybacks. https://www.reuters.com/article/us-usa-stocks-buyback/sp-500-companies-return-1-trillion-to-shareholders-in-tax-cut-surge-idUSKCN1IQ33F This is close to the entire value of the corporate tax cuts in the bill over the ten year budget window. Goldman Sachs estimates stock buybacks and dividends in 2018 among S&P 500 companies will grow at twice the rate of capital expenditures and will exceed capital expenditures in total. And corporate cash paid out in stock buybacks and dividends will not be reinvested in an economic sense unless the stockholders choose to reinvest, not in secondary markets, but in actual investment in an economic sense—new productive physical or intellectual assets. Not surprisingly, Goldman Sachs analysts warn companies that do stock buybacks are likely to underperform the market in the long run. http://money.cnn.com/2018/04/26/investing/stock-buybacks-goldman-sachs/index.html

The results can be seen in the inconclusive direction of aggregate measures of new capital investment since the passage of the Act. For example, the Federal Reserve's tracking of new orders of non-defense related capital goods shows investment levels flat since the end of last summer at levels below that of the period from 2010-2015. In a national survey of companies by the Federal Reserve Bank of Atlanta, 75% of the respondents said the tax cut law made "no material change" to their capital investment plans in 2018 and 73% said the same thing for 2019.

And if housing investment is included the picture turns distinctly more negative, which should be hardly surprising given the disincentives built into the Republican tax law around housing and in particular around housing for the working poor in the form of both the weakened value of the Low Income Housing Tax Program. At the same time as the Republican tax law disfavors housing generally, it appears to have potential tax incentives for gentrification built into the Opportunity Zones provisions of the Republican tax law.

The consequences of these underlying trends is that the Republican tax bill appears to so far have had no impact at all on job creation. Job creation in the U.S. economy continues its slow decline from its peak levels in 2015.

But the most telling failure so far is in wages. Wages have been flat in real terms in aggregate across the economy since the passage of the Republican tax bill. And if you break out wages by segments of the labor market, you see that in the last year average hourly wages for four out of five workers in the private sector have *gone down* after inflation—and that it is only the high performance of the top of the labor market that is holding the aggregate numbers even.. [The Washington Post]

This is the picture across the labor market at the aggregate level. But it is a picture shaped by the behavior of America's largest employers—companies that issued press releases in the immediate aftermath of the passage of the Republican tax law that did not withstand detailed scrutiny very well.

A number of unions have asked major employers who supported the Republican tax bill about President Trump's promise of a $4,000 raise if the Republican tax bill passed. A typical experience was the Communications Workers of America's dialogue with AT&T. AT&T booked an immediate $20 billion tax related profit as a result of the passage of the Republican tax bill. AT&T's executives had promised each billion of gains would yield 7,000 new jobs. Instead in the days following the actual passage of the Republican tax bill AT&T laid off 1,500 workers. With respect to wages, CWA members asked AT&T where their $4,000 raise was, and in response AT&T offered a $1,000 one-time bonus. AT&T's wages remained unchanged.

But the most single telling example of what the Republican tax bill is really about is Walmart, America's largest private employer. Walmart disclosed it expected to receive a $2.2 billion tax cut for 2018. At year-end 2017, Walmart paid a one-time bonus of $400 million to its employees, which it financed by laying off simultaneously over 10,000 employees. Walmart also announced it was raising its starting pay from $9 to $11 an hour, which it estimated would cost $300 million a year.

How does it all add up over ten years—more than $22 billion in tax breaks for Walmart—half of which roughly goes to the wealthiest family in the world. Cost savings from layoffs of as much as another $5 billion a year, half of which flows to the Walton family. Wage increases and bonuses of less than 10% of that total. So the Walton family, which could fit into this room, gets roughly $13 billion in debt financed tax breaks courtesy of Congress. The 1 million U.S. employees of Walmart get $3 billion.

Except of course that maybe the employees would have gotten the raises anyway. Harry Holzer of the Brookings Institute looked at it all and said Walmart probably would have had to give the raises anyway because of the improving labor market since 2012 and rising statutory minimum wages in key Walmart markets.

And this point is critical in any evaluation of the tax bill. The U.S. economy and labor market have improved significantly since 2012 as the Federal Reserve's insistence on taking its full employment mandate seriously finally overcame the fiscal headwinds created by the sequester and other forms of austerity since 2010. The cumulative impact resulted in a modest upward spiral of tighter labor markets leading to greater consumer confidence and rising business investment. Any attempt to assess the impact of the tax bill has to begin by taking these trends as the baseline.

**The Republican Tax Law and Financial Regulation**

Like other large corporations, America's largest banks have benefited handsomely from the Republican tax law. The big six banks that control more than 70% of the nation's bank holding company assets are projected by the Wall Street Journal and the Institute for Taxation and Economic Policy to receive $14 billion in tax breaks in 2018 alone. This is 7 times what Walmart will receive. But these numbers are dwarfed by the $23 billion in stock buybanks and dividend payouts already announced by the six biggest banks.

This is not surprising because key features of the Republican tax law are designed to benefit the nation's largest banks in ways that community banks cannot benefit. For example, these six banks are global institutions, with income streams that will benefit from the dramatic reductions in tax rates for offshore incomes.

Consequently, it seems likely that the Republican tax bill will add to the levels of concentration in America's banking system. This trend will likely be compounded by the changes Congress recently made in the Dodd-Frank Act by passing the Crapo bill that made it easier for the big banks to take risks in the derivatives markets. These risks are magnified by recent announcements by bank regulators that they intend try to weaken critical regulatory aspects of the Dodd-Frank Act's Volcker Rule that also limited banks' ability to put bank capital at risk in derivatives markets.

The overall direction of Congress' recent actions have been to benefit the banks that caused the financial crisis, to encourage them to grow at the expense of other, smaller financial institutions, and to remove key constraints to risky behavior of the kind that caused the 2008 crash.

In the wake of these actions Congress should go in a different direction entirely. Rather than seek to repeat the policy mistakes that led to the financial and economic disaster of 2008, Congress should consider following through on the promise of reform by enacting a 21st century version of the Glass-Steagall Act, the New Deal era legislation that separated commercial banking from investment banking. Our real need as an economy is a financial system that is a stable source of credit to the real economy. Measures such as the Republican tax law and the Crapo bill point in the opposite direction by once again encouraging bank assets to be invested in speculative secondary markets rather than in real economic investment.

**Changes to the Tax Bill to Promote Jobs and Growth**

The AFL-CIO believes the Republican tax law will in the long run be destructive to jobs and growth, partly because it increases pre-tax inequality, which negatively affects aggregate demand, partly because will have the effect of starving public investment, and partly because it incentivizes both offshoring and the draining of investment capital from America's large businesses. We believe that ultimately these negative effects of the Republican tax law will dominate any growth effects from its regressive fiscal expansionism.

The AFL-CIO urges Congress to make significant structural change to the Republican tax law. Specifically, we would urge Congress to begin by amending the Republican tax law to,

1) Eliminate all the incentives for outsourcing jobs and profits built into the Republican tax bill by equalizing the effective corporate tax rate for offshore earnings and onshore earnings as provided for in the No Tax Breaks for Outsourcing Act of 2018 sponsored by Representative Doggett and Senator Whitehouse;

2) Equalize the tax rate between labor and capital through a combination of a financial transaction tax, increases to the capital gains rate, and imposing Social Security and Medicare taxes on capital gains.

3) End the gigantic loopholes the Republican tax law opens up for tax avoidance through pass through business structures, which both threatens massive revenue loss and treats income from similar business activities radically differently depending on what legal form those activities take

4) Restore the deductability of state and local income taxes, or alternatively offer comparable direct federal support to critical state and local government activities in the areas of education, infrastructure and health care.

**Conclusion**

The economic and financial crisis revealed the United States to be a country whose economy was structurally vulnerable as a result of decades of rising inequality and a financial sector that was dominating rather than serving the real economy. It also revealed a tax system rife with transparent unfairness—offshore earnings subject to deferred tax while Main Street earnings paid full freight, heavy taxes levied on working people when they bought and sold homes and cars while hedge funds transacted freely with their capital assets. There was a bipartisan consensus at the time of the 2016 elections that Congress should take action to see to it that the wealthy and big corporations paid their fair share of taxes. Finally, the economic crisis and the destructive policies of fiscal austerity that followed exacerbated decades of neglect of our nation's physical infrastructure and our nation's educational systems—to the point where earlier this year teachers in Oklahoma were striking to demand the restoration of the 5 day work week.

In this context, thoughtful tax policy should have aimed at addressing economic inequality, restoring the public's faith in the fairness of the tax system, and funding the public investment we need to be competitive globally, attract investment, and drive productivity.

Instead the Republican tax law went the opposite direction. It starves the public sector of revenue, redistributes the tax burden toward working people and away from the 1%, and encourages the further growth of too big to fail banks. Not surprisingly the Republican tax law's legacy so far for working people is broken promises and more wage stagnation. And now, not surprisingly, we face attacks on health care, Social Security, Medicare, Medicaid and education funding. Meanwhile big corporations and their executives are laughing all the way to the bank, where they find the bankers are laughing too.

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STATEMENT

OF

PAUL SCHOTT STEVENS
PRESIDENT & CEO
INVESTMENT COMPANY INSTITUTE

BEFORE THE

US HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES

ON

EMPOWERING A PRO-GROWTH ECONOMY BY CUTTING TAXES AND
REGULATORY RED TAPE

JUNE 20, 2018

**EXECUTIVE SUMMARY**

- ICI's registered fund members are the investment vehicle of choice for more than 100 million Americans seeking to save for retirement or achieve other important financial goals. Their success in achieving these goals depends on a strong economy, fueled by continued innovation and healthy capital markets.

- A more rational approach to regulatory policy can help to empower a pro-growth economy. My testimony offers three suggestions:

    - Policymakers should endeavor to strike the right regulatory balance, so that registered funds can continue to serve the interests of fund investors while also contributing to economic growth.

    - Regulators should examine ways to improve the public capital markets for companies and their investors.

    - Congress should enact legislation to strengthen the competitive position of US mutual funds in the global fund marketplace.

*Striking the Right Regulatory Balance for Registered Funds*

- The success of the registered fund industry—as reflected in the $21.8 trillion in assets we manage for fund shareholders—depends on sound regulation. Yet the run-up in regulatory activity for the financial sector highlights the need to strike the right regulatory balance if regulation is to succeed in promoting economic growth, innovation, strong and competitive markets, and job creation.

- Unnecessary or inappropriate regulation, or regulation based on faulty analysis, can be harmful for registered funds, their shareholders, and the capital markets. My testimony discusses two examples: our concerns with the Financial Stability Oversight Council's exercise of its authority to designate nonbank financial companies as systemically important financial institutions, and experience with the Department of Labor fiduciary rule.

- Overly broad or prescriptive regulation likewise has unjustified costs. My testimony highlights our serious concerns with certain aspects of the liquidity risk management rule adopted by the Securities and Exchange Commission.

- Even appropriately designed regulation involves costs and burdens, which are cumulative. Continued "piling on" of new regulatory requirements in an ultra-competitive industry can make it no longer economically viable for smaller or mid-sized firms to stay in, or enter, the mutual fund business. Due to regulatory costs and other forces, consolidation within the fund industry already is occurring—a trend that reduces investor choice.

*Examining Participation in the Public Capital Markets*

- Vibrant public markets lie at the core of healthy capital markets, but data indicate that our public markets are increasingly less attractive than private markets. This has serious negative implications for investors and the broader economy.

- Various factors influence the decision of whether to go public, but we must not overlook the role of regulation in this analysis. The SEC, for example, is studying the feasibility of streamlining the regulatory process for becoming a public company (or continuing as one) without sacrificing investor protections.

- We urge the Committee's support for this and other regulatory efforts to increase the attractiveness of public capital markets without reducing the availability of capital in private markets.

