

PRESIDENT'S FISCAL YEAR 2021 BUDGET

HEARING

BEFORE THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

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FEBRUARY 12, 2020
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PRESIDENT'S FISCAL YEAR 2021 BUDGET

WEDNESDAY, FEBRUARY 12, 2020

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

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

Present: Senators Thune, Portman, Toomey, Scott, Cassidy, Lankford, Daines, Young, Sasse, Wyden, Stabenow, Cantwell, Menendez, Carper, Cardin, Brown, Casey, Warner, Whitehouse, Hassan, and Cortez Masto.

Also present: Republican staff: Andre Barnett, Tax Counsel; Courtney Connell, Tax Counsel; DeLisa Ragsdale, Chief Investigative Counsel; Mark Warren, Chief Tax Counsel; and Jeffrey Wrase, Deputy Staff Director and Chief Economist. Democratic staff: Adam Carasso, Senior Tax and Economic Advisor; Michael Evans, Deputy Staff Director and Chief Counsel; Daniel Goshorn, Senior Counsel; Joshua Sheinkman, Staff Director; and Jayme White, Chief Advisor for International Competitiveness and Innovation.

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

The CHAIRMAN. We are pleased to have Treasury Secretary Mnuchin here today, testifying about the President's fiscal year 2021 budget.

The President's budget includes proposals to confront a number of important issues. I want to work with the President, the Secretary, and others in Congress to address these and other pressing issues within our committee's jurisdiction. Drug pricing and multi-employer pension crises are two such issues that must be dealt with.

This budget proposal comes at a time when the economy is very strong, especially for working families. Better trade deals, less regulation, and lower taxes from tax reform have translated into wage increases, especially for lower-wage earners, and a historically tight labor market.

Over 6.7 million jobs have been created since President Trump was elected, with nearly 70 percent of the jobs gains occurring since we passed the Tax Cut and Jobs Act. Unemployment has fallen to a 50-year low. We have had 23 consecutive months with the unemployment rate at or below 4 percent, the longest streak in five decades.

Unemployment for Hispanic and African American workers has set all-time record lows. The American middle class is growing, and families are benefiting, with a family of four earning \$73,000 seeing their tax bill cut by over \$2,000 after tax reforms.

Statistics like these show that tax reform is a success. The Treasury Department's work to implement the new tax law has been an important part of that success. We appreciate the diligence and of course the dedication Treasury and IRS have maintained over the last 18 months to release extensive guidance necessary for hard-working Americans and the business community to file their tax returns.

Despite Treasury's steadfast efforts, however, we have critics. And those critics have continued their assault on the Department for doing its job—criticism that is unfounded. While the Treasury plays an integral role when any major tax legislation is enacted, the heavy lifting occurs when that legislation is being implemented.

Treasury is following the same process set out in the Administrative Procedures Act that has occurred after enactment of other tax legislation, like for instance the Affordable Care Act.

Critics continuously use preliminary and incomplete data to distort the efforts of tax reform to support a political narrative. Critics' focus on revised CBO projections of corporate tax receipts is just the latest installment, as I discussed in my statement yesterday to my fellow Senators.

Similarly, we all recall the misinformation campaign in last year's filing season when critics tried to persuade the public that tax reform was a failure because early tax refunds were down. Of course critics conveniently ignored that the size of the tax refund says nothing whatsoever about the tax liability of an individual.

In the end, the criticism proved to be flat-out wrong. Americans got tax relief, and the average size and number of refunds ended up being closely in line with previous years.

I am hopeful that we can avoid similar scare tactics in this year's filing season. Nothing the critics can say will refute the fact that every income group in every State saw tax cuts under tax reform. And this is particularly true for low- and middle-income families, as we see statistics almost weekly about blue-collar workers getting higher-percentage wage increases on average than the management class.

Instead, I hope that we can work together on policies that will benefit all Americans, including some of the President's budget proposals. This committee has a solid foundation of bipartisan accomplishment in recent months, including the SECURE Act, the Taxpayer First Act, and the USMCA trade deal.

And after extensive negotiations, we came together just before Christmas to extend a number of temporary, bipartisan tax provisions. I wish more could have been done to resolve them once and for all, as we did in repealing three onerous Affordable Care Act health taxes, but hopefully our efforts in December can lead us to success in future discussions on the expiring provisions that are coming up at the end of this year.

I am also encouraged by the progress that has been made at the OECD to reach a multi-lateral global tax agreement on the digital

economy. Senator Wyden and I, since a year ago, have remained united and bipartisan in our message that unilateral measures that discriminate against American companies cannot be tolerated. And we continue to support the Treasury Department in these negotiations.

As this year progresses, now we should build upon these past successes to make sure that Treasury and our tax laws are working for the American people. I have seen administration budget proposals from both Republican and Democratic Presidents alike. No matter which party controls the White House, members will not support everything that is in that budget.

As a matter of fact, one of our former Presidents, I guess it was President Obama's last budget, was defeated on a 99 to 0 vote. As I have said before: in our system, the President proposes and Congress disposes. Even so, today's hearing is part of an important process of looking for things that people on both sides of the aisle can agree on to support the American people in the most fiscally responsible way.

I have had my say now, and it is time for Senator Wyden.

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

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

Senator WYDEN. Thank you very much, Mr. Chairman. And, Mr. Chairman, I appreciate also your scheduling this hearing quickly.

The Trump administration's budget is built on policies that pilage working families to pay for new windfalls for multinational corporations and the wealthy. This hurtful agenda has been on clear display over just the past few weeks in two events I am going to touch on.

First, it recently came to light that the Trump administration, acting on their own, found a way to milk the 2017 tax law to create more than \$100 billion worth of shiny new corporate tax loopholes.

Now, colleagues, understand these are not the same huge loopholes that I and others warned about back in 2017 when the bill was written. These are brand-new loopholes that are the product of tricky Treasury Department regulatory maneuvering, something that in my view looks like it goes beyond the Department's legal authority.

The bottom line: it sure looks like corporate special interests are going to make off with brand-new loopholes worth \$100 billion, in addition to the outlandish share they got from the original \$2-trillion Trump tax law.

Senator Brown and I want to stop this fleecing of the American taxpayer. So today, Senator Brown and I are introducing legislation that will close these new loopholes and fix this new source of tax unfairness. When people say the tax code is rigged and the Trump administration has made it worse, what I have just described is a textbook case of what they are talking about.

Now, one additional point. Not long after the news of these new tax loopholes broke, the President went to Davos. During an interview there, he was asked whether during a second term he would cut programs like Medicare, Medicaid, and Social Security.

The President said, yes, he would.

The President called that, and I quote here, “actually the easiest of all things.” So I have just given you a perfect snapshot of this administration’s policies robbing the working families to pay off special interests and those at the top.

The President says shredding the safety net is a piece of cake. But let us make sure we know what he is talking about. He is talking about Medicaid, a program that pays for two out of three nursing home beds in America. And that is taking place in a country where growing older is really expensive, and families—even those who have scrimped and saved—will run out of money to pay for long-term care.

The President is talking about Medicare, without which millions of seniors would have no hope of getting high-quality health care, or affordable prescription drugs.

The President is talking about Social Security, which keeps American workers from retiring into deprivation and desperation.

The Trump budget cuts in those programs amount to more than \$1.5 trillion. It probably goes over just fine with the ballroom crowd at Mar-a-Lago, but I will tell you, it is a terrifying prospect for the hundreds of millions of Americans who every single month walk an economic tightrope and count on Medicaid, Medicare, and Social Security to be there as a lifeline for them in tough days ahead.

Added up, it is a pretty clear picture. The Trump administration will tune out the needs of middle-class families, but it gives the world to any corporate lobbyist who comes calling at the Treasury Department. You see it in Secretary Mnuchin’s stewardship. You see it in the budget. And as I have shown, you see it in the President’s own words.

Thank you, Mr. Chairman. I appreciate your holding this hearing quickly, and I look forward to hearing from our colleagues.

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

The CHAIRMAN. Before I introduce the Secretary, it is my intention—we have a 2 o’clock vote—that you and I would trade places to go vote.

Secretary Mnuchin is the 77th Secretary of the U.S. Treasury. Prior to his current position, Secretary Mnuchin was finance chairman for the Trump for President organization and served as a senior economic advisor. He has very extensive experience in global financial markets, U.S. Government securities, mortgages, money markets, and municipal bonds.

He has held various positions in successful private enterprises and has a longstanding commitment to philanthropy. He was born and raised in New York City, earned a bachelor’s degree from Yale University—and I suppose there are a lot of other things I could say about you, but I want you to take the time now to make your statement.

And we are going to keep this meeting going during the vote.

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

Secretary MNUCHIN. Thank you very much, Chairman Grassley, Ranking Member Wyden, and members of the committee.

I am pleased to be here with you today to discuss the President's budget and the Treasury Department's top priorities. President Trump's economic freedom agenda is working. Tax cuts, regulatory reform, and better trade deals are improving the lives of hard-working Americans.

Unemployment remains historically low at 3.6 percent. It is at or near all-time lows for African Americans, Hispanic Americans, and veterans. The unemployment rate for women recently reached its lowest point in 70 years.

Before President Trump came into office, experts were predicting that we would grow by 14,000 jobs per month. We averaged 175,000. Wages for nonsupervisory workers rose by 3.2 percent in 2019, compared to 3 percent for all private-sector employees, which means wages rose faster for workers than they did for their bosses.

The improved employment environment means that more Americans have returned to the job market, increasing labor participation. Last month's labor participation rate of prime-age adults reached 83.1 percent, an 11-year high.

American families are earning more each year, thanks to the Tax Cuts and Jobs Act, and paying significantly lower taxes. They also have more career opportunities now than ever before. America's economic strength and competitiveness are a bright spot in the world, as other nations experience headwinds.

In the year to come, we expect even greater economic growth in the United States as we finalize trade deals with some of our most important trading partners. The Phase One deal with China results in critical, enforceable protections for our businesses and a tremendous boost for our farmers.

The USMCA will add to our success by setting some of the highest standards ever in a trade agreement. We are proud to have earned the support of a broad coalition of industries. We are pleased that it was passed by Congress with strong bipartisan support.

I particularly want to thank the members of this committee for their work on this important issue.

In addition, President Trump's economic policies will result in economic growth and will reduce our national debt and deficits over time. Federal Government revenue rose by 4 percent from 2018 to 2019. Unfortunately, in order to secure critical funding to rebuild the military, Democrat members of Congress insisted on increasing other government spending, which resulted in overall spending of 8 percent.

The administration is committed to working with members from both sides of the aisle to address spending going forward. The President's 2021 budget for the Treasury Department makes clear that we continue to prioritize economic growth as well as national security.

In particular for this committee, we are requesting \$12 billion for the IRS. This includes funding to implement the Taxpayer First Act and the third year of Integrated Business System Modernization.

We continue to bring the IRS into the 21st century by updating systems, utilizing data analytics, and other technology advances to enhance the effectiveness of audit enforcement activities.

We are requesting a program integrity cap adjustment to reduce the tax gap, with savings of over \$64 billion over 10 years. We also remain focused on improving customer service for taxpayers by reducing call and wait times and enhancing online service capabilities.

I am pleased to be here with you today. Thank you very much, and I look forward to answering your questions.

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

The CHAIRMAN. Okay, we will do 5-minute rounds.

Mr. Secretary, critics of tax reform have suggested that Treasury created loopholes for big companies and regulations as part of a secretive lobbying process. The idea that the regulatory process has occurred in secret is hard to understand, given that the notice and comment period in the Administrative Procedures Act gives people opportunity for input. And I do not see how you can do your job of implementing a new law that is so far-reaching without listening to stakeholders.

The preamble to each set of regulations makes clear that Treasury meticulously analyzed and addressed public comments. Sometimes taxpayers were happy with the outcome; sometimes they were not. I even heard some of these people in my State who were not happy about it.

The business community certainly does not seem to think that they have received everything for which they have asked.