*Strengthening the Competitive Position of US Mutual Funds in the Global Fund Marketplace*

- Despite the advantages that US mutual funds would offer to retail investors outside the United States, virtually no US mutual fund is offered or marketed to non-US investors. This is because distributions from US funds can cause foreign investors to incur home-country tax that would not be due, or that would be charged at a lower rate, if they invested instead in a foreign fund. This disparate tax treatment is the reason that US-domiciled mutual funds are not currently an "exportable" investment product.

- ICI urges Congress to pass H.R. 4204, the International Regulated Investment Company Act of 2017, to enable US-domiciled mutual funds to attract a greater share of worldwide investment assets and, in turn, generate additional jobs for US workers.

- Importantly, the Joint Committee on Taxation has determined that the changes envisioned by H.R. 4204 would have a "negligible effect" on federal revenues.

## I. INTRODUCTION

My name is Paul Schott Stevens. I am President and CEO of the Investment Company Institute (ICI).[1] Thank you, Chairman Hensarling, Ranking Member Waters, and members of the Committee for inviting me to testify. I am pleased to appear today to share my views on how a more rational approach to regulatory policy can help to empower a pro-growth economy.

ICI's fund members are the investment vehicle of choice for more than 100 million Americans seeking to save for retirement or achieve other important financial goals.[2] Ultimately, their success in achieving these goals depends on a strong economy, fueled by continued innovation and growth. Speaking in October 2016 to the American Chamber of Commerce in Japan, I highlighted the importance of robust economic growth.[3] That remains just as true today: economic growth is key to achieving wealth and prosperity for individuals, families, communities and nations.

Greater economic growth cannot be achieved without robust capital markets, in which registered funds are major participants. Registered funds channel and allocate investors' capital to businesses of all kinds, helping to finance their operations, research and development, innovation, and growth in employment.

The US capital markets are widely recognized as being the fairest, most efficient and most competitive in the world. But we must not take for granted that our markets will remain that way. We need to foster and maintain conditions necessary to ensure that our capital markets are as efficient, productive, and innovative as possible.

Our continued pursuit of economic success must not overlook the role properly-tailored regulation plays in creating a healthy, growing economy. Capital markets and their participants flourish in a regulatory environment where requirements are calibrated to address demonstrated problems. Overly broad or prescriptive regulation, in contrast, can stifle growth and competition. Section II of my

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[1] The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts in the United States (registered funds), and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US$21.8 trillion in the United States, serving more than 100 million US shareholders, and US$7.6 trillion in assets in other jurisdictions.

[2] *See* Holden, Schrass, and Bogdan, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2017," *ICI Research Perspective* 23, no. 7 (October 2017), ***available at*** www.ici.org/pdf/per23-07.pdf; and Holden, Schrass, and Bogdan, "Characteristics of Mutual Fund Investors, 2017," *ICI Research Perspective* 23, no. 8 (October 2017), ***available at*** www.ici.org/pdf/per23-08.pdf.

[3] ***Enough Already: Is Post-Crisis Financial Reform Going Too Far?,*** Paul Schott Stevens, President and CEO, ICI (Oct. 19, 2016), ***available at*** https://www.ici.org/pressroom/speeches/16_pss_japan_finreg.

testimony highlights examples illustrating the importance of striking the right regulatory balance from the perspective ICI knows best—the regulations affecting registered funds and their managers.

Maintaining robust capital markets in the United States also requires addressing a troubling trend—the long-term decline in the number of US-listed companies. As explained in Section III of my testimony, the fact that fewer companies are choosing to participate in the public capital markets (or may be delaying their participation) limits opportunities for individuals and families to reap the benefits of investment in promising new companies. Given these stakes, we urge the Committee to support regulatory efforts to increase the attractiveness of public markets without diminishing the vitality of private markets.

Finally, policies that place US companies on a more competitive footing in markets outside the United States can translate to higher revenues and more jobs at home. Section IV of my testimony describes pending legislation that would facilitate foreign investment in US mutual funds, allowing fund managers to increase their assets under management (and hence their revenues) while foregoing the potentially high costs of establishing operations overseas.

## II. STRIKING THE RIGHT REGULATORY BALANCE FOR REGISTERED FUNDS

Registered funds view regulation as a necessary component for building and sustaining the confidence of their millions of investors. The US fund industry has prospered for more than 75 years under a comprehensive framework of laws and regulations administered by the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940 and other federal securities laws. The success of our industry—as reflected in the $21.8 trillion in assets we manage for over 100 million shareholders—depends on sound regulation.

In the past decade, however, we have seen a run-up in regulatory activity for the financial sector that is unprecedented in its pace, reach, and complexity. Some of these measures were vitally needed to address weaknesses revealed by the global financial crisis and to put the financial system on a stronger footing. Other regulatory initiatives, however, did not adhere sufficiently to principles of sound regulation, which in our view include the need to:

(1) clearly identify a problem that necessitates a regulatory solution;

(2) appropriately tailor that solution to address the problem while minimizing harm to efficiencies and competition; and

(3) ensure that the benefits of that regulatory solution outweigh its costs.

Striking the right regulatory balance is essential if regulation is to succeed in promoting economic growth, innovation, strong and competitive markets, and job creation—goals that current and past

Administrations have shared.[4] While important for all financial market participants, the need for regulatory balance is especially acute for registered funds. Investors in US funds are overwhelmingly retail investors—individual Americans saving to meet goals such as retirement, paying for education, or purchasing a home—and they bear the costs of regulation through reduced investment returns.[5] Regulatory costs also fall on the firms that sponsor or manage registered funds. These costs have a disproportionate impact on smaller firms.

We appreciate the Committee's focus on how to strike the right regulatory balance. The three subsections that follow illustrate the perils of failure to do so, using examples drawn from recent experience. We discuss the consequences of: (1) unnecessary or inappropriate regulation, or regulation based on faulty analysis; (2) overly broad or prescriptive regulation; and (3) the cumulative costs of regulation.

**Unnecessary or Inappropriate Regulation or Regulation Based on Faulty Analysis**

Two recent examples illustrate how regulation that is unnecessary or inappropriate, or that is based on faulty analysis, can be harmful for registered funds, their investors and the capital markets. Both involve areas with which the Committee is quite familiar: first, the Financial Stability Oversight Council (FSOC) and its process for designating nonbank financial companies as systemically important financial institutions (SIFIs); and second, the Department of Labor (DOL) fiduciary rulemaking.

FSOC Reform

ICI and its members long have been concerned about the prospect of regulation that is not grounded in demonstrable evidence of need or sound policy analysis emanating from FSOC's exercise of its authority under Section 113 of the Dodd-Frank Act to designate nonbank financial companies as SIFIs. More precisely, our concern is the potential designation of a registered fund or fund manager, which

[4] *See* Executive Order 13772, *Core Principles for Regulating the United States Financial System* (February 3, 2017), 82 Fed. Reg. 9965 (February 8, 2017), *available at* https://www.gpo.gov/fdsys/pkg/FR-2017-02-08/pdf/2017-02762.pdf (establishing core principles to regulate the financial system, one of which is to "foster economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry"); Executive Order No. 13563, *Improving Regulation and Regulatory Review* (January 18, 2011), 76 Fed. Reg. 3821 (January 21, 2011), *available at* https://www.gpo.gov/fdsys/pkg/FR-2011-01-21/pdf/2011-1385.pdf (stating that "[o]ur regulatory system must ... promot[e] economic growth, innovation, competitiveness, and job creation...[and] identify and use the best, most innovative, and least burdensome tools for achieving regulatory ends."); Executive Order 12866, *Regulatory Planning and Review* (Sept. 30, 1993), 58 Fed. Reg. 51735 (October 4, 1993) *available at* https://www.archives.gov/files/federal-register/executive-orders/pdf/12866.pdf (providing that "[t] he American people deserve a regulatory system that works for them, not against them...regulatory policies that recognize that the private sector and private markets are the best engine for economic growth").

[5] As of mid-2017, the median income of mutual fund investors was $100,000. Investment Company Institute, *2018 Investment Company Fact Book* (2018) at 147; *available at* www.ici.org/pdf/2018_factbook.pdf.

would then become subject to prudential regulation and supervision by the Federal Reserve Board (Federal Reserve).

We repeatedly have cautioned that FSOC, in the name of promoting financial stability, could seek to exercise this authority in a manner broader than Congress intended, sweeping beyond any demonstrably "systemic" risks.[6] This certainly would be the case if FSOC determined to proceed with the designation of a registered fund or fund manager. Registered funds don't fail like banks do—fund investors bear any investment losses, so there's no need for a government bailout. Unlike banks, fund managers act solely as agents, providing investment services to a fund by contract. And, the registered fund structure and comprehensive regulation of funds and their managers under the securities laws already limit risks and risk transmission.

Testifying before this Committee four years ago, ICI's then-Chairman William McNabb of the Vanguard Group pointed to press reports that FSOC was evaluating two large asset management firms for possible designation. He warned:

> If the FSOC continues down this path, it could result in extension of the Federal Reserve's supervisory authority to companies whose business is rooted in the capital markets and which the Federal Reserve does not have the expertise to regulate. And it could mean the application of bank regulatory standards that are entirely out of keeping with the way in which [registered] funds and their managers are structured, operated and currently regulated and with the expectations of investors and the capital markets.[7]

While the prospect of such an ill-suited designation does not currently loom as large as it did in 2014, it remains vitally important that Congress act now to make needed changes to FSOC's SIFI designation authority. Such reforms should underscore that FSOC's primary goal is to reduce systemic risk, not to designate nonbank financial companies as SIFIs for the Federal Reserve to regulate.

We commend the Committee for its leadership in this area. Legislation introduced by Committee members Dennis Ross (R-FL) and John Delaney (D-MD)—H.R. 4061, the FSOC Improvement Act—was approved by the Committee earlier this year on a 45-10 vote and subsequently passed by the full House, likewise with bipartisan support. The legislation seeks to make the SIFI designation process more accountable and transparent, and to ensure that the designation of a nonbank financial company

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[6] *See, e.g.,* Statement of Paul Schott Stevens, President and CEO, ICI, Before the US Senate Committee on Banking, Housing and Urban Affairs, Regarding FSOC Accountability: Nonbank Designations (March 25, 2015), *available at* https://www.ici.org/pdf/15_senate_fsoc.pdf.

[7] *See* Statement of F. William McNabb III, Chairman and CEO, The Vanguard Group, and Chairman, ICI, on Examining the Dangers of the FSOC's Designation Process and Its Impact on the US Financial System ((May 20, 2014) at 2, *available at* https://www.ici.org/pdf/14_house_fsoc.pdf. The testimony highlights several ways in which registered funds and their managers are fundamentally different from banks. It explains why SIFI designation of a fund manager is unwarranted and why even the very largest registered funds likewise are not SIFIs. And it discusses the investor harm and market distortion that would stem from such a SIFI designation.

as a SIFI occurs only when identified risks to financial stability cannot be addressed more effectively by the company's primary regulator or action by the company itself.

H.R. 4061 represents a reasonable, bipartisan approach to improving the SIFI designation process and enhancing FSOC's ability to mitigate systemic risk. But there may be other ways to achieve these same goals. We accordingly encourage Chairman Hensarling and other Committee members to continue to work with colleagues in the Senate to reach agreement on an appropriate legislative solution.[8]

DOL Fiduciary Rule

For a cautionary tale about how *not* to make sound regulation, one need only consider the experience of the "DOL fiduciary rule"—a rulemaking by the Department of Labor to redefine the term "fiduciary" in the context of providing investment advice under the Employee Retirement Income Security Act of 1974 (ERISA).