So, Mr. Secretary, is it not true that the Treasury's decisions about tax reform regulations have been based squarely on technical analysis and legislative intent, and not by corporate lobbyists?

Secretary MNUCHIN. Yes, Mr. Chairman, that is absolutely correct. Our job is to implement the legislation, and not to make the legislation. On a regular basis, we meet with lots of people to take in input. We have reached out to the committee and its staff. And again, we go through a notice and comment period with the public.

The CHAIRMAN. The second point is, I am pleased to see that the President's budget calls for making the tax cuts and reforms benefiting individuals and small business firms permanent. This includes the doubling of the Child Tax Credit to \$2,000, nearly doubling the standard deduction, and lower overall individual taxes. It also includes a 20-percent qualified business income deduction, which greatly benefits small pass-through businesses.

So, Mr. Secretary, in Treasury's estimation, have these tax measures been important factors in the high levels of consumer confidence and small business optimism reported since the enactment of the tax reform? And also, would you expect making these tax provisions permanent to have additional positive effects on consumers, small businesses, and the economy generally?

Secretary MNUCHIN. Yes, we would, Mr. Chairman.

The CHAIRMAN. Yesterday, the House Ways and Means Committee argued that CBO's recent adjustments in the corporate tax receipts are evidence that tax reform costs more than projected, largely because Treasury has provided an additional windfall to corporate taxpayers.

However, as I mentioned in my floor statement yesterday, the Joint Tax Committee and CBO have confirmed that one cannot

infer from CBO's projections that tax reform regulations are inconsistent with the statute. In fact, CBO clarified that other factors drove the change in projections—namely, the economy abroad, trade developments, and the reduction in the Bureau of Economic Analysis corporate tax revenue estimates between 2016 and 2018, which then of course in turn inform CBO's baseline.

It simply strains credibility to blame tax reform for a change in the baseline from years before tax reform was even enacted.

So, Mr. Secretary, is it your understanding that CBO's downward adjustment is a result of a number of factors, and that it is in fact too early to determine the precise impact of tax reform on tax receipts? And also, does the administration's budget, like CBO, project steady increases in corporate receipts throughout the current budget window?

Secretary MNUCHIN. Mr. Chairman, let me say that our analysis has always been higher than CBO. As I have said previously, we believe that the tax cuts will pay for themselves over a 10-year period of time, which is how we score them. We are 2 years in. We have updated our projections for the next 8 years, and we believe that.

Again, let me just comment that spending is increasing as well. But the trillion and a half dollars of tax cuts we believe will pay for themselves.

The CHAIRMAN. Senator Wyden?

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

I want to start with what I think is a clear double standard with respect to responding to requests on congressional oversight. I look at the record, and it seems that Democratic requests get shoved to the back of a filing cabinet, or somehow Republican requests get the red carpet treatment.

So I want to give you a specific example, and give you a chance to respond. Treasury gets two requests from congressional committee chairs. One request is backed up by clear statutory language in tax code section 6103 requiring the Treasury Secretary "shall provide tax documents" to the committee.

The other request does not have the same legal basis, and certainly to me it looks political. The request from the Democratic chair with a firm legal basis was met with nothing but legal foot-dragging.

The request that came from the Republican chairs got VIP treatment. They got a response out the door in a flash. So it looks to me like there is a double standard here, and that you all are tipping the scales of congressional oversight.

What am I missing, Mr. Secretary?

Secretary MNUCHIN. Well, thank you for letting me respond to that.

Senator WYDEN. Two committee chairs, differential treatment.

Secretary MNUCHIN. Again, I think we have responded to you multiple times on this. The most recent letter was on February 11th. And as I explained, the House disclosure of tax returns is subject to protections in 26 U.S.C. 6103, which on the advice of counsel, as we have documented, we had significant concerns about.

That is very different than—I believe what you are referring to are SARS requests, and on a bipartisan basis we have responded to thousands of SARS requests to the committees from both Republicans and Democrats on an equal basis.

So as we said, Treasury does not process congressional requests—

Senator WYDEN. Mr. Secretary, you are stonewalling about stonewalling, and—

Secretary MNUCHIN. Well, that is not really fair at all—

Senator WYDEN [continuing]. There is a double standard.

Secretary MNUCHIN. We responded significantly.

Senator WYDEN. Two committee chairs. One gets no response, with legal authority, from a Democrat. The Republican gets a quick response.

Secretary MNUCHIN. Again, that is just not fair, Mr. Wyden. We have responded to this committee, to your request and others, of thousands of SARS.

As I have said, we are following the law of 6103, and again we, on the advice of counsel, we have not responded to that.

Senator WYDEN. I gave you a specific example involving the tax returns that shows a double standard—

Secretary MNUCHIN. We do not have a double standard at all.

One has to do with SARS. That is under a different section, and we have responded to your request and the Democrats' requests on this committee, equally with the Republicans.

Senator WYDEN. Let's talk about something else where, once again, it sure looks like there are sweetheart arrangements that do not meet the test of the public interest, and I am talking about the deal of Turkey's state-owned bank, Halkbank, which has been accused of a billion-dollar scheme to help Iran evade our sanctions, and it sure looks like Erdogan and his son-in-law have been personally implicated in it. And since taking office, you have had seven meetings—seven—with senior Turkish officials. Two of them were meetings in the Oval Office with Erdogan, and one with his son-in-law. They were directly implicated in a sanctions scheme.

You met with them. Does this not send a horrible picture to pose in the Oval Office with sanctions violators? I mean, is it just open season for sanctions violators in your Treasury Department?

Secretary MNUCHIN. Mr. Wyden, I have literally met with hundreds of world leaders and finance chairs, so seven meetings is nothing that is rare—

Senator WYDEN. What were the meetings about, Mr. Secretary? What were the meetings about?

Secretary MNUCHIN. I was just about to finish—

Senator WYDEN. Good.

Secretary MNUCHIN. Those meetings were about many important strategic issues. As it relates to Halkbank, I cannot comment on the specifics because that is subject to inquiry, both by the Department of OFAC as well as the Department of Justice.

Senator WYDEN. Finally, let me be clear on these new loopholes that were created. You have made it out like in some way the minority was involved in this.

Our input was never sought in connection with this whole array of loopholes. I know, because I would have been fighting them every step of the way.

Thank you, Mr. Chairman.

The CHAIRMAN. Since you brought up the first issue with him, I would like to give my view of that—not to defend the Secretary, but just to state where I am coming from, because I am the instigator of some of these requests.

Whether it is the minority generally, or whether it is Senator Wyden right now, you publicly expressed the frustration that Treasury has responded to the committee and produced requested documents, but you allege that Treasury has not done the same for the minority.

I think that that is wrong, and I have done a lot of oversight work with Senator Wyden, and we work together on most of this stuff, and we are even working together on this particular issue.

As the Department itself wrote in a letter yesterday—and I will put this letter in the record, without objection.

[The letter appears in the appendix on p. 46.]

The CHAIRMAN. To Senator Wyden, the categories and types of documents that I have sought from Treasury have also been made available to Senator Wyden and his side of the aisle.

My investigation with Senator Johnson has nothing to do with 6103. We are proceeding methodically with the oversight, instead of running fast, skipping steps, and failing to litigate privilege claims. And at this point, privilege claims do not even apply to our request.

So, are you asking for a rebuttal to what I just said?

Senator WYDEN. Yes, and I will be very brief, Mr. Chairman, because I am asking a question of the Treasury Department. What we are talking about were two instances where Treasury documents were requested by committee chairs. In one instance, the Secretary has stonewalled the response. In the other, he fast-tracked the request. That is what looks like a double standard to me. Period. Full stop.

The CHAIRMAN. Okay.

Senator Lankford, and then after Senator Lankford, it will be Senator Stabenow.

Senator LANKFORD. Mr. Secretary, thanks for being here. Thanks for the insight that you bring to this. Obviously, we will go through the President's budget proposal—as every President's budget proposal comes to Capitol Hill and gets reviewed and then gets set aside. It is a set of ideas, and we will go through it. But there are a lot of good ideas as well, and I appreciate the hard work that goes into it.

I will be interested to see how history looks at this economy 25, 30, 50 years from now. We look back at the Reagan economy and the Clinton economy, and to see the growth that is happening—I am watching some pretty remarkable growth happening in this economy since the Tax Cuts and Jobs Act.

And what you have overseen from the Treasury right now—if I am looking at this correctly, during the previous administration there were 3,600 manufacturing job losses. During this administra-

tion, we are gaining 12,300 jobs in manufacturing alone during that time period. So it is a pretty dramatic turnaround.

Beginning in March of 2018, 21 consecutive months, there were more job openings in America than there were people looking for jobs in America. That is pretty remarkable. And for the last 16 consecutive months, we have had hourly earnings for folks who receive hourly pay at 3 percent or higher every single month. That is a pretty remarkable economy that is happening right now.

And so, thanks for all your work, because you have put a lot of work into this to be able to go through the process. I want to ask about a couple of process things in this.

I have done a lot of work, as many members of this committee have, on ending government shutdowns, on trying to get away from long-term CRs, and to try to get a solution on the debt ceiling. Those are three things that hang out there. So while we are talking about budget issues, those always tend to be a part of the conversation there.

Can you put an estimate on the costs, financial costs, of government shutdowns, of the cost of long-term CRs, and if there are alternate solutions for dealing with debt ceilings?

Secretary MNUCHIN. Well, I do not have the specific costs of those, but I will tell you they are quite costly. Particularly the CRs have a very significant cost on the Department of Defense and their long-term planning. There is no question that is a significant issue there.

I would also just comment, I do share your concerns about the debt ceiling. I think that—

Senator LANKFORD. We have done 80 of those in the last 50 or so years.

Secretary MNUCHIN. I think that everybody would agree, we cannot ever get to a point where we would default on the U.S. Government debt. And I would encourage Congress to think about a process where, when we approve spending, we simultaneously approve the necessary borrowing.

Senator LANKFORD. When you interact with your peers around the world on how they handle debt ceiling, what is their conversation with you about debt ceiling and how their government handles it?

Secretary MNUCHIN. Most people do not have debt ceilings the way we do.

Senator LANKFORD. Right. And so this is a national anomaly for us. It was designed to be something to help control spending. But when we have had 80 of them over the last 50 or 60 years, as far as a debt ceiling increase, they are clearly not managing our spending. They have become, as Senator Whitehouse says so well, the bear trap in the bedroom, and really there is no good result of having a bear trap in the bedroom the whole time.

So it is an issue we do have to resolve. Insights you may have on that from Treasury would be helpful to us as well.

Secretary MNUCHIN. Well again, I would just say I would appreciate this as a bipartisan issue. Obviously spending is approved on a bipartisan basis, and it is important that we get to a process where we increase the debt ceiling at the same time.

Senator LANKFORD. Let me ask two quick questions on this: Opportunity Zones. You have three tranches of regulations that have come out on Opportunity Zones. Thank you for that. We have many folks who are implementing those things.

There was a bit of an unknown at one point that I have asked you about before. A business cannot have more than 5 percent of their income on things like alcohol sales and other things that are listed in the code, particularly that could have up to 5 percent of their income and still be a recipient on the Opportunity Zones.

There is not a definition dealing with businesses that are cannabis businesses. Are they within that 5-percent amount? Or are they not at all, because there is a Federal prohibition on cannabis sales?

Secretary MNUCHIN. I am going to have to get back to you on the specifics.

Senator LANKFORD. That would be helpful, to get clarity, because there are cannabis businesses across the country that are in Opportunity Zones. They will need clarification. That one, you and I have spoken about before. It is difficult to get a Federal tax benefit for something that is against Federal law. But that is not clearly defined in the last tranche of the regulations.

The other one is, there is a request in this budget to be able to transition Secret Service from DHS back over to Treasury, where it used to be before. Can you give us some definition on that?

Secretary MNUCHIN. Thank you. I appreciate the opportunity to comment on that. Let me just first say that this has support on a bipartisan basis from the current President and the last several Presidents.