Promoting retirement security and preserving investment choices for all Americans are important policy priorities for ICI and its members. The mutual fund industry is especially attuned to the needs of retirement savers because mutual funds hold about half of retirement assets in defined contribution (DC) plans and individual retirement accounts (IRAs).[9] ICI has engaged extensively with DOL and other stakeholders on the DOL fiduciary rule from the time it was first proposed.[10] And we greatly

[8] In the meantime, ICI has urged FSOC to implement (preferably by codifying in rules) the recommendations set forth in the November 2017 Treasury report on the nonbank SIFI designation process. *See* US Department of the Treasury, *Financial Stability Oversight Council Designations* (November 17, 2017), *available at* https://www.treasury.gov/press-center/press-releases/Documents/PM-FSOC-Designations-Memo-11-17.pdf.

[9] At year-end 2017, US retirement assets totaled $28.2 trillion, DC plan assets were $7.7 trillion, and IRA assets were $9.2 trillion. Investors held $4.3 trillion of IRA assets and $4.5 trillion of DC plan assets in mutual funds. *See* Investment Company Institute, *The US Retirement Market, Fourth Quarter 2017* (April 2018), *available at* https://www.ici.org/research/stats/retirement.

[10] ICI submitted a comment letter in response to DOL's 2010 proposal and four separate letters responding to the DOL's 2015 proposal. ICI also testified at the DOL's August 2015 public hearing regarding the rulemaking. ICI submitted five letters in 2017, each responding to the DOL's requests for comment. *See, e.g.*, Letter from Dorothy Donohue, Acting General Counsel, and David Abbey, Deputy General Counsel, ICI to The Office of Exemption Determinations, Employee Benefits Security Administration, DOL, dated August 7, 2017, *available at* https://www.ici.org/pdf/17_ici_rfiresponse_ltr.pdf (responding to the DOL's July 2017 request for information regarding potential changes to the final regulation and prohibited transaction exemptions); *see also* Letter from Brian Reid, Chief Economist, and David Blass, General Counsel, ICI, to Office of Regulations and Interpretations, Employee Benefits Security Administration, DOL, dated April 17, 2017, *available at* https://www.ici.org/pdf/17_ici_dol_fiduciary_reexamination_ltr.pdf (responding to the DOL's request for input regarding the re-examination of the fiduciary rulemaking as directed by the February 3, 2017 White House memorandum to the Secretary of Labor).

appreciate that this Committee has paid close attention to the implications of this rulemaking for the millions of Americans seeking to save for retirement.[11]

ICI fully supports the principle underlying the DOL fiduciary rule—that financial professionals should act in the best interests of their clients when they offer personalized investment advice. But the rule adopted by DOL in 2016 was seriously misguided—so much so that the mere prospect of the rule's application caused dislocation and disruption within the financial services industry, to the detriment of retirement savers.

The Fifth Circuit Court of Appeals recently vacated the DOL rule.[12] Nonetheless, many of the harmful effects that ICI and others had predicted—including that the rule would significantly limit the ability of retirement savers to obtain the guidance, products, and services they need to meet their financial goals—had already come to pass.[13] The rule's overbroad and convoluted fiduciary definition turned investors' routine inquiries into fiduciary relationships, thus threatening to severely reduce exchanges of information that historically were provided at no cost to millions of retirement savers through call centers, walk-in centers, and websites. Many financial professionals serving retirement investors concluded that the Best Interest Contract or "BIC" exemption was unworkable or too burdensome to continue to offer certain products and services. According to media reports, some firms concluded that they simply could not justify the potential risk and liability, including the substantial threat of unwarranted litigation, for certain types of accounts.

In many instances, intermediary partners informed ICI members that they would no longer service certain account holders deemed undesirable or uneconomic in light of the rule, leaving those account

[11] *See, e.g.*, House Financial Services Committee, Subcommittee on Capital Markets and Government-Sponsored Enterprises and Subcommittee on Oversight and Investigations, Hearing on Preserving Retirement Security and Investment Choices for All Americans (September 10, 2015), *available at* https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=399634. At that hearing, I testified about the harmful effects of the DOL's proposed fiduciary rule and the why the DOL's RIA did not support the proposed rule. *See* Statement of Paul Schott Stevens, President and CEO, ICI, on Preserving Retirement Security and Investment Choices for All Americans (September 10, 2015), *available at* https://financialservices.house.gov/uploadedfiles/hhrg-114-ba16-ba09-wstate-pstevens-20150910.pdf.

[12] The court's opinion was highly critical of the DOL rulemaking, echoing concerns expressed by ICI and other stakeholders. According to the court, the DOL's "interpretation of 'investment advice fiduciary' fatally conflicts with the statutory text and contemporary understandings." The court observed that "[h]ad Congress intended to abrogate both the cornerstone of fiduciary status—the relationship of trust and confidence—and the widely shared understanding that financial salespeople are not fiduciaries absent that special relationship, one would reasonably expect Congress to say so." The court further found that the DOL abused its exemptive authority, exploiting its "narrow exemptive power in order to 'cure' the Rule's overbroad interpretation of the 'investment advice fiduciary provision.'" And, the court opined that "[r]ather than infringing on SEC turf, DOL ought to have deferred to Congress's very specific Dodd-Frank delegations and conferred with and supported SEC practices to assist IRA and all other individual investors." US Chamber of Commerce v. Department of Labor, No. 17-10238, 2018 WL 1325019 (5th Cir. Mar. 15, 2018), available at http://www.ca5.uscourts.gov/opinions/pub/17/17-10238-CV0.pdf.

[13] For a more complete description of these and other harms, *see* Letter from Brian Reid and David Blass, *supra* n. 10.

holders "orphaned."[14] Members indicated that, depending on the outcome of the rule, they expected the volume of orphaned accounts to increase and that a significant increase could affect their ability to service shareholders.[15] The unfortunate result was an "advice gap" for savers, especially those with small account balances.

How did a well-intended idea—providing advice in the best interest of investors—result in such negative outcomes? The weaknesses in the rulemaking stem primarily from a severely flawed regulatory impact analysis (RIA). The DOL's RIA did not serve as a tool to understand a problem and determine the best solution. Rather, the DOL started with a predetermined agenda of eliminating perceived "conflicts" in the retirement marketplace and used the 2016 RIA to justify that effort. The result was an impact analysis that focused on claims supporting the DOL's narrative and summarily dismissed facts raising contrary conclusions about that narrative.

Compounding these shortcomings was a plainly inadequate understanding of the marketplace and the workings of financial intermediaries. Not only did the 2016 RIA fail to address adequately the harms of the rule, but also the DOL based its conclusions on a limited review of the market and then misapplied the academic studies upon which it relied. As a result, the RIA drastically overstated any potential benefits of the rule. In contrast, ICI's analysis showed that the rule would bring an estimated $109 billion in financial harm to retirement savers.[16]

The DOL's lack of enforcement authority over individual retirement accounts also contributed to the rule's flaws, leading the DOL to adopt a bootstrap approach for enforcement—using the BIC exemption's written contract and warranty requirements to create a private right of action and relying on the plaintiff's bar as a means of enforcement. Further, because of the boundaries of the DOL's regulatory authority, application of the DOL rule necessarily was limited to retirement accounts.

We are encouraged that the SEC now is taking the lead on this important issue[17] and is coordinating with the DOL, as ICI has advocated.[18] As the primary federal regulator of both broker-dealers and investment advisers, the SEC is the right agency to determine and enforce an appropriate standard of conduct that will serve the interests of retail investors when they receive recommendations from

[14] When an intermediary resigns as broker-dealer of record, the abandoned account remains invested in the mutual fund but without a designated intermediary to provide ongoing investment recommendations to the account holder.

[15] Based on available information, we surmised that the number of orphaned accounts likely would run into the hundreds of thousands.

[16] *See, e.g.,* Statement of Paul Schott Stevens, *supra* n. 11, at 23-26.

[17] *Regulation Best Interest*, 83 Fed. Reg. 21574 (May 9, 2018); *Form CRS Relationship Summary*, 83 Fed. Reg. 21416 (May 9, 2018); *Proposed Commission Interpretation Regarding Standard of Conduct for Investment Advisers*, 83 Fed. Reg. 21243 (May 9, 2018). ICI is reviewing the details of the SEC's proposal and will file formal comments by the August 7, 2018 deadline.

[18] *See* Letter from Dorothy Donohue, Acting General Counsel, ICI, to Jay Clayton, Chairman, SEC, dated Aug. 7, 2017, *available at* https://www.sec.gov/comments/ia-bd-conduct-standards/cll4-2188873-160255.pdf; Letter from Dorothy Donohue and David Abbey, *supra* n. 10.

financial intermediaries, regardless of whether they are investing for retirement or other important financial goals.

**Overly Broad or Prescriptive Regulation**

The regulatory framework for registered funds was almost 75 years old and had proved its worth many times over when, in December 2014, former SEC Chair Mary Jo White announced plans to strengthen further the SEC's regulation of the asset management industry.[19] ICI expressed its support for Chair White's initiative, pointing to the SEC's expertise and authority as the primary regulator for funds and their managers.[20] Yet, experience to date with one of the rules the SEC adopted as part of this effort—the liquidity risk management rule[21]—shows that even when the expert primary regulator is in charge, issues of regulatory imbalance can arise.

As daily redeemability is a defining feature of mutual funds, ICI supports requiring funds to have formal written liquidity risk management programs overseen by fund boards of directors. The industry has a long history of success in managing fund liquidity, yet there is merit to "raising the bar" for all funds. ICI also fully supports the rule's 15 percent limit on fund investments in illiquid investments and required reporting to the SEC and fund board when a fund exceeds this limit. But the SEC's liquidity framework goes much further, dictating that funds use a standard approach to classify the liquidity of each portfolio holding at least monthly (the so-called "bucketing" requirements) and a uniform means of reporting the liquidity of each portfolio holding. The bucketing requirements make an otherwise useful rule both too broad and too prescriptive, and this has real costs.

Indeed, since adoption of the final rule, the bucketing requirements have proven to be by far the most costly and vexing element to implement.[22] A September 2017 ICI survey showed that:

- For most firms, bucketing requirements are expected to account for more than half of initial compliance costs;
- 35 percent of respondents anticipated spending more than *$1 million* in initial costs to comply with the bucketing requirements;

[19] Speech by Mary Jo White, Chair, SEC, *Enhancing Risk Monitoring and Regulatory Safeguards for the Asset Management Industry* (December 11, 2014), *available at* https://www.sec.gov/news/speech/2014-spch121114mjw.

[20] *See* ICI Statement on SEC Chair White's Speech on Asset Management (December 11, 2014), *available at* https://www.ici.org/pressroom/news/14_news_white_speech.

[21] *Investment Company Liquidity Risk Management Programs*, 81 Fed. Reg. 82142 (November 18, 2016); *see also Investment Company Liquidity Risk Management Programs; Commission Guidance for In-Kind ETFs*, 83 Fed. Reg. 8342 (Feb. 27, 2018).

[22] In classifying each portfolio holding, funds must consider a range of complex and interrelated fund-, market-, trading-, and investment-specific factors and make judgment calls. At the time the rule was adopted, systems to allow funds to synthesize this disparate information and generate uniform outputs for a wide array of fund investments did not exist. Fund complexes and third parties have invested significant time and money to build such rule-compliant systems.

- Most firms expect bucketing requirements to account for more than half of annual ongoing compliance costs; and
- 56 percent of respondents anticipated spending more than *$500,000* each year thereafter to comply with these requirements.[23]

Costs such as these fall heaviest on small and medium-size fund complexes, which already face brutal competition for investor dollars in a fast-changing marketplace for funds and fund distribution. It has been especially disturbing to hear from ICI member firms that this "bucketing" is *nothing more and nothing less than a compliance drill.* They will do what they must to comply with the bucketing requirements, but these efforts are completely separate from, and will not affect or enhance how the firms actually manage, fund portfolio liquidity. In sum, when it comes to costs, the buckets are sure to overflow. But when it comes to benefits to funds, their investors, the capital markets, and the SEC, the buckets will come up nearly empty.