I think you know the Secret Service has a long history. It was started at the Treasury Department to counter counterfeiting. We think that there is tremendous integration moving it back and working with all of our terrorist financing activities, and working on our cyber issues. And again, this is something that has tremendous support within the Secret Service.

Senator LANKFORD. Okay. We will look forward to more details on that.

The CHAIRMAN. Senator Stabenow?

Senator STABENOW. Thank you, Mr. Chairman. And welcome, Mr. Secretary.

I do want to start by just talking about the view from Michigan, because certainly the numbers you are talking about are not what we see. And just for clarity, under the previous administration we added about 88,000 manufacturing jobs. Up until the last 3 quarters, we added about 12,000 under the current administration. But for the last 3 quarters, we have seen 2 quarters where we actually have lost manufacturing jobs. And the last quarter was flat.

So the view from the ground is different than what you are seeing. And certainly in Michigan, and in the Midwest, we have not seen wages rising like you are talking about. We have a lot of folks working one job, two jobs, three jobs, waitressing three or four jobs, trying to hold things together. But that is not the same as having one good-paying job where you can actually take care of your family, which is what I would hope would be all of our goals.

You know, when we talk about the tax code as well—I am meeting with building construction trades this week. They are not very happy about the fact that the tax bill does not allow them to write off the cost of buying the tools now, which are necessary for their job. And yet big corporations can write off what they need.

They are not very happy about the fact that they cannot write off mileage anymore when they move from one job to another, or if they move from California to Michigan to get a job. That is no longer something that they can take themselves as a write-off. And yet, when I tried to close loopholes that allow corporations to take jobs overseas, we could not get that in this tax package. So my view is a little bit different.

But I want to focus on something where people did get hit and have not yet recovered in the economy, and that is pensions. Folks who have worked hard their whole life and actually trusted everybody—corporations, government systems—who said that maybe I will take a little bit less in wages, put money in a pension plan so I have it when I can retire with my family.

And when we saw what happened on the stock market—the President talks all the time about how the stock market is soaring. That is how he measures things. So that is true, the top 10 percent wealthiest folks are doing very, very, very well.

But one of the ways that working people and others are not is what has been lost in the stock market with the crash, as it results in pension reductions. So as a result of the financial crash, we know there was over \$1.2 trillion just in IRA and 401(k) loss, not counting the pension system.

And so my question relates to, what are you guys going to do? What do you support in terms of what needs to be done for the Pension Benefit Guaranty Corporation? We know that we have a million and a half Americans who are going to lose the plans that they have paid into their whole life. They are totally at risk in the next 20 years. And all we need is one big failure like Central States and we will see the Federal backstop go insolvent.

And so this is a very, very big issue, and we have a proposal put forward, passed by the U.S. House of Representatives, called the Butch Lewis Act, that would give them time to recover.

I mean, we certainly were willing to weigh in, our government, to give huge loans to Wall Street, but yet the folks who lost their pensions are very afraid and are still waiting for somebody to recognize what they lost.

And so, what are your ideas? What are you planning to do to protect people's pensions?

Secretary MNUCHIN. Well, thank you for your comments, Senator. I do agree with you, the pension issue is a serious issue. I serve on the PBGC, so I am well aware of the issues there, as well as, I think you know, we administer certain functions associated with the multiemployers, and I acknowledge there are some significant issues.

So I look forward to working with this committee on a bipartisan basis to consider legislation to address these issues. And we stand ready to provide technical assistance on a bipartisan basis to analyze things for you.

Senator STABENOW. I guess my question would be, does the President support the Butch Lewis Act that came over from the House of Representatives that is now before the Senate?

Secretary MNUCHIN. I cannot comment on that specifically. What I would say is, the President is interested in looking at, on a bipartisan basis, these pension issues.

Senator STABENOW. And in the interests of almost—

Secretary MNUCHIN. And I personally have met with—I personally have met with some of the people from these pensions and various members of the committee.

Senator STABENOW. Well, I just want you to know that, while we are all basically not acting at this point, other than that we were able to come together on miners—which I thought was very, very positive—but the reality is I have folks in Michigan who now have gotten a 70-percent cut—70-percent cut—in their pensions.

Now you know what? That is pretty significant and pretty terrifying for people. So we need action. We need action. We know what it is. We know what needs to happen. We know the numbers. We just need to act.

And people are counting on us to do that. So I am anxious to know what the President will do to act.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Carper?

Senator CARPER. Welcome, Mr. Secretary. I just want to start off by talking a little bit about climate change and energy policy, tax policy, as it might help us create some jobs and actually address climate change in an appropriate way.

I just got back from a trip with some friends who went to Antarctica last month, and they said it was pretty warm. They were surprised. And we were really surprised over this past week when the temperature there was 65 degrees. It is the South Pole in Antarctica, 65 degrees. People say, was that a record? It sure was. And it beats a record that was set just a couple of years earlier.

Northern California—if you will remember, Northern California had wildfires as big as my State, a place called Paradise, which went up in smoke. Australia had wildfires last month the size of West Virginia, where I was born. In the Midwest, huge floods. Hard to get the crops into the ground, seeds into the ground. In the last 5 years, it was the hottest 5 years on record. This past month of January, the hottest January on record.

There is a great song that starts with the lyrics, “Something’s happening here; just what it is ain’t exactly clear.” I think something is happening here, and I think it is pretty clear what is going on.

There is way too much carbon in the atmosphere, and there are ways that we can address that. One of those ways is through our tax policy. The administration has proposed, as you may know, to eliminate some clean energy tax incentives and undermine goals that the President said over and over again that he wants to achieve.

But the President’s budget proposal to, I think prematurely, eliminate important clean energy tax incentives would do exactly the opposite. I will mention a couple of those: tax incentives to encourage people to buy electric vehicles, tax incentives to encourage

people to buy vehicles fueled by hydrogen—which creates as a waste product HO_2 —a tax policy that incentivizes people to buy vehicles powered by natural gas.

The reason why those are important is because the largest source of carbon emissions on our planet comes from our mobile sources. Number two is our power plants. Number three is our buildings.

But instead of proposing tax policies that actually lead to reducing carbon on our planet with respect to mobile sources and buildings and so forth, we are getting just the opposite. Why is that?

Secretary MNUCHIN. Let me just comment, because you have addressed a lot of different issues. Again, let me just say the President very much supports clean air and clean water, and having—

Senator CARPER. But he has reduced—the administration, I am sorry—the administration proposed reducing EPA funding by, I think, almost a third, almost a third. But go ahead.

Secretary MNUCHIN. Again, as it relates to—I think you have addressed a whole bunch of different credits, including electric car credits and others. Again, I would be happy to come and talk to you about the different policies. I do not know what you want me to comment on specifically on this.

Senator CARPER. Okay. I will just be as direct as I can be. The largest source of emissions on our planet is our mobile sources—our cars, trucks, and vans. There are ways to use tax policy to encourage people to drive vehicles, including trucks, that are a lot more energy-efficient. And instead of supporting tax policies that will do that, we get just the opposite.

The other thing I would say that would be really helpful is, when the administration is talking about transportation infrastructure, to actually say—when I was Governor, I would propose—I was Governor for 8 years—we had tax cuts 7 out of 8 years and balanced the budget every year.

I proposed transportation infrastructure improvements in my little State, but I always proposed ways to pay for them. And we really need the support of the administration as we go through this year figuring out what to do on roads, highways, bridges, surface transportation, not just to say, “Oh, this would be great, wouldn’t it?” but to say, “This is how we will pay for it”—how we would pay for it. And that is a conversation we could have maybe when we get together.

Secretary MNUCHIN. I appreciate that. And the President is very much interested in infrastructure, particularly roads, highways, rail, and others. I have had several meetings with Richy Neal to see if we can find certain ways to work together on a bipartisan basis.

Senator CARPER. The President actually mentioned the Barrasso bill, which my staff and I helped to write, during his State of the Union address. I actually held up, when he talked about the need for transportation infrastructure, I actually held up my wallet. He didn’t see it, but if he had, it was a reminder that it is not enough to just say we are going to do stuff, we actually have to figure out how to pay for that.

Secretary MNUCHIN. Agreed. And I was encouraged. I believe it was passed 24 to 0, or something like that.

Senator CARPER. Yes, that is fine.

The last thing I want to ask is, tax policies that pay for themselves. When we adopted the tax package about a year ago, 2 years ago, we said it was going to pay for itself.

I think, whether it was the CBO—any number of entities have said it does not really pay for itself. That one has not paid for itself, and it is not going to pay for itself.

Do you have a rebuttal for that? The numbers are rather staggering, but I think CBO said that they estimated that the so-called tax cuts added an additional \$228 billion to the deficits for 2019.

How do you respond to that?

Secretary MNUCHIN. Sure. Let me just comment. And I have said this. Again, I stand by our comments that the tax cuts will pay for themselves. This will be simple math. So we measure this over 10 years. We have 8 years left. I look forward to writing the committee a letter in 8 years going through all the exact numbers.

The first 2 years, our numbers are right. Our projections—as part of the budget process, we go through estimating the next 8 years. Again, based upon our estimates of growth and various different issues, we do believe they will pay for themselves.

That is different than the deficit, because we have increased government spending. And we cannot pay for it twice.

Senator CARPER. Thank you.

The CHAIRMAN. Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman.

Mr. Secretary, we are facing a precarious moment in our republic where truth is under assault by partisan peddlers of “alternative facts” who seek to obfuscate the truth and attack those who are there to stand up and speak it—and gaslight the public—all in the name of “politics,” where blind allegiance to a single person is valued over fidelity to the Constitution.

So I would like to go over a few points today and correct the record so the American people have the truth before them.

Now, President Trump claims to have inherited a, quote, “disaster” of an economy from President Obama. And he takes credit for what he calls, and I quote, “an economic turnaround of historic proportions.”

Mr. Secretary, how long has the U.S. economy been posting positive GDP growth?

Secretary MNUCHIN. It is the longest-running economic scenario we have been in.

Senator MENENDEZ. Absolutely true. GDP was positive for the past 10 years, growing for the final 7 years of President Obama’s presidency.

So it has been growing for the last 10 years, including the final 7 years of the Obama presidency. And we can both agree that President Trump has been in office for about 3 years. Is that correct?

Secretary MNUCHIN. That we can definitely agree on.

Senator MENENDEZ. Okay. So the economy was already growing for 7 years before President Trump took office.

Let us talk about jobs. President Trump claimed he will be, quote, “the greatest jobs President that God ever created,” close quote. And he has repeatedly criticized President Obama’s jobs record.

Let us compare the last 3 years of the Obama presidency to the first 3 years of the Trump Presidency. Can you guess who created more jobs?

Secretary MNUCHIN. I do not have the numbers in front of us, but we have created substantially more jobs than the Obama administration projected at the beginning of this administration by a multiple of three.

Senator MENENDEZ. Well, let us talk about what actually happened. The economy gained 1.5 million more jobs during the final 3 years of President Obama's presidency than the first 3 years of the Trump presidency.

So President Obama added 8.1 million jobs during his final 3 years in office. That is more than the amount of jobs added during the first 3 years of the Trump presidency, which is roughly about 6.6 million.

So the fact of the matter is that what we had was a growing economy. GDP was growing, strengthened dramatically over the last several years before this administration took over. More jobs were created in the final 3 years of the previous administration than when this administration took over.

And then let us talk about what it really means to families. During the last 2 years of the Obama administration, median household income increased by \$4,800. During the first 2 years of the Trump administration, household income increased by less than a third of that. In fact, median household income only increased a mere \$550 in 2018, far short of the \$4,000 to \$9,000 gains promised by this administration.

So let me recap. Let us get to the truth: the Trump economy created less jobs and delivered under a third of the earnings to families than the final years of the Obama presidency, all the while nearly doubling the deficit to a trillion dollars.

So I think there is a truth that is a real disconnect between what the administration is saying and how people are living. Bedrock middle-class goals of owning a home, sending your kid to college, saving enough for a retirement, are distant realities under this administration's economy.

So I think that is important to set the record straight.