In addition to requiring funds to report investment-specific bucketing information to the SEC monthly, the SEC's liquidity framework requires funds to report aggregated bucketing information to the public quarterly.[24] The public disclosure requirements raise serious concerns because of the likelihood that the public will be misled by, or fail to understand the inherent limitations of, this subjective, forward-looking, and hypothetical bucketing information.

To its credit, the SEC is considering steps to address these concerns. Earlier this year, the SEC proposed to improve funds' liquidity disclosure by requiring funds to discuss the operation and effectiveness of their liquidity risk management programs in fund shareholder reports. The SEC simultaneously proposed to rescind the requirements for public reporting of bucketing information, acknowledging in the proposing release the risks and shortcomings involved.[25] ICI strongly supports these proposed changes.[26] We agree with the SEC's assessment that these two actions would more effectively achieve the policy goal of promoting better investor understanding of funds' liquidity risks, while minimizing investor confusion. The SEC, under the leadership of Chairman Jay Clayton, deserves commendation for its willingness to reexamine and revise aspects of its liquidity framework before compliance is required, based on input received after the rule's adoption.

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[23] ICI surveyed its members about their experience to date in implementing the liquidity rule. Sixty-six firms responded, representing 48 percent of the total number of long-term mutual funds and ETFs, and 73 percent of long-term mutual fund and ETF total net assets. For complete results, *see* Letter from Dorothy Donohue, Acting General Counsel, ICI, to Brent J. Fields, Secretary, SEC, dated November 3, 2017, at Appendix B, *available at* www.ici.org/pdf/17_ici_sec_liquidity_ltr_supp.pdf.

[24] *See Investment Company Liquidity Risk Management Programs*, *supra* n. 21.

[25] *Investment Company Liquidity Disclosure*, 83 Fed. Reg. 11905 (March 19, 2018).

[26] *See* Letter from Paul Schott Stevens, President and CEO, ICI, to Brent J. Fields, Secretary, SEC, dated May 18, 2018, *available at* https://www.ici.org/pdf/18_ici_sec_lrm_rule_comment.pdf.

Unfortunately, the SEC has not proposed to rescind or even modify the rule's bucketing requirements. Consequently, funds still are obligated to make changes to their operations and shoulder enormous initial and ongoing costs to comply with a requirement that will not serve efficiently and effectively the interests of fund investors, the capital markets, or the SEC.

The SEC's recent liquidity disclosure release requested comment on whether there are advantages to the Treasury Department's recommendation that the SEC embrace a "principles-based approach to liquidity risk management rulemaking and any associated bucketing requirements."[27] ICI's comment letter to the SEC discussed the considerable advantages to a principles-based approach, including that it would reduce costs and other concerns raised by the bucketing and related reporting requirements. As our letter indicated, we hope that the measured scope of the SEC's disclosure proposal does not foreclose the possibility of future changes to the current liquidity framework.

**The Cumulative Costs of Regulation**

The registered fund industry is *highly* competitive. As we explain below, US households have benefitted from this dynamic, through wider choices, lower costs and higher returns on their investments. But as with our capital markets, we cannot take this degree of competition for granted. Instead, we must actively foster the conditions necessary to preserve this competitive environment, and this includes attention to the cumulative costs of regulation.

Over the past quarter-century, the expense ratios that investors incur for holding funds have trended down. For example, since 2000, expense ratios on equity mutual funds have fallen 40 percent.[28] At the same time, investors are focusing increasingly on lower-cost funds. Figure 1 shows, for instance, that among domestic equity funds in 2017, those funds with the lowest expense ratios tended to receive the most inflows, while those with higher expense ratios saw either outflows or more moderate inflows.

[27] *See* US Department of the Treasury, *A Financial System That Creates Economic Opportunities: Asset Management and Insurance* (October 2017) at 153, *available at* https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-That-Creates-Economic-Opportunities-Asset_Management-Insurance.pdf.

[28] *See* Figure 1 in Duvall and Mitler, "Trends in the Expenses and Fees of Funds, 2017," *ICI Research Perspective* 24, no. 3 (April 2018), *available at* www.ici.org/pdf/per24-03.pdf.

**Figure 1**
**Lower-Cost Domestic Equity Funds Receive Majority of Inflows**
*Mutual funds and ETFs ranked from lowest to highest expense ratios, net flow in billions of dollars, 2017*

| | Percentile of expense ratios | | | |
|---|---|---|---|---|
| **Type of fund** | **< 5th** | **≥ 5th to < 25th** | **≥ 25th to < 50th** | **≥ 50th** |
| **Actively managed** | | | | |
| Expense ratio | < 0.56% | ≥ 0.56% to < 0.87% | ≥ 0.87% to < 1.15% | ≥ 1.15% |
| Net flow | $3 | -$117 | -$80 | -$78 |
| **Index** | | | | |
| Expense ratio | < 0.06% | ≥ 0.06% to < 0.20% | ≥ 0.20% to < 0.42% | ≥ 0.42% |
| Net flow | $115 | $93 | $13 | $8 |

Note: Data exclude funds available as investment choices in variable annuities, funds that invest primarily in other funds, new funds without reported expense ratios, and funds with missing expense ratios.
*Sources*: Investment Company Institute and Morningstar

In this environment, costs—including regulatory compliance costs—become all-important to fund sponsors that hope to compete and survive. Unnecessary or inappropriate regulation, regulation based on faulty analysis, or regulations that are overly broad or prescriptive add to costs without providing commensurate benefits. But even appropriately designed regulation involves costs and burdens, which are cumulative.

A member survey we conducted last year sheds light on trends in regulatory compliance costs over the past five years, in response to new regulations (including the liquidity risk management rule discussed above, among others).[29] Among members surveyed, the *median* increase in compliance costs was an estimated *20 percent* over the past five years.[30] Members cited one-time compliance costs (*e.g.*, legal costs, preparation of new policies and procedures, creation of internal controls, and staff training), increased technology expenditures, increased use of third-party fund service providers (*i.e.*, vendors), increased vendor costs,[31] increased oversight of vendors and intermediaries, and increased staffing needs

[29] 42 ICI member firms responded, representing 46 percent of US registered fund assets.

[30] 35 of the 42 respondent firms were able to quantify the percent by which compliance costs had increased over the past five years. In comparison, over the five-year period from December 2011 to December 2016, consumer prices, as measured by the personal consumption expenditure index, rose 6.3 percent. In addition, over the same five-year period, the employment cost index for professional, scientific, and technical sectors rose by 8.7 percent.

[31] Because of the prevalent use of vendors by funds, increased vendor costs directly and significantly impact overall fund costs. Nearly all members who responded (40 of 42) reported using vendors to obtain at least some of the services funds need to operate. Of these 40 members, 75 percent (30 of 40) reported that over the past five years vendors had increased their charges for such services, citing higher compliance costs.

as primary drivers of these overall cost increases. And these numbers do not necessarily capture all of the opportunity costs associated with these efforts, including the diversion of resources that may have otherwise gone to bolstering portfolio and risk management capabilities, enhancing oversight of existing legal, compliance, and accounting obligations, improving customer service, and product innovation.

As we move forward, continued "piling on" of new regulatory requirements—and associated costs and burdens—in an ultra-competitive industry threatens to bring the industry to a tipping point at which it no longer is economically viable for smaller or mid-sized firms to stay in, or enter, the mutual fund business. Although all fund providers are affected by added regulatory costs, such costs often fall disproportionately on small- to mid-sized fund providers because they must spread the costs of adapting to new regulatory requirements over a smaller base of assets. As a result, small- to mid-sized fund providers may leave the business and other potential providers may elect not to enter the business, both of which result in reduced investor choice.

Regulatory costs are one of a number of factors contributing to industry consolidation.[32] For example, the share of mutual fund and ETF assets managed by the five largest fund firms rose from 36 percent in 2005 to 50 percent in 2017 (Figure 2).

**Figure 2**
**Share of Mutual Fund and ETF Assets at the Largest Fund Complexes**
*Percentage of total net assets of mutual funds and ETFs; year-end, selected years*

| | 2005 | 2010 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Largest 5 complexes | 36 | 42 | 45 | 47 | 50 |
| Largest 10 complexes | 47 | 55 | 56 | 58 | 60 |
| Largest 25 complexes | 69 | 74 | 75 | 76 | 77 |

Note: Data include only mutual funds and ETFs registered under the Investment Company Act of 1940. Mutual fund data exclude mutual funds that invest primarily in other mutual funds. ETFs registered as UITs and ETFs that invest primarily in other ETFs are excluded.
*Source*: Investment Company Institute

Concerns about the impact of the cumulative costs of regulation are properly within the purview of this Committee. We urge the Committee to continue to exercise close oversight of regulation affecting registered funds. This will help ensure that the industry remains vibrant, so it can continue to serve the interests of fund investors while also contributing to economic growth.

[32] *See* Owen Walker, *Funds 'snowball' means big firms can only get bigger*, Financial Times (June 9, 2018), *available at* https://www.ft.com/content/1611bea8-68d3-11e8-b6eb-4acfcfb08c11.

## III. EXAMINING PARTICIPATION IN THE PUBLIC CAPITAL MARKETS

We urge the Committee to support regulatory efforts to increase the attractiveness of public capital markets. A vibrant public market lies at the core of healthy capital markets, but data showing a long-term decline in the number of US-listed companies suggest that our public markets are becoming increasingly less attractive than private markets. Over the past two decades the number of public companies in the United States has dwindled from more than 7,300 in the late 1990s to approximately 3,500 today, and there have not been 5,000 stocks to include in the Wilshire 5,000 Index since 2005.[33] During this time, overall market capitalization has increased, but micro-, small-, and even mid-cap companies are disappearing from US exchanges. These trends reflect a tendency for companies to rely on private capital longer to go public at a later stage in their development, if they do so at all.

The concerns associated with the declining number of public companies are particularly serious for individual investors trying to build wealth and meet other financial goals. Most individuals are ineligible to participate directly in the private markets, and few mutual funds invest in private companies.[34] Consequently, the returns generated by promising new companies increasingly have accrued to investors in private markets and not to the millions of retail investors that mutual funds serve.

SEC Chairman Clayton has recognized that "[r]egardless of the cause, the reduction in the number of U.S.-listed public companies is a serious issue for our markets and the country more generally."[35] Others have argued that less attractive public markets may lead the founders of high-growth companies to merge their businesses with larger firms, rather than conducting initial public offerings (IPOs)—an outcome that may hurt job creation, because job growth typically accelerates when companies go public and decelerates when companies merge.[36] Furthermore, the IPO process itself provides benefits to companies, investors, and the capital markets. As Chairman Clayton has noted, companies that go

[33] *See* Michael J. Mauboussin, Dan Callahan, and Darius Majd, *The Incredible Shrinking Universe of Stocks: The Causes and Consequences of Fewer U.S. Equities* (March 22, 2017), ***available at*** https://www.cmgwealth.com/wp-content/uploads/2017/03/document_1072753661.pdf; Wilshire 5000 Total Market Index Fact Sheet (March 31, 2018), ***available at*** https://wilshire.com/Portals/0/analytics/indexes/fact-sheets/wilshire-5000-fact-sheet.pdf.

[34] *See* US Department of the Treasury, *A Financial System That Creates Economic Opportunities: Capital Markets* (October 2017), ***available at*** https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-Capital-Markets-FINAL-FINAL.pdf (Treasury Capital Markets Report) (citing a study that finds private company investments totaled only 0.13 percent of assets held by equity and allocation funds as of June 2016).

[35] *See Remarks at the Economic Club of New York*, Jay Clayton, Chairman, SEC (July 12, 2017), ***available at*** https://www.sec.gov/news/speech/remarks-economic-club-new-york.