And then finally, let me ask you. Does the Department commit that its actions, policies, and investigations, including sanctions, will remain free from political pressure by the President? Because I look at the recent nominee, Ms. Liu, who was supposed to be before the Banking Committee where I also serve, and her nomination has been pulled. I look at issues on the question of how we are enforcing sanctions, many of which I helped write.

Can you tell this committee that the Department will conduct its actions, policy, and investigations, including sanctions, free from political pressure by the President?

Secretary MNUCHIN. Well, I would be happy to answer that, but let me just get to—and I would be happy to send you a follow-up—

Senator MENENDEZ. Can you answer my question first, that question first?

Secretary MNUCHIN. I just want to say, I have that the numbers on disposable income are \$4,452 from December 2017 to 2019.

In regards to your question, I will specifically say, no. I oversee the sanctions department. Sanctions are driven by foreign policy. Foreign policy is directed by the President. So, no, specifically I would—I would say that sanctions, as are other foreign policies, are by direction of the President and executed through me.

Senator MENENDEZ. So political considerations will take place. I am not talking about policy considerations. I am talking about political considerations that took place in your enforcement of sanctions.

The CHAIRMAN. Senator Cardin—

Secretary MNUCHIN. I hear you are differentiating political from policy—

Senator MENENDEZ. I think it is a big difference.

The CHAIRMAN. Senator Cardin?

Senator CARDIN. Thank you, Mr. Chairman.

Secretary Mnuchin, welcome. It is nice to have you here. I want to follow up on one point that my colleague has been talking about, because we have the actual growth numbers for fiscal year 2019. And you say that the 2017 tax bill pays for itself based upon—and one issue is the economic growth, which we all recognize.

You have projected, OMB, a 3.2-percent growth in fiscal year 2019. The Congressional Budget Office said 2.4, quite a difference. Well, we now have the actual, and it is 2.3. Very close to CBO. Now, we do not have the actuals for any of the other years, but the difference between CBO and OMB is pretty dramatic on the economic numbers.

So what does CBO know that you do not know? And why were they able to project the growth for the first year we have, 2019, when you were projecting over 3 percent throughout this time?

Secretary MNUCHIN. Well, there were a significant number of things that impacted the growth this year. One was the global slowdown. Two was the GM strike. Three was Boeing. So there were a significant number of issues that dragged down GDP in the range of 50 to 70 basis points.

At the end of the day, the projections are dependent upon GDP and economic numbers going forward. And a big difference between the CBO projections and ours are economic projections going forward.

Senator CARDIN. And you can understand how we are concerned about the tax bill adding greatly to the deficit, because the Congressional Budget Office has been much more accurate than OMB. I just point that out, and that is why we are concerned by these, we think, unrealistic growth numbers.

And as you said, you will be able to come back and show us. We do not know for how many more years, but you will be able to come back and show us, and we will see whether in fact that holds true.

I want to say something positive about your Department, particularly the Office of Tax Policy. At one of our hearings, I sent a question that was answered on section 179, the energy-efficient commercial building deduction.

For years I have heard from, particularly, small business owners that they were required to make payments to State and local governments in order to receive an allocation letter to claim their deduction. That goes against the intent of our law. And the letter

that was sent back by Treasury acknowledges that that is, quote, “inconsistent with the policy goals of section 179 for the owner of a public building to seek, accept, or solicit any payment from a business that is quid pro quo for providing the written allocations,” end quote.

So I want to thank you, because I think this letter will go a long way, I hope, to provide the clarity we need. If it does not, I will be back in touch with you to make sure that the law in fact is carried out.

I also want to acknowledge that your budget does include funds for the Taxpayer First Act. We are pleased to see that. That is a bipartisan effort in this committee to get that done. But you still have not appointed a National Taxpayer Advocate.

I say that because the acting advocate, Bridget Roberts, has said that it is critical that a permanent National Taxpayer Advocate be appointed as quickly as possible to help ensure the IRS protects taxpayer rights and meets its obligations to taxpayers. That is solely in your hands, the appointment of the Taxpayer Advocate. Can you give us any indication when we might expect that appointment to come through?

Secretary MNUCHIN. I can. And let me first say, I am glad we were able to clear up that other issue, and let us stay in touch.

The Taxpayer Advocate is a very important position. We have interviewed some very, very qualified people. We have made a final decision at the recommendation of the Commissioner, and I expect that we will be announcing that in the next few weeks.

Senator CARDIN. Oh, good. I am glad to hear that.

And the last thing I will bring up is the—I am pleased the budget has in it the modernization of IRS technology. I think that is important. I worry about the personnel numbers.

We have seen a dramatic reduction in the last decade, about a 20-percent reduction in the workforce, whereas you have had a significant increase in the number of tax returns. This budget again cuts the full-time equivalents at IRS. And I worry that you do not have the workforce you need and will not be able to retain the experienced workers and professionals at IRS in order to carry out that responsibility.

So I hope we can work together. Congress has been, I think, a little more generous in this area, so I hope we can work together. This committee has a responsibility to make sure the tax code is carried out effectively, that we have the audit staff we need, et cetera. So I hope we can work—because I think you need more help.

Secretary MNUCHIN. We appreciate that. Thank you.

The CHAIRMAN. Senator Hassan?

Senator HASSAN. Well, thank you, Mr. Chair. And I want to thank you and Ranking Member Wyden for holding this important hearing today. And thank you, Secretary Mnuchin, for testifying today about the Treasury Department’s budget proposal.

Mr. Secretary, when you testified to this committee last year about the Treasury’s budget, I spoke about the importance of robustly funding Treasury Department programs that combat terrorist funding streams and other forms of illicit financing.

I am pleased to see that the 2021 Treasury budget proposes increased funding for the Office of Terrorism and Financial Intelligence, and for the Financial Crimes Enforcement Network. These offices play a vital role in combating emerging national security threats. For example, terrorists and other transnational criminal organizations are increasingly using cryptocurrencies to finance their activities, due in no small part to the difficulty inherent in tracing these transactions and tying funds to specific actors.

Mr. Secretary, how will the Treasury's proposed budget increases assist the Department in monitoring suspicious cryptocurrency transactions and prosecuting terrorists and other criminal organizations financing illicit activities with cryptocurrency?

Secretary MNUCHIN. Well, first of all, thank you, and thank the committee for the generous support on the funding increases in these areas over the last several years. We have really built up a very dedicated career staff.

And specifically on cryptocurrencies, we are spending a lot of time on this, on both an interagency basis and with the regulators. We are about to roll out some significant new requirements at FinCEN. We want to make sure that technology moves forward, but on the other hand we want to make sure that cryptocurrencies are not used for the equivalent of old Swiss secret number bank accounts.

So we share your concerns, and you will be seeing a lot of work coming out very quickly.

Senator HASSAN. Well, thank you. And I would look forward to continuing to work with you about that.

Another question: under the previous administration, Treasury Department budgets contained proposals to improve the research and development tax credit for new and small businesses.

As you know, the R&D tax credit supports the efforts of startups to invest in the development of new, innovative products that lead to job creation and economic growth. That is why I have introduced bipartisan legislation, along with Senator Tillis, that would modernize and expand the R&D tax credit for startups.

Mr. Secretary, for this year's budget, did the Treasury consider including any proposals to improve the R&D tax credit for small businesses? And would the Treasury be willing to look at our bipartisan proposal to see how we can work together to support entrepreneurs?

Secretary MNUCHIN. We would very much look forward to working with you on that. And I will have my office follow up to make sure we are on top of it.

Senator HASSAN. That would be great. What we are really focused on is those companies that do not have a tax liability yet but are making these critical investments.

And so, last question. I am a strong supporter of bipartisan legislation championed by Ranking Member Wyden that would permanently extend tax cuts and cut red tape for small craft brewers in New Hampshire and across the country.

Last year, along with Senators Roberts, Menendez, and Daines, I was on a task force that recommended, on a bipartisan basis, passing permanent relief for craft brewers. As part of this effort, it is vital that the Bureau of Alcohol and Tobacco Tax and Trade—

which is, as you know, within the Treasury—receive increased funding to clear the backlog of approval requests for new beverage formulas and labels.

I continue to hear from New Hampshire brewers that delays in approvals are slowing their business growth, despite the additional funds that Congress has provided and years of work to cut down on the backlog.

Mr. Secretary, can you explain to the committee what resources the Treasury's budget would provide to the Bureau to address this backlog? And will you commit to continuing to work with Congress on this issue?

Secretary MNUCHIN. Yes, yes, and yes. And let me just say, if Congress wants to do anything to simplify the label approvals, I would look forward to working with you on that as well. And I know there is tremendous bipartisan support for the craft brewers.

Senator HASSAN. And as I understand it, the budget proposes \$5 million in funds to accelerate the processing of formula and label applications. So it seems that there is recognition of the issue in your budget proposal, and I just would—I think what I have heard is a commitment to working with us—

Secretary MNUCHIN. I personally looked at this label issue, and we are trying to figure out how to streamline it.

Senator HASSAN. Okay; let us keep working on that together. Thank you very much.

And thank you, Mr. Chairman.

The CHAIRMAN. Senator Cortez Masto—I am passing over Portman and Toomey. So if they come back, they will be ahead of some other people who are here. Go ahead.

Senator CORTEZ MASTO. Thank you, Mr. Chairman.

Mr. Secretary, in your comments that you provided today, you state that the “Federal Government revenue increased by 4 percent from fiscal year 2018 to fiscal year 2019. Unfortunately, in order to secure critical funding to rebuild the military, the Democratic members of Congress insisted on increasing other government spending, which resulted in spending growth of 8 percent from fiscal year 2018 to 2019.”

So I guess my question to you is: in order to address the Democratic members of Congress's increase in government spending that you cite, is that the reason why in the current budget this administration seeks to cut \$200 billion from SNAP and TANF for women and children, cut \$170 billion from student loans, cut \$90 billion from seniors on Social Security, cut \$76 billion from persons with disability, and cut \$59 billion from farmers?

Is that what this administration thinks is the way to balance this budget, on the backs of individuals because they do not necessarily work for the military? Is that how I read this?

Secretary MNUCHIN. I do not think that is the way you read it. The point that I was trying to make is that government spending increased faster than we would have liked if left to our own devices. I was integrally involved in the bipartisan agreement to get that done.

And as it relates to Social Security, the President has been clear that he does not want to cut Social Security; that on Social Secu-

rity there are just some savings in the increase of growth for fraud and other issues.

Senator CORTEZ MASTO. But you do not disagree this budget actually requests a cut of \$90 billion for seniors on Social Security—correct?

Secretary MNUCHIN. I believe it is not a cut. It is a reduction in the rate of increase, and it is not to benefits of people on Social Security.

Senator CORTEZ MASTO. So I show a cut for student loans, Social Security, persons with disabilities, for farmers, and for women and children who seek assistance through SNAP and TANF. If that is not a cut, then I would love to talk to you about what it is this administration values and what they see—how these groups and important individuals in our communities are being affected. I would love to talk to you about that. But I disagree.

And that is my concern: that this administration says one thing, but their actions are just the opposite. And I think it is important for us to really talk the true facts, and not what you come here and read in your statements about what the administration claims that they are doing to the benefit of our communities.

Because I can tell you, when I go home to Nevada, there are still people struggling. And I do want to talk to you about—when you plan and you put together this tax bill that you have talked about, and the economic growth, particularly when it comes to the budget, I keep hearing you saying that you are talking about the budget that shows gross domestic product growth will climb to 3.1 percent. And that is your basis.

Is that correct, that you are basing it on, for the next 8 years, a 3-percent, or 3.1-percent growth?

Secretary MNUCHIN. It ranges between 2.8 and 3.1. But let me just comment on Social Security. I am looking at the mandatory programs of Social Security starting at 1038, and it goes up every single year through 2030 to 1906. So I do not see any cuts.

Social Security mandatory programs are going up consistently in our budget every single year.

Senator CORTEZ MASTO. Good. So what I hear from you today is there is going to be absolutely—there is no request in your current budget to cut anything having to do with Social Security?

Secretary MNUCHIN. Again, the absolute mandatory programs of Social Security—

Senator CORTEZ MASTO. Well, do not read it to me. Just talk to me. Tell me. There are no cuts to Social Security is what I am hearing.

Secretary MNUCHIN. I believe there is a cut in the rate of increase, not an absolute cut. But again, I would be happy to follow up and go through this—

Senator CORTEZ MASTO. Let us talk about it, because if you are cutting Social Security, and the resources, and the individuals, and the time for the people who work in Social Security to help people in need, then you are impacting the people in need.

So let us talk about that. And I am running out of time, but let me ask you this. If you are projecting a 3.1-percent or 2.8-percent growth for the next 8 years and you have independent forecasters saying it is only going to be 2 percent, or 2.2 percent, and you your-

self have said you have concerns that growth might be impacted by the coronavirus, the 3-percent growth, then why are you not adjusting it downward, I guess is my question, to ensure that we come to 8 years and the tax bill has been paid for? How do we pay for that?

Secretary MNUCHIN. Well, the coronavirus and Boeing are just a one-time. When we did the projections, they were back in October—

Senator CORTEZ MASTO. What does that mean, “one-time”?

Secretary MNUCHIN. It is just a one—it will just impact 2020. So the coronavirus is not going to impact growth over the next 10 years, nor is the Boeing issue going to impact it. It may have an impact on one year, and again we just have not updated the models because the whole budget process started at the end of last year.

Senator CORTEZ MASTO. So we hope the coronavirus does not have an impact beyond this year, is that what you are saying?

Secretary MNUCHIN. I do not expect that the coronavirus will have an impact beyond this year.

Senator CORTEZ MASTO. Okay; thank you.

Senator PORTMAN [presiding]. Thank you. Mr. Secretary, thank you for being here today. I am now sitting in the chair—

Secretary MNUCHIN. Thank you. I see that.

Senator PORTMAN. Senator Grassley is—

Secretary MNUCHIN. You look good in that chair; you could get used to that. [Laughter.]

Senator PORTMAN. It is a little higher seat, actually.

Great testimony today. You pointed out that tax reform is working, and it certainly is. So is regulatory relief, I think, and some better trade agreements. And that combination is improving the lives of the people we represent, and it is good to see.

When we started off in this effort, President Trump and the Congress said, okay, we are going to focus on tax reform because we believe that will result in more jobs, better wages, and leveling the playing field for U.S. companies that are trying to compete in the global economy.

And all that has happened. Do not take my word for it. Here is the Congressional Budget Office in April of 2018, the nonpartisan CBO, saying in their analysis of the effects of tax reform, “These changes are expected to encourage savings, investment, and work.” CBO also estimated that that would reduce the incentives for companies to invest overseas by \$65 billion per year—so in other words, encouraging investment right in the States that we represent.

Together, these positive effects on the economy, they said, would result in average GDP increase of about .07 percent, and the CBO projections have held steady. In fact, just last week—last week—CBO said again in a new blog post that the tax bill’s effects on the economy have appeared consistent with our initial assessment.

So that is CBO. But the numbers are clear. They are out there. Prior to tax reform, the CBO said the economy would create an average of 107,000 jobs per month. In 2018, we actually got an average of 193,000 jobs. They also said that in 2019 it would be 27,000 jobs per month. So far we are 6 times ahead of that average at 175,000 jobs.

So you know, that is great. The thing that I like best is the wage growth. We have now seen, for 18 straight months, wage growth of over 3 percent. And as we know from the Bureau of Labor Statistics' information, this is primarily helping folks who are non-supervisory, which means blue-collar workers, mid-income, low-income workers, and that is just awesome news. It is the longest period we have been able to see that kind of wage growth since before the Great Recession.

So it is working. One thing that you will talk about a lot, I know today, is the international side. I have already heard you talk about it some. People are bringing money home. The old tax system encouraged those companies, as you know, to leave their income overseas and not to bring it back and pay our taxes.

And the international provisions were designed to end that lock-out, and that is exactly what has happened. Between January 2018 and September 2019, the last data which we have, companies brought back over \$1 trillion in overseas earnings, more than the previous 6 years combined.

So those who say it has not made any difference, look at the numbers, which is why, by the way, on a bipartisan basis we all agreed we had to do this change of lowering the rate and going to a territorial system. It is actually working. And tax revenues are up, not down, which is another thing that you have talked about a lot.

I think you have done a very good job of trying to implement what was a complicated tax bill, let's face it, particularly on the international side. And I want to commend you for that difficult job, a whole new international tax system—again, one that was very bipartisan in its creation, although at the end of the day we did not get a bipartisan vote. That part of the legislation was always something that we believed was a good idea on both sides of the aisle. In fact, Senator Schumer and I co-chaired the task force that came up with an international plan that was very much along the lines of what we ended up with.

I think you have been unfairly criticized by some who have said, by making the implementation changes, that you are somehow not in keeping with the tax bill. I think it is just the opposite. And I must say that, today, I heard people pointing to the CBO baseline as a reason to say that—evidence of that. And I just say, that is not how the regulatory and budget process works.

Treasury does not score tax regulations, the same way it does not make law. We make the laws, and the Joint Committee on Taxation scores tax legislation. And so your job is to implement the law in accordance with the congressional intent. And I think you have done your best to do that.

Second, the Joint Committee on Taxation is the one that, again, provides this, not the CBO. CBO may take into account some of the same assumptions made by Joint Tax, but they also incorporate hundreds if not thousands of other data points.

So it is also important to note that CBO made both upward and downward revisions in terms of the overall forecast, and the critics only tell you about the downward revisions, which I think is interesting.

So my sense is that the CBO downward revisions also come in large part because companies are actually paying more in section 965 taxes—that is the repatriation taxes—in the first couple of years than they expected. And as a result, we gave companies 8 years to pay it. Companies paid it more quickly than that. So that is not a tax cut. Those are taxes already paid.

On the GILTI, which was meant to be a guard rail in this new territorial system, I know that you have again come under some criticism on the way you have handled that. This is exactly what we intended, which was that we would have the ability to bring profits home, create that incentive—and trillions have come back, as we talked about—but at the same time under GILTI those companies who wanted to shift to low-tax jurisdictions would be penalized. And that is what you have done.

The number we used for the minimum tax in effect was 13.125 percent. And the intent of the conference report was very, very clear on that. So critics continue to argue that your efforts to implement that intent provided new tax cuts. I would say: not at all. Specifically, they are saying that your new proposed rule clarifies the connection between GILTI and the existing subpart (f) rules providing an exception for companies with foreign tax rates above 18.9 percent as a brand-new tax break. That's ridiculous. Compared to our intent to exempt companies anywhere above 13.125 percent, I would say, if anything, your approach has been cautious, very conservative.

So I wonder if you would give us your view on that. Do you believe you have taken a cautious and conservative approach to this in terms of the GILTI implementation, based on the congressional intent, the taxpayer comments, and Treasury's regulatory authority?

Secretary MNUCHIN. Our job has been to implement that part of the tax code consistent with the intent and as prescribed by the law, and that is what we have done.

Senator PORTMAN. Well again, I commend you for that. I am going to come back for a second round in a minute and give you more chance to talk about that, and about what you have done to faithfully implement the tax legislation.

Senator Warner?

Senator WARNER. Well, thank you, Mr. Chairman. Great job on your opening statement. [Laughter.]

Mr. Secretary, it is great to see you. I want to ask you a couple of questions about, I think, some very good work the Department has been doing around beneficial ownership and anti-money laundering.

Last week, your department published the 2020 National Strategy for Combating Terrorists and Other Elicit Financing. And I want to—I know you have gotten a lot of criticism on this side of the aisle, but on this I want to commend you for putting out this strategy. I think it represents a critical undertaking to articulate how little the U.S. Government really knows about illicit finance risks and what are some of the tools and some of the aspects that we need to move forward.

One of the key vulnerabilities identified in the report is the lack of a legally binding requirement to collect beneficial ownership at

the time of company formation, a time that we think would provide the least burdensome approach. This failure to have this basic beneficial ownership information hinders law enforcement's ability to swiftly investigate criminal actors, as the report points out. But it also drives up significantly the cost of law enforcement, in costs on both the public and private side.

So the first question is, Mr. Secretary, do you agree that one of our most urgent national security and regulatory problems is that the U.S. Government still has no idea who really controls shell companies, in many cases being used to move billions of dollars across our economy?

Secretary MNUCHIN. Well, thank you, Senator Warner. I think this is a critical issue, and I also want to thank you because I know you have spent a lot of time with our department on this. And I would encourage the committee, on a bipartisan basis, to work on legislation. I think this is critical. It is critical not only here, but as we push forward FATF and other policies around the world, this is a glaring hole in our own system.

Senator WARNER. Well, one of the things I would also like to have you comment on—and I see some of the risks from my role sitting on the Intelligence Committee—is when we see regimes like China, Iran, North Korea, that frankly use U.S. shell companies to hide some of their activities.

I think we have seen it a lot in terms of activities around fentanyl production. We have seen it used—and some of our legislation has gotten great support from the communities that are trying to oppose sex trafficking.

Can you speak a little bit about the national security implications, and also some of the risks that this lack of having this information poses to our local communities?

Secretary MNUCHIN. You have pointed out, there are very significant risks. And the problem is that when someone opens up a bank account, the beneficial ownership is kept by the banks. But that information is not put into a centralized database. So if we are looking at a specific entity and we want to see who the beneficial owners are, we have no way of getting that information other than first tracking a bank account and then potentially pinging thousands and thousands of banks for that.

So it is a very inefficient program, and it allows the bad guys to hide their identities.

Senator WARNER. Well, as you indicated—and I would like to point out that both Chairman Grassley and Ranking Member Wyden have supported efforts to crack down on anonymous shell companies, and you were kind enough to indicate you think we ought to be taking this up.

You may be aware that on the Banking Committee, we have a broadly bipartisan coalition, four Democrats, four Republicans—we named it the ILLICIT CASH Act, which would dramatically update our AML regime and deal with this question around beneficial ownership, we think in a way that does not put undue burdens on businesses.

As a matter of fact, two other members of this Finance Committee who are the ranking and chairman of the Banking Com-

mittee, both Crapo and Brown, are both members of this committee, and we are hoping they will move it toward a markup.

I should be smart enough to take your earlier statement that you support this effort, but if you would like to make any final comments on this notion of moving this legislation to the Banking Committee—and we have worked closely with the administration on that—I would love to hear them.

Secretary MNUCHIN. Let me clarify: I very much support your efforts on that.

Senator WARNER. I will take that, Mr. Chairman, as a time to yield back my 28 seconds that you might want to use to ask a question. Thank you, Mr. Chairman.

Senator PORTMAN. Thank you, Senator Warner, for your responsible approach.

Senator Casey?

Senator CASEY. Mr. Chairman, thanks very much. Mr. Secretary, good to be with you.

I wanted to focus on one topic, the middle class, and take you back to a meeting that you were present at, but I am sure you may not remember, because you have had a lot of these.

We had a meeting in October of 2017. It was members of the Finance Committee, both parties, not everyone, but most of the committee. The President was there. You were there. Administration officials were there talking about the tax bill. At that time, the tax bill had not passed. It was in the drafting stages.

I raised a question with the President about the focus of the tax bill with regard to the middle class. And he expressed a very positive aspiration to have the tax bill be of benefit to the middle class. In fact, I remember him turning to you, referring to you, I think by your first name instead of Secretary of the Treasury, but he said we have to make sure we focus on the middle class.

We know what happened after that. The bill passed, and we are told—and this is just two examples of part of the middle class—we are told by the Joint Committee on Taxation that if you look at the 2017 tax bill and take one segment of the middle class, which in this case is 50 million households making under \$100,000—so that is the category of people—that those 50 million households all making under \$100,000 a year would see a tax increase or decrease, one way or the other, of less than \$9 a month in 2019. And that is from the Joint Committee on Taxation document 10–19.