[36] *See* President's Council on Jobs and Competitiveness, *Taking Action, Building Confidence: Five Common-Sense Initiatives to Boost Jobs and Competitiveness*, Interim Report (October 2011), ***available at*** http://files.jobs-council.com/jobscouncil/files/2011/10/JobsCouncil_InterimReport_Oct11.pdf.

through the SEC public registration and offering processes "often come out better companies on the other side of an IPO."[37]

I discussed the downward trend in the number of public companies with David Rubenstein, a Co-Founder and Co-Executive Chairman of the Carlyle Group, at ICI's General Membership Meeting in May 2018. We agreed that policymakers and regulators must not overlook the role of regulation in a company's analysis of whether to go public or remain public (for firms presently listed on US exchanges). Others have offered similar observations and put forward proposals designed to increase the attractiveness of public markets without diminishing the availability of capital in private markets.[38]

The SEC presently is examining two promising ideas from these proposals. One is to consider the feasibility of streamlining the regulatory process associated with going public or remaining public without sacrificing investor protections. Regulatory burdens on public companies have increased greatly during the past two decades, and the cumulative effect of this regulation should be examined to ensure that public companies do not face unnecessary requirements. The SEC also is weighing potential reforms to optimize equity market structure so that it promotes liquidity for small- and mid-sized public companies. Such reforms could provide a greater incentive for companies to go public earlier.

We urge the Committee to support these efforts, which promise to benefit US companies, their investors, and the US economy more broadly.[39]

## IV. STRENGTHENING THE COMPETITIVE POSITION OF US MUTUAL FUNDS IN THE GLOBAL FUND MARKETPLACE

As the Committee looks for ways to spur economic growth and job creation, we urge you to examine pending legislation that would enable US-domiciled mutual funds to attract a greater share of worldwide investment assets and, in turn, generate additional jobs for US workers. The legislation—

[37] *See* Jay Clayton, Chairman, SEC, Testimony before the Financial Services and General Government Subcommittee of the Senate Committee on Appropriations (June 5, 2018), ***available at*** https://www.sec.gov/news/testimony/testimony-financial-services-and-general-government-subcommittee-senate-committee.

[38] *See e.g.*, Treasury Capital Markets Report, ***supra*** n. 34, at 25-45; American Securities Association, Biotechnology Innovation Organization, Center for Capital Markets Competitiveness, *et al.*, ***Expanding the On-Ramp: Recommendations to Help More Companies Go and Stay Public*** (Spring 2018), ***available at*** https://www.sifma.org/wp-content/uploads/2018/04/Expanding-the-On-ramp-Report.pdf.

[39] Chairman Clayton has directed the SEC's Division of Corporate Finance to explore ways to improve the attractiveness of listing in public markets without reducing investor protections. ***See Remarks to the Investor Advisory Committee***, Jay Clayton, Chairman, SEC (June 22, 2017), ***available at*** https://www.sec.gov/news/public-statement/clayton-6-22-17. And, the Division of Trading and Markets recently held a roundtable to discuss ways to improve market structure for thinly traded exchange-traded securities, including many small and mid-capitalization companies. A transcript of this meeting is available on the SEC's website at https://www.sec.gov/spotlight/equity-market-structure-roundtables/thinly-traded-securities-rountable-042318-transcript.txt.

H.R. 4204, the International Regulated Investment Company Act of 2017—would reduce the disparate tax treatment between US mutual funds and their foreign counterparts. In so doing, it would allow US mutual funds to compete more effectively with foreign funds for foreign investors.

US mutual funds are the investment vehicle of choice for Americans saving for retirement or to achieve other financial goals.[40] And, by way of comparison, US mutual funds offer several advantages over funds sold to retail investors outside the United States:

- The size and sophistication of US funds allow them to invest more efficiently and operate at lower cost than their smaller foreign counterparts.
- The protection afforded by the Investment Company Act of 1940 and other US securities laws is considered state of the art.
- The US has a deep pool of highly skilled workers to run its investment products.
- US mutual funds offer a wide variety of investment choices across all major asset classes.

Yet virtually no US mutual fund is offered or marketed to investors outside the United States. This is the case even though "cross-border" funds (those organized in one jurisdiction but sold in others) have enjoyed explosive growth in the recent past. So what is keeping US funds from tapping into this growth opportunity?

A US mutual fund is required to distribute its income on a current basis to its investors. Many foreign funds, in contrast, can retain (or "roll up") their income without either current taxation of the fund or any obligation to distribute the income to investors. Distributions from US funds can cause foreign investors to incur home-country tax that would not be due, or that would be charged at a lower rate, if they invested instead in a foreign fund. This disparate tax treatment is the reason that US-domiciled mutual funds are not currently an "exportable" investment product.

H.R. 4204 seeks to change that. The bill would allow a US fund manager to create an "international regulated investment company" (IRIC) through which foreign investors could access a US mutual fund without triggering negative tax consequences in their home countries. The IRIC structure would not reduce the US tax incurred by these foreign investors and has been scored by the Joint Committee on Taxation as having a "negligible effect" on federal revenues. Creating IRICs is critical if US fund

[40] At year-end 2017, mutual funds accounted for 59 percent of all DC plan assets and 47 percent of all IRA assets (see Figure 2.4, in *2018 Investment Company Fact Book, available at* https://www.ici.org/pdf/2018_factbook.pdf). Moreover, the $8.8 trillion of mutual fund assets held in DC plans and IRAs represents 47 percent of all mutual fund assets ($18.7 trillion) at year-end 2017 (Id, at Tables 1, 63, and 64).

managers—particularly small and mid-sized firms—are to compete globally and increase their assets under management without establishing operations overseas and offering foreign investment vehicles.

ICI urges this Congress to address and pass this vital legislation.

*                    *                    *

On behalf of ICI and its members, I thank you for the opportunity to testify today. I look forward to answering the Committee's questions.

The New York Times

# *Blue-Collar Trump Voters Are Shrugging at Their Tax Cuts*

By Michael Tackett

March 7, 2018

DAYTON, Ohio — At Slyder's Tavern, Matt Kazee, a machinist, drank a couple of beers as he waited for burgers to take home for dinner. His tab was about equal to the increase in his take-home pay after President Trump's tax cut found its way into the nation's paychecks.

"I have seen a little uptick in my paycheck, about what I expected, about 30 bucks," said Mr. Kazee, who voted for President Barack Obama in 2008 before backing Mr. Trump in the 2016 election. "It felt to me about like where things were 15 years ago."

His underwhelmed reaction was not what Republicans had in mind. The white working-class voters in the industrial Midwest who helped put Mr. Trump in the White House are now seeing the extra cash from the tax cut, the president's signature domestic policy achievement and the foundation for Republican election hopes in November.

But the result has hardly been a windfall, economically or politically. Other workers described their increase as enough for a week's worth of gas or a couple of gallons of milk, with an additional $40 in a paycheck every two weeks on the high side to $2 a week on the low. Few are complaining, but the working class here is not feeling flush with newfound wealth.

And some are convinced that what the tax cut has given them upfront will ultimately fade.

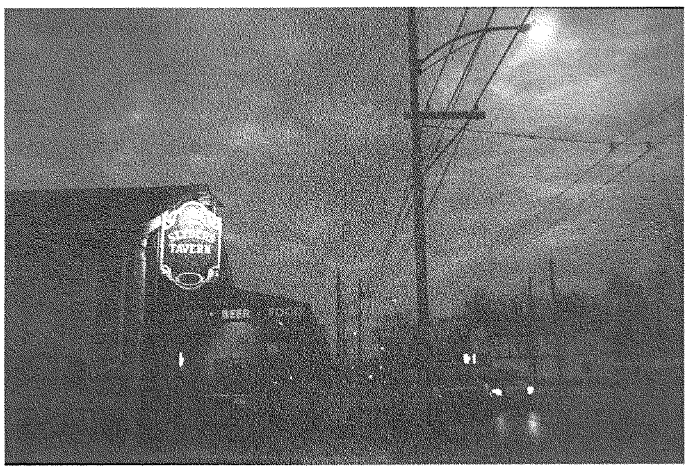
"He's pulling out jazz hands and shiny stuff up front and will screw us on the back end," said Brian Barkalow, a worker at Requarth Lumber, where the Wright Brothers once bought wood for their planes.

In 2016, Mr. Trump tapped into similar suspicions, particularly among white men who were crushed by the financial crisis and are clinging to jobs that are being transformed by technology and global competition. He narrowly won Montgomery County, in greater Dayton, the first Republican to do so since 1988.

And Republicans will need those voters to return in the fall if they are to maintain control of Congress.

The increase in take-home pay for Mr. Kazee was near the top among those for the more than two dozen workers interviewed — at the tavern, the lumberyard, a machine shop, a restaurant and a municipal building — about how the tax cut has affected them. Mr. Trump often spoke of how the average worker would receive $2,000 or more, but most workers said they did not expect anything close to that.

"In the blue-collar world, it is about looking to get a little bit more at the end of the week," said Shandy Cossell, who was seated near Mr. Kazee at Slyder's, where every stool at the bar was filled, mostly with men who work with their hands. The dark wood and neon signs suggested another era in a place where blue-collar workers have been coming since Harry Truman was president.




The dark wood and neon signs at Slyder's Tavern in Dayton, Ohio, suggested another era in a place where blue-collar workers have been coming since Harry Truman was president.
Maddie McGarvey for The New York Times

Several said they were most concerned about the rising cost of health care, and others questioned whether getting more money now would mean paying more later.

The economy in the Dayton area, where the median household income is about $46,000, was crushed by the financial crisis, and manufacturing was hit particularly hard. In January 2010, the unemployment rate was 13.2 percent. It has dropped steadily since and is about 4.6 percent today.

But the improved numbers do not tell the whole story. A major General Motors plant in Moraine closed in 2008, eliminating about 2,000 jobs. A Chinese-owned auto glass company has replaced it, with roughly the same number of jobs, but at half the pay.

That kind of downward mobility affected smaller machine shops and general manufacturing, depressing wages and fueling the sense of grievance and resentment that led to Mr. Trump's rise. "I think there needs to be a little more shame in the world," Mr. Cossell said.

Rob Wright, a strong supporter of Mr. Trump who works in a machine shop, said that the 30 additional dollars he is seeing in his paycheck is "30 a week that the government isn't seeing."

"It's just a little extra money I can count on," he shrugged. "It's not going to change my life."

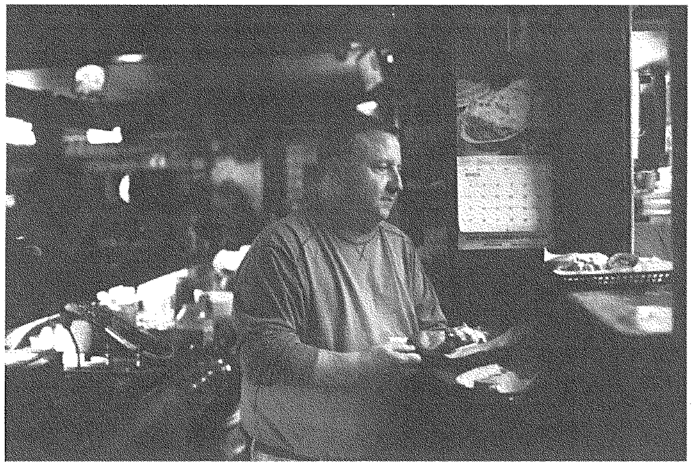
For others at his machine shop, he said, "It's a couple gallons of milk and loaves of bread to feed their kids."

At Requarth Lumber, on the edge of downtown, Matt Higgins paused after moving a load of wood onto a forklift. He said he backed Mr. Trump "only because I don't trust Hillary." The change in his paycheck is modest and difficult to calculate because his hours fluctuate, he said, but he knows one thing: "It's definitely not going to change my life."

One of his younger co-workers, Mr. Barkalow, was more skeptical than thankful. He said he was concerned that he would end up owing more taxes next year. He noticed a small increase in his check. "It's about gas money, but that's about it," said Mr. Barkalow, who did not vote for Mr. Trump.

At Insignia, the sign company where Mr. Cossell works, Brandon Eifert helped him apply a banner to a Warped Wing Brewing Company truck. Mr. Eifert said he was anxious that a tax cut now might mean that he would not get a refund next year. "Is the tax break just giving you the money now instead of later?" he asked.

"I used my taxes as a forced savings," he said. When he received a refund, he would use the money to "go on a trip or buy something." He estimated that the additional cash might be gas for a week, but it was not enough to take his girlfriend to a nice dinner.



Joe Granito, the owner of Slyder's, picking up orders from the kitchen.
Maddie McGarvey for The New York Times

When asked which candidate he supported in 2016, Mr. Eifert said, "Regretfully now, I voted for Trump."

He said the president's manner, more than his policies, put him off and he would not vote for him again. "It's somewhat embarrassing to hear how he talks, tacky and uneducated."

His colleague April Sakach said she was thrilled with the extra $30 to $40 in her paycheck. "For me, every little penny counts," she said.

But it will not change her opposition to the president. "It doesn't make me like him any more," she said. "He just needs to do more to get me on his side. And I don't know that he has it in him to do it."

She added, "I get speaking your mind, but you are the face of America, and you can't do the things that he's doing. It makes us look like a joke."

A few miles to the south, at Paradigm Industrial, a small-job machining and welding shop, the effect on personal finances appeared to be similar. Dan Neff said his wife paid the bills in the family, and she noticed an increase "right off."

It amounted to about $6 a week.

"It's lunch money," he said. "Still, it is moving in the right direction."

He voted for the president and said he supported Mr. Trump "to the greatest degree."

His co-worker, Dan Marker, was not so sure.

"It's always nice to get a few more dollars in the pocket," Mr. Marker said. But, he added, "probably my bigger concern here is that if Washington cuts taxes, fine, what services are they going to do without?"

Back at Slyder's, Al Yarcho, 63, who has been retired for five years, is not a beneficiary of the tax cut, but he expressed worry about its consequences for the nation's finances and entitlement programs.

"I just know this," Mr. Yarcho said. "When you cut revenue, you either have to find new revenue streams or you have to cut expenses. They've covered all the cuts. How are you going to pay for it?"

*Correction: March 7, 2018*
*An earlier version of a photo caption misidentified the last name of the owner of Slyder's Tavern. His name is Joe Granito, not Gadino.*

*Correction: March 8, 2018*
*An earlier version of this story erroneously said Matt Kazee voted twice for Barack Obama. He voted once for him, in 2008.*

A version of this article appears in print on March 8, 2018, on Page A19 of the New York edition with the headline: Shrugging at a Tax Cut That Might Buy a Fill-Up

**STATEMENT ON BEHALF OF**

**THE COUNCIL OF INSURANCE AGENTS AND BROKERS (CIAB)[1], THE INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA (IIABA)[2], AND THE NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS (NAIFA)[3]**

**BEFORE THE COMMITTEE ON FINANCIAL SERVICES UNITED STATES HOUSE OF REPRESENTATIVES**

**HEARING ENTITLED, "EMPOWERING A PRO-GROWTH ECONOMY BY CUTTING TAXES AND REGULATORY RED TAPE"**

**SUBMITTED JUNE 20, 2018**

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**INTRODUCTION**

On behalf of CIAB, IIABA, and NAIFA ("Insurance Producer Associations" or "Associations") we submit the following statement for the record regarding the above referenced hearing. Together all three Associations represent tens of thousands of pass-through businesses that are licensed by state insurance regulators to sell and service insurance products. These insurance businesses employ people in every congressional district in the country.

As the committee knows, Section 199A of the Internal Revenue Code (IRC) is a new section of the IRC that creates a 20% deduction on "qualified business income" (QBI) for owners and shareholders of pass-through businesses. The Associations are currently seeking clarity on the application of this deduction with the Department of Treasury and the Internal Revenue Service (IRS).

As outlined further below, the Insurance Producer Associations understand that it was the intent of Congress to exclude the business of insurance, including insurance producers, from the definition of "specified service trade or business" contained in Section 199A. The Associations are submitting this statement for the record because confusion over the proper application of this definition is already creating problems for our members as they file quarterly estimated tax payments. Consequently, we urge

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[1] CIAB represents the most successful employee benefits and property/casualty agencies and firms in the U.S. Our member firms annually place more than $300 billion in commercial insurance business in the United States and abroad, and they employ upward of 350,000 people worldwide. The products sold by Council members provide vital security and benefits to countless employees and businesses across the country.

[2] IIABA is the nation's oldest and largest trade association of independent insurance agents and brokers, representing a nationwide network of approximately a quarter of a million agents, brokers, and employees. IIABA represents independent insurance agents and brokers in all 50 states that offer customers a choice of policies from a variety of insurance companies across all lines of insurance—property, casualty, life, health, employee benefit plans and retirement products.

[3] Founded in 1890, NAIFA is the oldest, largest and most prestigious association representing the interests of insurance professionals from every Congressional district in the United States. NAIFA's mission – to advocate for a positive legislative and regulatory environment, enhance business and professional skills, and promote the ethical conduct of its members – is the reason NAIFA has consistently and resoundingly stood up for agents and called upon members to grow their knowledge while following the highest ethical standards in the industry.

Congress if necessary to clarify that congressional intent at time of passage of the "Tax Cuts and Jobs Act" was that the business of insurance, including insurance producers, be excluded from the definition of "specified service trade or business," and therefore able to fully utilize the 20% deduction.

**THE BUSINESS OF INSURANCE, INCLUDING INSURANCE PRODUCERS, IS PROPERLY EXCLUDED FROM THE DEFINITION OF "SPECIFIED SERVICE TRADE OR BUSINESS" IN SECTION 199A OF THE IRC AND ANY IMPLEMENTING GUIDANCE OR REGULATIONS SHOULD APPROPRIATELY RECOGNIZE THIS.**

Section 199A can be summarized as follows:

- All pass-through business owners/shareholders can receive the full 20% deduction when their annual taxable income does not exceed $315,000 (joint) / $157,500 (single).
- For owners/shareholders at higher income levels the deduction cannot exceed 50% of applicable employee wages paid, or 25% of applicable wages plus 2.5% of capital assets (e.g. tangible property purchased for the business), whichever is greater
- Finally, the deduction is phased out for owners/shareholders of a "specified service trade or business" between $315,000 (joint)/$157,500 (single) and $415,000 (joint)/$207,500 (single). In other words, an owner/shareholder of a "specified services business" with annual taxable income above $415,000 (joint) an $207,500 (single) cannot utilize the deduction.

The new law adopts an amended definition of what is not considered a "qualified trade or business" for purposes of exclusions for gains from business stock contained in Section 1202(e)(3) of the tax code to create a definition for a "specified service trade or business" that would be excluded from using the 20% deduction in certain cases.

The new § 199A generally defines a non-qualified "specified service trade or business" as those described in IRC § 1202(e)(3)**(<u>A</u>)**:

> *any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees.*

The new tax law, however, modifies the above definition in three respects. Namely, it:

- Excludes "engineering" and "architecture;"
- Refers to the reputation or skill of "employees or owners," instead of just "employees:" and
- Adds investing and investment management as specified service businesses.

Tellingly, when Congress altered the definition in 1202(e)(3)(A), **<u>Congress did not add insurance businesses to the list of non-qualified service businesses</u>**. Indeed, adding investing/investment management businesses was necessary because IRC § 1202(e)(3)(B) includes a list of businesses distinct from (e)(3)(A) (i.e., a list of businesses not captured in the non-qualified services definition based on subsection (A) alone). Those businesses in 1202(e)(3)(B) include:

> any banking, ***<u>insurance</u>***, financing, leasing, ***<u>investing</u>***, or similar business.

Ultimately, Congress could have included within the definition of "specified service trade or business" all of § 1202(e)(3), or (e)(3)(A) and (B)—but it did not. Instead, it selectively expanded the definition of service businesses in (A) to include investing businesses, and did not include insurance businesses, banking businesses, leasing businesses, etc. Thus, the Insurance Producer Associations understand that while

Congress intended that any insurance business should not be treated as a "specified service trade or business."

Moreover, our member firms are "insurance businesses" and are regulated as such.[4] Our members operate as the day-to-day sales force for the insurance industry. Insurance producers are licensed as insurance businesses by state insurance regulators. Every state requires individuals to obtain an insurance license to sell and service insurance products. Additionally, many states require them to be appointed as agents with authority to sell on behalf of insurers and deliver binding insurance contracts. They also have special examination, appointment, compensation and disclosure requirements (and restrictions) under state insurance laws and regulations by virtue of their role as insurance businesses.

Finally, it is well settled law at the federal level (in statute and judicial decisions) that the sale and servicing of insurance is considered part of the "business of insurance." Multiple federal statutes, including the Gramm Leach Bliley Act of 1999 and the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010, include the sale and servicing of insurance as part of the "business of insurance."

**CONCLUSION**

The Insurance Producer Trade Associations appreciate your leadership on tax reform and are committed to continuing to work with Congress on these important issues. However, our member firms are not the type of businesses that Congress intended to exclude from receiving the full benefits of Section 199A. Our members provide protection products that are essential to the economy, individual businesses and American families, employ millions of people across the U.S., and occupy numerous retail locations in every state. Excluding our member firms from receiving the full benefits of § 199A would be contrary to Congress' broad public policy goals of growing the economy and creating jobs, and—as with any policy development that increases the cost of doing business—would ultimately be detrimental to consumers of vital insurance products. With the "Tax Cuts and Jobs Act," Congress enacted, and the President signed the broadest changes to the American tax code since the 1980s. The intent of this endeavor was to provide businesses and hardworking individuals across the country with much-needed tax relief. Interpreting the pass-through provisions in the new tax law in a narrow and exclusionary manner would only undermine these objectives and stunt economic benefits associated with tax reform.

[4] The McCarran Ferguson Act, 15 U.S.C. §§ 1011-1015, leaves regulation of the "business of insurance" to the States, unless preempted by a federal law that "specifically relates to the business of insurance." See generally, Barnett Bank of Marion Cnty. v. Nelson, 517 U.S. 25 (1996) (finding federal law permitting certain banks to act as insurance agents and sell and solicit insurance products "specifically related to the business of insurance").