So, very little change up or down—\$9 a month. Here is another way of looking at a segment of the middle class. This is kind of the middle of the middle, as the Tax Policy Center goes through the quintiles. The Tax Policy Center indicated that households earning between \$48,000 and \$86,000—and that is a pretty good share of the middle class, millions of taxpayers—got an average tax cut of about \$800.

The top got a lot more, and obviously not just in terms of dollars, but the top got a lot more, the top 1 percent got a lot more in percentage. I do not think many people dispute that. But the question I have is: when you track what the President and your team, the entire administration, was saying before the bill, after the bill, about what the impact of the tax bill was on the middle class, and then subsequently—Larry Kudlow was quoted on November 1st of

2019 talking about, quote, “tax cuts 2.0” on CNBC, saying, you know, indicating that the intention at least, I guess, was to provide another tax cut.

Can you tell me, where is that? Is there going to be a tax cut that is real, substantial, I hope even transformative, for the middle class? Or are we still going to see a tax bill that is very limited to \$800, or whatever number a lot of the middle class got?

Secretary MNUCHIN. Well, I am happy to follow up and go through all the numbers with you, but on my numbers the typical family earning \$75,000 saw their tax reduced by more than \$2,000, or what was typically by more than half. So I do not agree with your numbers that the tax cuts were not significant for the middle class.

Senator CASEY. Well, I am just saying—let me interrupt for one second—I think what you are disagreeing with is not me but the Tax Policy Center. So that is fine.

Secretary MNUCHIN. Well, I am looking at the Tax Cuts and Jobs Act distribution chart. And again, I would be happy to follow up with you and go through the specific numbers. I am looking at Tax Policy Center numbers. We could look at other numbers.

So I do not know which ones you are specifically looking at.

Senator CASEY. Well, I would hope—I hope that is not your final answer. I would hope that the administration would be focused on giving a tax cut which really improves people’s lives, not either the \$9 one way or the other per month for 50 million people under \$100,000. So that is one.

And then let me just finish with one reference to—I think Senator Menendez was talking about jobs by way of comparison to administrations. I think the data shows that, if you look at the first 36 months under President Trump, basically February 2017 through January of this year, it is about 182,000 jobs per month. The last 36 months of the same time period, the last 36 months of President Obama’s administration, that number is 224,000 jobs per month in those 36 months. So 42,000 more jobs under Obama, adding up to more than a million and a half more jobs.

So I do not think there is anything wrong with the President trying to commend the work of his administration about job growth, but I think we ought to be clear that if he is going to constantly compare himself to President Obama, he ought to at least acknowledge that the last 36 months under President Obama were stronger than his first 36 months. Maybe month number 37 and up will be better, but I think that is what the record shows.

Secretary MNUCHIN. Well, actually the economy was not stronger. The economy was slower. And as to jobs, when you start with a higher unemployment rate, it is easier to create more jobs.

Senator CASEY. Well, you guys did not walk into an unemployment rate of 10 percent, either, which President Obama did.

Secretary MNUCHIN. I am just saying—again I am looking at a 4½ versus a 3½. Obviously, as you get down to low unemployment rates, it is harder and harder to create jobs without increased participation.

The CHAIRMAN. Senator Cassidy?

Senator CASSIDY. Mr. Secretary, thank you for being here. 45Q is a program I am interested in to incentivize carbon capture se-

questration. Louisiana's geology is well-suited for this, and then we have lots of industry that would therefore benefit and, in so doing, decrease global greenhouse gas emissions.

We keep hearing that the guidance will be expected within weeks. But weeks pass and—what is the current timetable for releasing this guidance? And, given the short time frame that remains to capture the credit, can we be sure it will be released soon?

Secretary MNUCHIN. Yes, so let me just comment. And I know there have been delays on this. I am not giving excuses. It has been coordinated with two other departments, the Department of Energy and EPA. I did review this as recently as yesterday.

There will be guidance that is coming out in the next few weeks. My team has committed to that. And then there are other regulations that were supposed to come out in April, but I told them they needed to have them come out in March. So we are very focused on this, and it is an important issue.

Senator CASSIDY. Sounds great. Thank you.

Electric vehicles. I am sure you are aware that the Treasury's Inspector General released an audit report in September finding, one, taxpayers improperly claimed \$72 million in EV tax credits; and two, the IRS does not have an effective process to identify and prevent these erroneous claims.

And these have doubled in size in that year since first reported. You know, I always figure that electric vehicle tax cuts are tax cuts for millionaires and billionaires, right? It is the top 1 percent who are buying all the electric vehicles. And the guy driving the 1974 Ford pickup truck is the one paying in the tax credit.

So what have the IRS and Treasury done in terms of program integrity to be able to identify, or to eliminate this problem?

Secretary MNUCHIN. Well, I agree with you on the first part, particularly people who are buying expensive Teslas. And I was one of those people who do not need the tax credits.

I think also we have an unfair situation right now where certain U.S. companies still have tax credits and others do not.

But we are working with the IRS on the audit issue and what we do to fix that.

Senator CASSIDY. Would it be helpful—one, do you need any authority from Congress, number one. And number two, it seems as if VIN numbers would be—I am assuming there is a database of VIN numbers somewhere out there. It seems like a simple solution would be some sort of cross relationship. But again, do you need any sort of authority from Congress to do any of this?

Secretary MNUCHIN. We will always take a little bit more money from Congress to fix these things and collect taxes. But no, we do not need any authority. But it is, unfortunately, a complicated audit situation.

Senator CASSIDY. I am also interested in the rise of e-commerce and with the counterfeit goods that are being sold on Amazon and other platforms that are a risk to both health and safety.

Now related to that, these counterfeit sellers, sellers of counterfeit goods, are less likely to pay taxes that they are supposed to pay. Now we are approaching this in a variety of ways, but could you tell me about any efforts Treasury is making, perhaps in tan-

dem with the Department of Justice, to address the tax gap that counterfeiters create?

Secretary MNUCHIN. Well, let me comment on two things. The counterfeit issue is an issue that the White House is focused on. That is not really directly a Treasury issue. But we do share the concerns of counterfeit goods.

I think one of the questions that needs to be considered is the people who are selling these counterfeit goods on marketplaces. Should the e-commerce companies bear certain responsibility for better monitoring on this? Because this is a real problem for consumers.

And ultimately, as it relates to the tax gap, this is one component of the tax gap that we are very focused on—what we can do on the tax gap overall.

Senator CASSIDY. And then, can you just comment specifically on the impact that counterfeit goods have on the U.S. economy?

Secretary MNUCHIN. It has a very big economic impact. It is lost revenues. It is hurting companies and small businesses that sell legitimate items. It is ripping off consumers who think they are buying something that they are not getting.

Senator CASSIDY. I appreciate your answers, and I yield back.

The CHAIRMAN. Senator Daines?

Senator DAINES. Thank you, Mr. Chairman.

Welcome to you, Mr. Secretary. I want to spend a few moments and talk about the historically strong State of our economy. Watching what has happened under President Trump with Republican leadership's commitment to tax reform, cutting burdensome regulations, this economy is booming.

And it is benefiting Montanans. It is benefiting the American people. I am struck by the job creation number, Mr. Secretary. Over 6.7 million jobs have been created since President Trump was elected.

Interestingly, about 70 percent of those jobs, 4.6 million of the 6.7 million jobs, have been created since we passed tax reform and reached an unemployment rate of 3.6 percent, near a 50-year low.

There is a reason I left the private sector to come into public service: it was to see outcomes, to see results, results like this. Wages are growing for workers across the board. But importantly, we are seeing this blue-collar boom. Low-income Americans are experiencing the largest wage gains. And average wage growth for workers now outpaces the wage growth for managers. Americans are getting back to work. This is good for Montana; it is good for our country.

Mr. Secretary, my question for you is, as you look at the tax policies that we moved forward with, as we have seen now an outcome that was predictable—we saw this when President Kennedy through his leadership cut taxes, we saw it under President Reagan through this leadership cutting taxes and growing the economy and seeing wage growth and more jobs created—which tax policies do you see as being some of the most important in keeping our economy growing?

Secretary MNUCHIN. I think there is no question, the change on the corporate side to a territorial system, and encouraging compa-

nies to bring their cash back here and build jobs here, has been very important.

I think there is no question the pass-through deduction for small businesses has been critical. And I think there is no question the tax cuts for the middle class have put a lot of money back into people's pockets that they can save or spend.

Senator DAINES. So you brought up the pass-through issue. I would like to talk a little bit about that—we call it the Main Street tax relief. As we were having discussions back before we passed the bill between the C corp side and the pass-through side, or I like to call it the Main Street business side—in Montana, 90 percent of our businesses are actually small businesses. They would be on the pass-through side.

In fact, according to a recent Square/Gallup Survey, just last month 69 percent of small business owners said their businesses benefited from the 2017 tax law—69 percent. More than seven in 10 say they reinvested over one-quarter of the savings that resulted from the tax law back into their businesses.

And I can tell you, that is why myself, along with Senator Roberts, Senator Thune, and Senator Blackburn, introduced the Main Street Tax Certainty Act, which would make that 20-percent deduction with the Tax Cuts and Jobs Act permanent. I think it is critical we work towards this on behalf of our small businesses.

The question for you, Mr. Secretary, is how does making this 20-percent deduction permanent, as the President's budget proposes, help to increase business certainty and provide confidence for job creators to invest and grow their businesses?

Secretary MNUCHIN. Well, as you have commented, those small businesses are the backbone of a large part of the economy, not just in your State but in other States. And providing that tax relief gives those businesses more money to put back into their businesses, to hire additional people, and to go out and make capital investments.

Senator DAINES. I want to shift gears for a moment—and I agree with you—shift gears for a moment to talk about the trade situation.

I have just been struck by the success you all have seen in the last 120 days. Remarkable. I was there in the White House with the President when he signed the historic Japan deal in October. In fact, I had a Montana cowboy hat in the room with me. One of my cow/calf producers, Fred Wacker, from Miles City, was there.

It was followed then by the Phase One China deal. Followed then by the Canada and the Mexico trade agreement. The trade with these four countries is over \$2 trillion, and if you rank the top four trading partners in the United States, you hit them all: one, two, three, and four.

I applaud the focus. We have made great progress on trade, and I want to congratulate you and the team to that end. I look forward to continuing to work with you and this administration to hold China accountable now for these existing commitments that have been made and to get these Phase Two negotiations completed, as well as what you are doing here now with the UK, with the EU, India, and other critical markets.

Let us see how many more we can get done here before the end of the year. Thanks, Mr. Secretary.

The CHAIRMAN. Senator Brown?

Senator BROWN. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. I want to—I got word last night that Jessie Liu, with whom we were going to do a hearing in Banking for her nomination, she was inexplicably and suddenly withdrawn for nomination by the President last night.

When did you learn the President was withdrawing the Under Secretary of your Department?

Secretary MNUCHIN. I believe it was 2 days ago.

Senator BROWN. Two days ago. Can you tell me why her nomination was withdrawn?

Secretary MNUCHIN. I think you know nominations are at the President's direction, and we do not comment when nominations—as a matter of policy—when nominations are withdrawn, which happens for a variety of different reasons at different times when that is done.

Senator BROWN. So you do not have any opinion or knowledge of why she was withdrawn?

Secretary MNUCHIN. Again, what I have said, as a matter of policy, the White House—

Senator BROWN. Okay, I was just going to give you a second chance, Mr. Secretary.

Prior to her position, you may know this—or maybe you do not, I do not know—she was U.S. Attorney for the District of Columbia. She was involved in the cases of three of Mr. Trump's convicted political operatives—Mr. Gates, Mr. Stone, Mr. Flynn. Absent any plausible explanation for his withdrawal of this nomination, even though you claim—I hope you know you are more or less under oath—you claim to have known it for 2 days. It appears this is another stop on the President's personal retribution tour, an attempt to ensure that she did not come before the Banking Committee tomorrow to answer under oath questions about those prosecutorial decisions.

With prosecutors scaling back sentencing recommendations on Mr. Flynn, with senior DOJ officials suddenly intervening yesterday to reverse and make more lenient the sentencing recommendations of career prosecutors, four of them withdrew, one of them actually resigned—it tells us a lot.