**SINCE THE TAX BILL PASSED, HUNDREDS OF COMPANIES HAVE OFFERED THEIR EMPLOYEES BONUSES, RAISES, AND ENHANCED BENEFITS**

**Three Hundred And Thirty-Four Companies Have Pledged To Give Their Employees Bonuses, Pay Raises, And Increased 401(K) Contributions.** " "344 companies announce tax reform bonuses, raises, or 401(k) hikes." ("List Of Tax Reform Good News," Americans For Tax Reform, 1/23/18)

**As A Result Of The Tax Cuts And Jobs Act, AT&T Will Pay $1,000 Bonuses To Over 200,000 "'Union-Represented, Non-Management" Workers, And Will Invest An Additional $1 Billion Into The United States In 2018 Alone.** "AT&T, the No. 2 U.S. wireless carrier, said it will pay $1,000 bonuses to more than 200,000 employees and invest an additional $1 billion in the United States in 2018, once the tax reform bill is signed into law. An AT&T spokesman said the bonuses were unrelated to the $1,000 that 20,000 AT&T Mobility employees will receive as part of an agreement with the Communications Workers of America announced last week. Employees eligible for the bonus are all 'union-represented, non-management and front-line managers,' AT&T said in a statement." ("AT&T, Two Banks Offer Bonuses, Pay Hikes In Wake Of U.S. Tax Reform," *Reuters*, 12/20/17)

**After The Tax Cuts And Jobs Act Passed, Comcast Announced It Would Invest $50 Billion Into Its Infrastructure In The Next 5 Years And Offer Bonuses To 100,000 Employees.** "Cable provider Comcast Corp also said it would give $1,000 bonuses to more than 100,000 employees and invest $50 billion over the next five years in its infrastructure." ("AT&T, Two Banks Offer Bonuses, Pay Hikes In Wake Of U.S. Tax Reform," *Reuters*, 12/20/17)

**Bank Of America Will Give About 145,000 Employees $1,000 Bonuses, Citing The Tax Cuts And Jobs Act As The Reason**. "Bank of America will give some of its employees a $1,000 bonus, citing the tax bill that was just signed into law. 'Beginning in 2018, we will see benefits from the tax reform in the form of lower corporate tax rates,' CEO Brian Moynihan said in an internal memo to employees obtained by CNBC. He also said that about 145,000 employees will receive the bonus." (Fred Imbert, "Bank Of America Is Giving Some Employees A $1,000 Bonus, Citing Tax Bill,"CNBC, 12/22/17)

**Sinclair Broadcasting, The Nation's Largest TV Broadcaster, Promised $1,000 Bonuses To Almost 9,000 Full- And Part-Time Employees, Excluding Senior Executives, After The Tax Cuts And Jobs Act Passed.** "Add Sinclair, the nation's largest TV broadcaster, to the companies promising a $1,000 bonus to employees with the successful passage of the tax reform bill. The Hunt Valley, Md.-headquartered Sinclair Broadcast Group, which has 173 TV stations and reaches more than 38% of the U.S., said Friday that it will pay a special $1,000 bonus to its nearly 9,000 full-time and part-time employees, excluding senior level executives." (Mike Snider, "Sinclair Joins Companies Promising Tax Reform Bill Bonuses To Employees," *USA Today*, 12/22/17)

**PNC Financial Services Said It Will Give $1,000 Bonuses To 90 Percent Of Their Employees Below A Certain Pay Grade.** "PNC Financial Services became the latest company to say it will pay special bonuses to the bulk of its employees, among other workforce investments, after the tax bill was signed into law Friday. The financial services company said it will provide a $1,000 cash payment in the first quarter of 2018 to about 47,500 employees, or the about 90% of its workforce who are below a certain compensation band. In addition, PNC said it would raise its minimum wage to $15 an hour by the end of 2018, provide an additional $1,500 for employees in the defined benefit pension plan and make a $200 million contribution to the PNC Foundation, which supports early childhood education." (Tomi Kilgore, "PNC To Pay $1,000 Bonuses, Raise Minimum Wage After Tax Bill Signed," Market Watch , 12/22/17)

***At Least Forty-Three Companies Are Increasing Wages For Their Employees***

**Forty-Three Companies Have Pledged To Give Their Employees Pay Raises.** ("List Of Tax Reform Good News," Americans For Tax Reform, 2/12/18)

**Citing President Trump's Tax Law, Walmart Increased Their Minimum Wage To $11 Per Hour.** "Walmart is boosting the minimum hourly wage for its U.S. employees to $11 and dishing out bonuses of up to $1,000, crediting President Trump's tax cut for enabling the move." (Nathan Bomey, "Walmart Boosts Minimum Wage Again, Hands Out $1,000 Bonuses," *USA Today* , 1/11/18)

**CVS Increased Their Minimum Wage To $11 An Hour** . "CVS Health will increase the starting wage rate for hourly employees to $11 an hour, effective April 2018. As part of this change, the company also plans to adjust pay ranges and rates for many of its retail pharmacy technicians, front store associates and other hourly retail employees later in the year to ensure a competitive compensation structure that supports the company's plans to evolve its retail stores into a health care destination." (Press Release, "CVS Health Investing In Long-Term And Sustainable Wage Increases And Benefits Enhancements Following The Passage Of The Tax Cuts And Jobs Act," CVS , 2/8/18)

**M&T Bank Raised Their Minimum Wage To $14-$16 An Hour.** "M&T Bank workers will be getting a pay raise. The Buffalo-based bank said it will increase wages for all of its hourly workers and boost the starting pay to $14 to $16 an hour, depending on which market they work in. M&T said the program to increase hourly wages will cost about $25 million once it is fully implemented." (David Robinson and Matt Glynn, "M&T Says It Will Give Hourly Workers A Raise," *The Buffalo News* , 1/18/18)

**Nexus Gave All Employees A 5 Percent Pay Raise** . "All Nexus Services, Inc. employees will receive a 5% raise, starting in January 2018, CEO Mike Donovan announced today. Also, Nexus unveiled plans to hire another 200 workers over the course of 2018 - doubling the size of Nexus Services, Inc. workforce nationwide. Many of the new jobs will be created in Virginia's Shenandoah Valley and other jobs will be in San Juan (Puerto Rico), Hackensack (NJ), Ontario (CA) and other sites nationwide." (Press Release, "Nexus Services, Inc. Announces 5% Raises And 200 New Jobs,"Nexus Services , 12/21/17)

**Afinson Farm Store Gave All 7 Of Their Workers A 5 Percent Pay Raise.** "Within days of the bill's passage in December, Anfinson gave all seven full-time employees a $1,000 bonus, plus a 5 percent pay raise. 'That way the money flows back into the community,' Anfinson told The Journal after the ceremony. The independent farm supply store also employs some part-time workers during the busy spring season. The owner said he is also considering giving them bonuses as well 'because it would be fair.' His recent generosity isn't something his employees took for granted." (Ty Rushing, "Trump Fetes Cushing, Iowa, Small Business Owner At White House," *Sioux City Journal*, 1/31/18)

**Empire National Bank Increased Salaries By 5 Percent.** "Empire National Bank is increasing salaries by 5 percent, upping its 401(k) match program and giving all nonexecutive employees one-time $1,000 bonuses as a result of the benefits derived from the recent federal tax overhaul." (David Reich-Hale, "Empire National, BNB To Boost Salaries In Wake Of Tax Overhaul," *Newsday*, 1/30/18)

**Indiana-Based Family Express Will Raise Their Minimum Wage To $11 An Hour.**"Valparaiso-based Family Express, which has 70 convenience stores across Indiana and is in the process of building 10 more, is bumping its starting wage to $11 an hour." (Joseph S. Pete, "Family Express Raises Starting Pay To $11 An Hour," *Northwest Indiana Times*, 2/9/18)

**First Southwest Bank Raised Its Minimum Wage To $14 An Hour**. "While some long-standing businesses leave our rural Colorado towns, for more urban options, First Southwest Bank stands committed to growing and investing in the people of our Western communities. As part of this commitment, starting team members at First Southwest Bank are immediately benefiting from the recent tax law changes, as the bank raises its starting wage to $14 an hour plus full benefits." (Press Release, "First Southwest Bank To Raise Starting Wages, Investing In Local Employees," First Southwest Bank, 1/22/17)

**Fulton Financial Corporation Raised Its Minimum Wage To $12 An Hour.** "In addition to expanding its community support, Fulton also will raise its minimum wage to $12 per hour. The company also plans to provide an additional week of pay in 2018 to employees, who are not participants in other variable-award plans. It is expected that 75% of Fulton's approximately 3,700 employees will receive this additional week of pay." (Press Release, "Fulton Financial Reinvests In Communities And Employees,"Fulton Financial Corporation, 1/18/18)

**Gulf Coast Bank And Trust Company Raised Their Minimum Wage To $12 An Hour.** "The federal reform is prompting community banks to make changes as well. On Thursday, Gulf Coast Bank and Trust Company announced it would raise its minimum wage. The $1.6 billion-asset bank is increasing the wage to $12 per hour, effective Monday, according to a news release. That's up from the current $11 per hour. The change will impact almost 50 employees primarily in the retail banking division and within the bank's 19 locations in southeast Louisiana." (Lance Traweek, "Gulf Coast, Regions Bank Hike Minimum Wage Following Tax Reform Law," New Orleans City Business, 1/2/18)

**Happy State Bank Increased Their Minimum Wage To $14 An Hour**. "In its board meeting yesterday, January 23, the Board of Directors of Happy State Bank voted unanimously for a significant wage and benefit increase for employees of the company as a direct result of the new tax reform legislation. The announcement was made by Board Chairman and CEO, J. Pat Hickman. The wage increases directly impact over 600 of the bank's 700+ employees. The highlights of the new program are: Happy State Bank has a new starting minimum wage of $13.50 per hour...increasing to $14.00 after a 90-day probationary period. Present employees currently earning less than $14.00 per hour will be increased to this amount immediately. Employees currently earning between $14.00 and $17.50 hourly will receive an approximate $0.50 hourly wage increase." (Amber Joseph, "Happy State Bank Announces Wage Increase For Employees," ABC 25 Newscenter, 1/24/18)

**Kish Bancorp Raised Its Minimum Wage For All Entry Level Employees.**"Additionally, the Company will elevate its starting minimum wage for all entry level personnel, together with an associated increase in the ranges for all non-exempt hourly employees. Expanded 2018 hiring plans will increase the number of employees equivalent to ten full-time personnel, with a corresponding expansion in payroll and benefits of approximately $400,000." (Press Release, "Kish Bancorp Announces Economic Initiatives," Kish Bancorp, 1/17/18)

**Mutual Bank Will Give All Non-Exempt Employees Will Receive A $0.50 Pay Raise.**"In the first quarter of 2018, MutualBank will distribute a $750 one-time payment for all full-time and part-time employees except for the Executive Management Team. Additionally, all non-exempt employees will receive a $0.50 increase in their hourly wage." (Press Release, "Mutualbank Announces Hourly Wage Increase And Bonuses," Mutual Bank, 1/20/18)

**NexTeir Increased Hourly Wages For Their Employees.** "In addition to this one-time payout, NexTier is committed to providing educational and career advancement opportunities to employees on an ongoing basis with educational benefits such as tuition reimbursement, internal training, and a variety of industry training opportunities. NexTier will also make adjustments to the wages of hourly employees throughout the year." (Press Release, "NexTier Bank Announces $1,000 Bonuses For Employees," NexTeir Bank, 1/12/18)

**Sutter Masonry Increased Their Hourly Wages By $1.00 An Hour. " Sutter Masonry**(El Mirage, AZ) - The company employs approximately 100 people. Hourly wages were increased by $1.00 and over $50,000 in bonuses were distributed." ("List Of Tax Reform Good News," Americans For Tax Reform, 2/12/18)

***Additionally, Twenty-Eight Companies Have Raised Their Minimum Wage To $15 Or Higher In The Wake Of The Tax Cuts And Jobs Act***

**BNB Bank Increased Their Minimum Wage To $15 An Hour, Additionally They Also Increased Wages For The Pay Tier Above Minimum Wage.** "Bridgehampton-based BNB

Bank said it was increasing its minimum wage from $13 to $15 in light of the lower corporate tax rate. The bank added it was also increasing wages for employees in the tier above that. About 100 employees, or 20 percent of the bank's workforce, will see an increase, BNB said." (David Reich-Hale, "Empire National, BNB To Boost Salaries In Wake Of Tax Overhaul," *Newsday*, 1/30/18)

**Cigna Raised Their Minimum Wage To $16 An Hour.** "Effective today, Cigna is establishing a minimum wage across its U.S. employee base of $16 an hour, substantially exceeding the national minimum wage in the United States as well as the hourly rate paid at many global corporations. Cigna will also provide salary increases above the $16 an hour level, largely to front line employees. These investments in employee wages will total more than $15 million. Additionally, Cigna is adding $30 million to its 401(k) program to match an additional one percent of employee compensation contributed to the 401(k) in 2018. This match will benefit the retirement accounts of over 30,000 employees." (Press Release, "Cigna Increases Minimum Wage To $16 An Hour And Further Accelerates Investments In Employees And Community Health," Cigna, 1/31/18)

**F.N.B. Corporation Increased Their Minimum Wage To $15 An Hour In The Wake Of The Tax Cuts And Jobs Act.** "F.N.B. Corp., the holding company of First National Bank of Pennsylvania, will increase its hourly minimum wage to $15 by the end of 2019, accelerating an ongoing initiative. The raise was part of the announcement Thursday of 'a financial commitment to both its employees and the communities it serves relating to the signing of the Tax Cuts and Jobs Act of 2017.'" ("F.N.B. Corp. Will Increase Hourly Minimum Wage To $15," *The Business Journal Daily*, 1/19/18)

**Great Western Bancorp Increased Its Minimum Wage To $15 An Hour.** "Great Western Bancorp, Inc. the parent company of Great Western Bank announced investments today in its employees and community reinvestment as a result of the tax reform package. The investments include: Raising the minimum wage to $15; A special one-time $500 bonus or wage increase for nearly 70% of its workforce; Enhancements to employees' health care offerings effective for the 2018 enrollment period; and The doubling of its annual contribution to its Making Life Great Grants community reinvestment program." (Press Release, "Great Western Bancorp, Inc. Unveils Minimum Wage Hike, Special Bonuses In Wake Of Tax Reform," Great Western Bancorp, 1/10/18)

**Regions Bank Increased Its Hourly Wage To $15 An Hour.** "Regions says it will increase its hourly minimum wage to $15 for 5,000 employees - including 335 Louisiana-based associates." (Lance Traweek, "Gulf Coast, Regions Bank Hike Minimum Wage Following Tax Reform Law," New Orleans City Business, 1/2/18)

**HarborOne Bank Raised Its Minimum Wage To $15.** "Brockton-based HarborOne Bank said it's giving hundreds of employees a $500 bonus and is raising its minimum wage to $15 an hour by February in the wake of the federal tax bill, following similar moves made by other national companies and banks." (Matt Stout, "Harborone Credits Tax Law With Wage Hike," *Boston Herald*, 12/28/17)

**Hawaii National Bank Increased Their Minimum Wage To $15 An Hour.** "Hawaii National Bank (Honolulu, Hawaii) -- $1,000 bonuses; base wage raised to $15 per hour." ("List Of Tax Reform Good News," Americans For Tax Reform, 2/12/18)

**Homestreet Increased Its Minimum Wage To $15 An Hour.** "Today, HomeStreet, Inc, the parent company of HomeStreet Bank, ("HomeStreet") announced that it has raised its company minimum wage to $15 per hour across all 111 retail branches and lending centers in seven states. The increase took effect January 1, 2018. The announcement comes on the heels of the recently signed federal tax reform bill that cut the corporate tax rate from 35 percent to 21 percent." ("HomeStreet Bank Increases Minimum Wage Company-Wide," Business Wire , 1/16/18)

**Humana Increased Their Minimum Wage To $15 An Hour.** "Humana also intends to raise the minimum hourly rate in the continental U.S. for full- and part-time employees to $15. A spokeswoman did not respond to questions about how many workers would be eligible for bonuses or how much of a raise the $15 rate represents over the unspecified current rate." (Grace Schneider, "Humana Will Share The Wealth From Tax Cut With New Incentive Pay, Boosted Minimum Wage," Louisville Courier Journal , 1/17/18)

**INB Bank Raised Their Minimum Wage To $15 An Hour To Pass On Their Tax Savings To Their Employees.** "The new tax reform law will revamp the tax framework and reduce the maximum tax rate for corporations from 35 percent to 21 percent. Historically, INB's parent company, Northwest Bancorp has paid the maximum tax rate so it expects a tax cut of approximately 14 percent. At year-end 2017, INB will pay a bonus of $500 to each of its 200 employees, excluding its Senior Management Team. Additionally, it will establish the company's minimum wage at $15 an hour effective, January 1st, 2018. INB will also adjust other employee wages for those making more than $15 an hour. The total wage adjustment will affect more than one third of their entire workforce." (Press Release, "INB Plans To Share Corporate Tax Savings With Staff, INB Bank , 12/27/17)

**JPMorgan Increased Their Minimum Wage To $16.50 .** "JPMorgan promised to hire 4,000 employees in the United States and to ramp up its small business lending by $4 billion. For those already working at JPMorgan, the bank plans to boost pay for tellers, customer service representatives and other mostly frontline workers to between $15 and $18 an hour. New York, San Francisco and Boston employees will get $18 an hour, while pay in Chicago, Detroit and Wilmington, Delaware, will go to $16.50." (Matt Egan, "22,000 Jpmorgan Chase Workers Are Getting A Raise," CNN , 1/23/18)

**Wisconsin Based Johnson Bank Raised Their Minimum Wage To $15 An Hour."Johnson Bank** (Racine, Wisconsin) - base wage raised to $15 per hour." ("List Of Tax Reform Good News," Americans For Tax Reform, 2/12/18)

**Keycorp Raised Their Minimum Wage To Share Their Tax Saving With Employees.**"Key will be sharing the expected tax benefits with its employees by increasing its minimum wage and making the additional retirement plan contribution referenced above. These actions will benefit over 80% of our workforce and allow us to reward and invest in the financial wellness of our employees." (Press Release, "KeyCorp Reports Fourth Quarter 2017 Net Income Of $181 Million, Or $.17 Per Common Share,"KeyCorp , 1/18/18)

**Indiana Based MainSource Financial Group Raised Their Minimum Wage To $15 An Hour.** "MainSource Financial Group will raise the starting pay and minimum hourly rate to $15 an hour effective immediately for all of its non-exempt, non-commissioned employees. This announcement comes as a result of the recently passed tax legislation, which includes a reduction in corporate tax rates." (Press Release, "Mainsource Financial Group Announces Pay Increase For Hourly Employees,"Mainsource Financial Group , 1/3/18)

**MB Financial Raised Its Minimum Wage To $15 An Hour.** "Also as a result of the new tax legislation, MB will raise its minimum wage to $15 per hour and pay certain one-time bonuses. It's expected that nearly 75 percent of MB's approximately 3,600 team members across the country will participate in these new compensation measures. "Our employees are truly different. Their passion sets them apart. It's no wonder they go beyond every day for our clients, our communities, and each other. I'm thrilled we can pass along the benefits of tax reform to them," Feiger said." (MB Financial Reinvests, Hikes Minimum Wage," *Daily Herald* , 12/29/17)

**Marsh & McLennan Companies Inc. Increased Their Minimum Wage To $16 An Hour.** "One time $1,000 bonus to employees earning $55,000/year or less, U.S. employees earning below $16/hour to receive a pay raise to $16/hour." (Nick Wells, Hellen Zhao, and Fred Imbert, "These Companies Are Paying Bonuses With Their Tax Savings," CNBC , 1/26/18)

***Meridian Bancorp, Inc. Raised Their Minimum Wage To $15 An Hour.*** *"Meridian Bancorp, Inc. the holding company for East Boston Savings Bank (the 'Bank'), following the new tax law being passed by Congress and signed by the President on December 22, 2017, announced the following enhanced commitments to the Bank's employees, infrastructure investment and charitable giving which will benefit its customers and the communities it serves: The minimum wage for all employees will increase to $15 per hour." (Press Release, "Meridian Bancorp, Inc. And East Boston Savings Bank Announce Their 2018 Commitment To Their Employees, Infrastructure And Charitable Giving,"* Meridian Bancorp *, 1/3/18)*

**NBT Bank Increased Their Minimum Wage To $15 Per Hour** . "NBT Bank Increased minimum wage to $15 per hour, Increased wages of employees earning less than $50,000 by a minimum of 5%, Will increase investment in infrastructure to enhance customer-facing technology and contributions to nonprofit organizations in its communities in 2018." ("Tax Reform Allows Banks To Invest In Employees And Communities," American Bankers Association ," 2/9/18)

**OceanFirst Financial Corp. Increased Its Minimum Wage To $15 An Hour.** "Going into 2018 with a sharply lower corporate tax rate, OceanFirst Financial Corp. plans to increase the minimum wage of tellers and customer service workers to $15 an hour, its chief executive officer said Friday." (Michael L. Diamond, "Oceanfirst Bank Raises Minimum Wage To $15 An Hour After Tax Reform," *USA Today* , 12/23/17)

**Peoples Bank Has Raised Their Minimum Wage To $15 An Hour.** "Peoples Bank has joined other companies who say they are investing in its employees in response to recently passed federal tax reform legislation. The Bellingham-based bank said it was raising the minimum wage to $15 an hour for all hourly employees and is increasing its match to each eligible employee's 401K retirement benefits to 8 percent, according to a news release. Peoples Bank also will evaluate how to minimize wage compression for employees already making around $15 an hour, said Samara Villasenor, a spokeswoman representing Peoples Bank." (Dave Gallagher, "This Bellingham-Based Bank Is Raising Wages As A Result Of Federal Tax Reform," *The Bellingham Herald*, 1/11/18)

**PNC Financial Services Will Raise Their Minimum Wage To $15 An Hour By The End Of 2018.** "PNC Financial Services Group announced today it would be investing in its employee with cash, retirement fund cash and an increase in minimum pay following today's signing of the tax reform bill. The company said it will provide an additional $1000 cash payment to 47,500 employees and $1,500 to their existing pension accounts. The cash payment to 47,500 employees was estimated to reach 90% of PNC employees. It is set for all employees below an unspecified compensation band. PNC Financial Services said they will raise the minimum pay rate to $15-an-hour by the end of 2018." ("PNC Bank Announces Employee Cash Bonuses After Tax Reform Bill," Cbs Pittsburgh, 12/22/17)

**SunTrust Has Increased Their Minimum Wage To $15 An Hour.** "SunTrust has made the following commitments: $50 million in additional community grants to national and local financial well-being efforts, Minimum wage increase to $15 per hour, Merit base pay increases for certain other hourly teammates (approximately 20 percent of workforce). A one percent 401(k) contribution to retirement savings for all teammates, in addition to the company's six percent match opportunity, $1,000 financial incentive for all teammates that complete the SunTrust Momentum onUp financial fitness program." (Press Release, "SunTrust To Increase Minimum Wage, Build Teammate Savings And Create $50 Million Community Fund For Financial Well-Being," SunTrust Banks, 12/28/17)

**Territorial Savings Bank Increased Their Minimum Wage To $15 An Hour.** "Territorial Savings Bank (Honolulu, Hawaii) -- $1,000 bonuses to 247 employees; base wage hike from $11.25 to $15.00 per hour." ("List Of Tax Reform Good News," Americans For Tax Reform, 2/12/18)

**U.S. Bancorp Increased Their Minimum Wage To $15 An Hour.** "U.S. Bancorp (Minneapolis, Minnesota) - $1,000 bonuses for 60,000 employees; base wage hike to $15 per hour; $150 million charitable contribution." ("List Of Tax Reform Good News," Americans For Tax Reform, 2/12/18)

**Wells Fargo Raised Their Minimum Wage To $15 An Hour.** "Wells Fargo was among the corporations out this week to say it was raising its minimum wage to $15 due to the tax cuts." (Eric Rosenbaum, "The Tortured Truth Behind Wells Fargo's 'Trump Tax Cut' Minimum Wage Raise," CNBC, 12/23/17)

**Windsor Federal Savings Increased Their Minimum Wage To $15 An Hour.**"Windsor Federal Savings in Windsor, Conn., will pay a $250 bonus to all employees (excluding senior management), and raise the hourly minimum wage to $15 per hour." ("Banks Announce Wage Hikes, Charitable Contributions Following Passage Of Tax Reform," *ABA Banking Journal* , 12/29/17)

**Wintrust Financial Corporation Raised Their Minimum Wage To $15 An Hour.**"Wintrust Financial Corporation (Rosemont, Illinois) -- base wage raised to $15 per hour." ("List Of Tax Reform Good News," Americans For Tax Reform, 2/12/18)