I mean, this personal retribution, this PR tour for the White House, this personal retribution tour the President is engaged in started with the Prayer Breakfast of all places and then the East Room. And then his attacks on Colonel Vindman, mocking his accent. Senator Portman and I work a lot with the Ukrainian community, and I am proud that so many Ukrainians have called America home, leaving the Soviet regime. And he was serving this country, and the President mocks him.

The unannounced, the surprise, unexplained withdrawal of Jessie Liu—and I would hope you would give an explanation that is counter to the one that everyone assumes, and that is that she is part of the President's personal retribution tour.

So I am hopeful that either at this hearing or later you will help us and tell us the real reason.

Mr. Chairman, I want to shift to another question that Senator Wyden has been a leader on. I appreciate your response to the letter I sent you last month about the international tax regulations. Since I wrote you, the nonpartisan CBO revised its corporate revenue projections so that over the next 10 years they are projecting \$110 billion less in revenue than previously thought.

The report says CBO reduced its projection of the amount of income subject to tax under certain provisions related to international business activities. These changes, which lowered corporate receipts, reflect the implementation of the law—they go on. I am most interested in the regulations affecting U.S. tax obligations of multinational corporations on their foreign income.

Before Treasury issued these regulations, did Treasury do any analysis of how much revenue would be lost?

Secretary MNUCHIN. Treasury doesn't do analysis as part of the regulations. But what Treasury does do is, when we update the budget and there are specific regulations or technical changes, we do take that into account.

Senator BROWN. So did you estimate how much? Did you have any estimate about how much revenue would be lost on those regulations?

Secretary MNUCHIN. Again, what I would say is now, having re-analyzed those relative to the overall receipts, we do not think there are significant material changes—

Senator BROWN. Well, \$110 billion is pretty significant. And when you look at—

Secretary MNUCHIN. Oh, I do not think there are hundreds of billions, just to be clear.

Senator BROWN. I did not say "hundreds." I said \$110 billion.

Secretary MNUCHIN. I do not think there are—

Senator BROWN. Well, when the President—you do know this. When the President put out his budget Monday, after your tax cuts about which you brag and always forget to mention this would never happen during periods of economic growth—when the budget deficit explodes the way it does, something that your administration does not seem to care about—the President then goes to Davos and announces it, and then takes it back. Then he goes in his budget and makes huge cuts in Medicare, Social Security, Medicaid, and all kinds of things that matter to working-class families, while the rich in this country get richer. And that seems to be the way this administration seems to want to go.

Thank you.

The CHAIRMAN. Senator Cantwell?

Senator CANTWELL. Mr. Treasury Secretary, we have had a chance before to talk about the problem we have in the United States of America with the lack of affordable housing. I particularly wanted to ask you about the Low-Income Housing Tax Credit.

The tax credit has two different credits: 9 percent, which is mainly used for new construction of affordable housing; and 4 percent, which is used for new construction, mostly workforce and rural housing rehabilitation of existing affordable housing.

The 4-percent accounts for about 53 percent of all the affordable housing built in the United States. The tax credit writ large—about 90 percent of the affordable housing that is built in the U.S. is

built with the tax credit, which means if we do not expand the capacity for the credit, we are not going to get more supply. And we certainly have a supply problem.

So right now, the 4-percent credit is challenged, because it is not trading at 4 percent because it is a variable rate. Right now it is trading at 3.2 percent. So one of the things that my colleague, Senator Young, and I have been working on is making that 4 percent a floor on the tax credit, a fixed rate.

This would help us immediately provide more affordable housing in the marketplace by just the value of that credit being fixed for those making these investments and getting the tax credit.

So could you give me some feedback on that as the Treasury looks at this issue, and whether you would support the 4-percent fixed rate?

Secretary MNUCHIN. We would definitely be happy to work with you on that.

Unfortunately, Senator Brown just left, but I was going to make the comment that we do care about affordable housing, and I am hoping—it is a different committee—that we can work on housing finance reform, because affordable housing is a big component of that. But we would definitely be willing to work with you on the issue you just brought up.

Senator CANTWELL. On the 4 percent? It is the easiest thing to do right now. We would certainly appreciate the Treasury looking at a larger investment beyond just fixing the 4 percent. We think that the supply side of the equation clearly shows that we are not getting the job done across America, for lots of different reasons, lots of different changes in demographics.

It is clear that the population who does not have affordable housing is costing us a lot of money too. It is probably 25 percent more to deal with the same population in emergency situations: the hospitals, shelters, you know, incarceration.

Secretary MNUCHIN. We agree with that.

Senator CANTWELL. So getting this solution would be a big boost to economies across the United States, because the rural communities are facing just as much of a challenge as the urban centers.

So I would like it if you could give us feedback on that as well.

I think I am going to stop right there. Thank you, Mr. Chairman.

The CHAIRMAN. Okay. Senator Toomey came back, so I am going back up to the top of the list. Senator Toomey, go ahead.

Senator TOOMEY. Thank you very much, Mr. Chairman. Mr. Secretary, welcome, and thank you.

Let me just say off the top, I want to say I really appreciate the way you have consistently engaged in a dialogue with Senators to, I guess inform the judgment of the folks at Treasury in the implementation of our tax reform. I appreciate that ongoing dialogue. I think it is very constructive.

Related to that point, you know one of the things that I always thought was most constructive and pro-growth about our tax reform was moving to enabling business to fully expense capital expenditure in the year in which it occurs, rather than having these various depreciation schedules depending on the type of the asset.

As you understand very well, for peculiar reasons, we have these expensing provisions phase out over time in the next several years.

I have introduced—actually, I will be introducing tomorrow a bill that will make those expensing provisions permanent and provide businesses with the assurance that they will be able to fully expense the capital investment that they make.

My view is that that enhances—it effectively lowers the after-tax cost of capital. Doing that means more gets invested. That means workers are more productive and end up getting higher wages.

So just quickly, I think I know the answer, but are you generally of the view that encouraging that full expensing is good for the economy?

Secretary MNUCHIN. Yes, I agree.

Senator TOOMEY. Okay. And related to that is the issue which we know around here by the acronym of QIP, which stands for the Qualified Improvement Property. So this alludes to the technical error in the drafting of the tax reform by which improvements—leasehold improvements for business—instead of being able to fully expense them when they occur, because of the drafting error, they have to be depreciated over a very, very long period of time. And that raises the cost for anybody making leasehold improvements.

And as you know very well, retailers especially, restaurateurs to a very large degree, have regular needs to make substantial leasehold improvements. And that category of investment has, really unsurprisingly, actually had a negative impact, while the rest of CapEx has grown.

So I know you have been supportive of this, and I just want to ask you to continue to work with us to get this technical fix into the tax code as soon as we can.

Secretary MNUCHIN. Yes, I am just going to comment on that. I mean, I think both Democrats and Republicans acknowledge that that was a drafting mistake; that it was not intended to be a policy change.

We unfortunately cannot fix that through our regulations, and I have constantly brought this up with members on both sides of the aisle. This should not be a Democrat or a Republican issue. There is a segment of the economy that was unfairly hurt by this mistake, and this is our number one request to get a congressional fix for.

Senator TOOMEY. Well, I completely agree, and I appreciate your support on this.

Then finally, I wonder if you could just—and I apologize if you have already covered this, but if you have not, I would love to get an update on where we are with the OECD and the talks about tax policy. And specifically I am very concerned about the digital services tax that some European countries are attempting to impose as a practical matter on American companies.

I want to commend you for your work in helping to reach what looks to me like kind of a truce for now. The French have agreed not to impose these taxes on us. We have agreed not to impose tariffs on their products. I am hoping that that gives us a moment to negotiate an agreement, but I also think it is best if it is done with respect to the entire OECD rather than on a strictly bilateral basis.

Anything you can share with us on the status of those discussions?

Secretary MNUCHIN. So I think, as you know, these international tax issues are probably the most complex issues there are. But the President has been very clear that we think that the digital service tax is an unfair attack on U.S. companies, and discriminates. And he has been personally involved in this, with discussions with President Macron and others.

As a result of his involvement, we have reached what I call a truce with France where they will not be collecting this this year, while we continue at the OECD. The good news is that the UK also will not be collecting it this year. And I think all these countries have agreed, if we have an OECD solution, they will replace the DST with the OECD's solution.

So we are actively working on that, and that is a priority for us for the balance of this year.

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

The CHAIRMAN. Senator Whitehouse?

Senator WHITEHOUSE. Thank you, Mr. Mnuchin. Let me add to the bipartisan chorus of urging you to get 45Q done. It has taken 2 years, which I think is inexcusable. Somebody has done a rather poor job of quarterbacking that within your organization, but I am glad you say it will be done in a few weeks. Please—did you hear us?

Secretary MNUCHIN. It will, I assure you. And there is no excuse for why it has taken as long as it has. So I assure you it will be done.

Senator WHITEHOUSE. Thank you. So on another issue where we agree is incorporation transparency and the problem of the shell corporations that bedevil so many American interests.

At the moment, we probably have two Republican votes for the Judiciary version of the incorporation transparency bill. And I do not know that we have any from the Banking Committee. So your people and your administration need to make a bigger effort politically to emphasize the national security and economic security prerogatives behind your support of the incorporation transparency legislation because, at the moment, it is jammed up.

I think it is jammed up because there are a lot of slippery interests that make a lot of money off of this rather creepy shell corporation international crookedness clyptocracy economy. And they are working through lobby groups to try to jam this up.

I hope you agree with me that they ought not to succeed. But I want you to know that they are going to succeed unless this administration makes it quite clear that this is a bill that the President really wants to pass, that this is important to our national and financial security.

So I offer you that heads-up, and I hope you act on it.

I have been in contact with the Banking Committee about a set of economic warnings that are out there, and I will give you a copy of the letter that I wrote to Chairman Crapo and Ranking Member Brown. But I want to take a minute and read you some parts of it.

It was prefigured by a December letter that I wrote based off the warnings about a coastal property values crash that have come from a number of sources, but in particular Freddie Mac—a fairly

credible source for a warning like that—and of a carbon asset bubble crash led primarily by the Bank of England. As you know, they have been at this for quite some time.

There are now over 30 sovereign and central banks echoing those warnings. So between December 2nd when I sent the first letter, and February 6th when I sent this one, the Bank for International Settlements came out with a very significant warning that the physical and transition risks associated with climate change would affect the stability of the financial sector and could be irremediable by ordinary methods. The impacts could be so great as to—here is their language—“make quantifying financial damages impossible,” that the effects would be, and I quote them again, “catastrophic and irreversible; that these climate-related risks will remain largely unhedgeable as long as system-wide action is not undertaken.” And it emphasizes that this is a systemic financial risk.

The words “systemic financial risk” mean something fairly significant, do they not? They do. And it is a severe warning, is it not, the warning of systemic financial risk? Is it or is it not a severe financial warning of a systemic financial risk?

Secretary MNUCHIN. I am not following what the question is. So I understand, obviously, what systemic risk is.

Senator WHITEHOUSE. And it is serious?

Secretary MNUCHIN. Systemic risk, by definition, is serious.

Senator WHITEHOUSE. Thank you. That is all I needed to hear.

Then we went on in that same time period to the BlackRock letter in which CEO Larry Fink wrote, “Climate change has become a defining factor in companies’ long-term prospects; that we are on the edge of a fundamental reshaping of finance, compelling investors to reassess core assumptions. And that in the near future, and sooner than most anticipate, there will be a significant reallocation of capital.”

That is another pretty ominous phrase, is it not?

Secretary MNUCHIN. That is his opinion. I do not take it as an ominous phrase, but, yes—

Senator WHITEHOUSE. Well, it will be interesting to see. It goes on, “McKinsey recently warned that climate change could make long-duration borrowing unavailable, impact insurance costs and availability, reduce terminal values, and trigger capital reallocation and asset repricing.”

The World Economic Forum put out its Global Risks Report in the same month, listing the top five most likely risks facing the world over the next 10 years, and all five were climate-related risks.

And last—sorry, Mr. Chairman—last, the Stanford Graduate School of Business report of January noted again that the financial risks from climate change are systemic, singular in nature, and that global economic losses from climate change could reach \$23 trillion, three or four times the scale of the 2008 financial crisis.

My question to you is, have you ever heard so many and such severe warnings from so many, and such respected sources, about a looming risk of economic crash, ever?

Secretary MNUCHIN. Well, let me just say, every time everybody agrees on financial risks, sometimes they turn out not to be the

case. And when people do not see them, it is the worst you can expect.

There was a lot of discussion on this issue when I was at Davos. I will say it is something that, both on an international basis and at the FSOC, we continue to talk about and monitor.

I think one of the big questions is, how does technology change over the next 20 years? And what is the cost of carbon recapture? There are a lot of very extremely interesting potential technologies that will reduce the cost of carbon recapture quite dramatically.

The CHAIRMAN. Before I call on Senator Sasse, I want to say, since I am a partner with Senator Whitehouse on beneficial ownership, I want to thank you for your support, and I hope you can talk loudly about it, because we have to overcome a lot of special interests to get that thing passed.

Senator Sasse?

Senator SASSE. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here.

Let us talk about China a little bit. We had Chairman Powell at the Banking Committee this morning. And when he was asked a series of questions about the coronavirus, he said that it was—not quoting here but paraphrasing—that it was too early to tell if the public health event would materially change China’s economic relationship with the rest of the world.

So I have two questions about that for you. The first is, do you agree that it is too early to tell what the impacts of coronavirus are going to be? But more significantly, what kind of data would the Treasury Department be looking for to see the earliest signs of whether or not China may be undergoing some sort of changed relationship with the rest of the world? Obviously, it is going to overlap with a bunch of trade questions we should explore.

Secretary MNUCHIN. Well, let me just say, Chair Powell and I have spoken about this recently, and I think we both share similar views.

So any time you are modeling something like this, you have to start with what the impact is of the virus and the way it is spreading. I think on the one hand, there are certain aspects of it that are much more concerning than SARS. On the other hand, I think China started dealing with this much earlier.

So I think that the scientific data—when we have another 2 to 4 weeks’ worth of data, we will have a much better ability to extrapolate this. There is no question it is having a significant impact in China. To what extent the virus spreads, the rate it spreads, is something we are obviously monitoring very carefully. And to have the economic impacts of this, I think we need another 3 to 4 weeks of data to be able to extrapolate in a more specific way.

Senator SASSE. Thanks. And I appreciate your point that they have tackled this earlier than SARS. But we should just have a shared understanding in this room and in the broader USG context that this disease, 9-ish weeks old, got no attention for over 5 weeks from the Chinese Communist Party because they have this myth that Chairman Xi can preside over China. I think their language at their most recent party conference was, “from east to west, from north to south, across all sectors of the economy, he is functionally all-knowing.”

Well, if you believe that kind of BS, then obviously you would need to hide the emergence of a global pandemic, because 1.4 billion Chinese, 90 million members of the communist party—and as he consolidates more and more power at the top, this myth that he is able to centrally plan everything that happens in their civilization means if you have something horrible, a natural disaster like a disease, the Communist Party essentially becomes a great incubator to spread that disease by lying to your people about the competence of the leadership.

So they may have addressed it faster than SARS. They still addressed it way too late, and there are people both in China and beyond dying because of the malfeasance and maladministration of the Communist Party.

Could you distinguish a little bit between what you see as the victories of Phase One on the China deal that are real, and what you hope could be the most front-end, realizable goals in the Phase Two agreement and how you see that timeline, please?

Secretary MNUCHIN. Well, I think the Phase One agreement is quite significant. It is the first time that there have been serious commitments. It is everything from the forced technology issue, patent protection, agricultural structural issues, financial services issues, currency provisions, and a real enforcement provision.

So I think they are quite significant. Obviously, our biggest focus is implementing Phase One. That to a certain extent has slowed down, given the virus, as expected. And I think Phase Two—the good news is Ambassador Lighthizer and I have the entire Phase Two chapters dealt with, and we have said we may roll them out as Phase Two A, B, C, D. It does not necessarily have to be a big bang. But we know what we want to get in Phase Two.

Senator SASSE. When you say you have those chapters dealt with, have you looked at Phase Two A, or whatever the piece that is the earliest batch—what is the earliest and the worst case scenario time line you envision?

Secretary MNUCHIN. We really have not determined that. I mean, the President has been very clear he wants us to execute on Phase One. He wants us to make sure as we move to Phase Two we get what we need to get and does not want to set arbitrary timelines.

So I think, as you know, the President kept significant tariffs on to create an incentive for them to do Phase Two, and those will not be reduced until we do that.

Senator SASSE. Thanks. You mentioned that there have been real commitments about IP theft and forced technology transfer in Phase One.

I want to start by saying I have a lot of skepticism of whether or not the Chinese Government will keep their commitments. But I applaud the President for having been one of the first people to push on the fact that China has been a bad actor and that we needed to shine a brighter spotlight on them.

So I applaud the President for having done that. But it is also the case that they have made pledges many, many times in the past about IP and technology that they have not kept their word on. Have you seen personally any evidence of things like Chinese ownership for past wrongdoings?

So the Equifax indictments that were announced by the Department of Justice and the Attorney General this week, really great stuff, that more than one-third of—great news that they had been, that they are being indicted. The event itself is horrific, the 2017 hack of Equifax that led to the personally identifiable financial information of more than a third of Americans being stolen. It is great that the Attorney General and the Justice Department are focused on that, but in any of your dealings with them, as you have these conversations about getting honest and getting real about IP, intellectual property, more broadly in the future, do they ever own any of their past wrongdoing?

Secretary MNUCHIN. Well, let me just comment. Obviously the Equifax thing, which is obviously quite concerning—and that is a law enforcement issue, so we have not had specific discussions with them around Equifax.

I will say that, as it relates to specific technology things, I think there is a legitimate interest internally in China by a large group of their area, that they want to put these protections in place, because they realize their economy cannot move forward without them.

Now as you said, there have been commitments they have made in the past that they have not honored. The difference here is, this agreement has real enforcement provisions built into it.

Senator SASSE. I am at the kids' table, and I recognize you see me as the most junior member, basically behind your shoulder here. I do not want to upset the Chairman—

The CHAIRMAN. You are not so junior. You get the same 5 minutes everybody else gets.

Senator SASSE. That is a good way of pointing out to me that the clock is ticking at 6½ minutes. I will follow up with you separately about some other IP issues.

The CHAIRMAN. Senator Young?

Senator YOUNG. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for your service and for being here today as well.

Since tax reform, our economy has absolutely been roaring. It has really been encouraging. We have been able to sustain, along with regulatory reform and implementation of USMCA forthcoming, the longest period of economic expansion in American history.

And I know folks back home in my State are really enjoying the fruits of our prosperity. Since tax reform, real disposable personal income for an average household in the State of Indiana has risen around \$6,000. Moreover, average hourly earnings have grown at a rate of 3 percent or higher for 16 consecutive months, with the largest wage gains concentrated in the bottom quarter of the wage scale.

So that is something I will continue to tout, and I commend you and your Department for your hard work to help effect this change.

As you know, Mr. Secretary, there are skeptics still, despite these hard numbers, of the Tax Cuts and Jobs Act, who are trying to draw attention away from our outstanding economic results and push concerns of stagnant wages, and I just want to give you an opportunity to sort of respond to this narrative we hear out there

and elaborate on how changes in investment behavior matter for ordinary Americans like those I just described.

Secretary MNUCHIN. Well, thank you. I think there is no question we think that the tax cuts are having a real impact on the economy, and a real impact on wages, as you have pointed out—and that the average American is seeing real economic gains.

Senator YOUNG. That about says it. Well, thank you.

And as you continue to implement the Tax Cuts and Jobs Act, I stand ready, this committee stands ready, to help you and also to help our taxpayers navigate the new changes and make sure that businesses and individuals alike have the necessary guidance.

So I would like to turn to a distinct topic, but a really important one, and it is the emergence of cryptocurrency and the challenges that creates for the U.S. Government in various ways.

So these technological advancements and the increasingly interconnectedness of our world financial institutions are addressed in the President's budget. In fact, he proposes to move the Secret Service back to Treasury to create new efficiencies. And recently, the IRS has increased enforcement and released additional guidance related to crypto.

Proponents of crypto believe it can benefit the everyday consumer by lowering transaction costs for online purchases, increasing protection from identity theft, and breaking down various financial barriers.

How does your Department, Mr. Secretary, plan to respond to this rapidly evolving technology of cryptocurrency and other digital assets?

Secretary MNUCHIN. Well, thank you. And as you have commented, we are very supportive of bringing the Secret Service back home to the Treasury where it started, and the efficiencies of having it together.

We are spending a lot of time on the issue of cryptocurrencies and digital payment systems. It is a crucial area. And there are a lot of different things that get grouped together into this one area. So let me just be brief.

But on pure cryptocurrencies like Bitcoin—and there are others—we want to make sure that these are not used as the equivalent of secret bank accounts. So we are working with FinCEN, and we will be rolling out new regulations to be very clear on greater transparency so that law enforcement can see where the money is going and that this is not used for money laundering.

There is another component of the market, which people refer to as “stablecoins,” where we do think technology can be used to reduce payment processing quite considerably, particularly for small-dollar payments cross-border.

And then there is a third component that people are looking at, which is Central Bank issued currency. That is something that Chair Powell and I do not think the U.S. needs to consider now but could consider again down the road.

Senator YOUNG. You preempted my follow-up question there as it relates to central bankers. There is a concern that they could use these virtual currencies to operate outside of the current international financial system, right?

Well, as the Department stands ready to begin working on that, I look forward to engaging with you on that issue. So thank you so much. I yield back my 5 seconds.

Senator WYDEN [presiding]. All right. Mr. Secretary, here is where we are. The chairman had to be out of the room for a couple of minutes, so Senator Thune is going to ask his questions. I have one additional area I want to explore with you that should be quick. I appreciate your patience, and we will recognize Senator Thune. And I think the chairman will be back.

Senator THUNE. Thank you, Mr. Chairman. And thank you, Secretary Mnuchin, for being here today.

As has already been pointed out, in the 2 years since tax reform has passed we have seen, and continue to see, the benefits of that. Last week's jobs number was great, another 225,000 jobs created. And probably most importantly of all is just the annual hourly wage growth that we have seen that has been north of 3 percent again for 18 months now in a row. And unemployment is at 4 percent or under for 23 months in a row. So these are not blips on the radar. These mark sustained progress and a fundamental shift in the trajectory of the economy in an era where lackluster growth is no longer the new normal.

And so we believe the policies are working, and we want to continue to make life better for American workers. And I hope that our friends across the aisle will put partisanship aside and join us in creating even more opportunities for American workers. And one way to start, of course, would be to very thoughtfully engage on some proposals that you have put before us today.

And before I get to my question, I want to mention too, to thank you for your efforts to thread the needle on the 199A regulations and ensure that the "grain glitch" deal that we struck with stakeholders is clearly reflected in those regulations. So thank you for your attention to that.

The President's fiscal 2021 budget once again seeks to improve clarity in worker classification, an issue particularly important in today's gig economy. And as you know, I have introduced legislation that would help develop clarity surrounding the tax treatment of this new generation of workers. And the administration's proposal includes many elements of this legislation.

The bill, the New Economy, works to guarantee independence and growth, and the NEW GIG Act addresses the classification of workers—independent contractors versus employees—and creates a worker safe harbor based on a set of objective tests. The NEW GIG Act also modernizes information reporting requirements and provides for voluntary withholding by independent contractors.

Mr. Secretary, do you agree that one way we can address the tax gap is by updating our tax reporting laws to ensure that the IRS has the information it needs to enforce our tax laws while also respecting the traditional distinction between employees and independent contractors?

Secretary MNUCHIN. Yes.

Senator THUNE. So this is a follow-up to that. How important is it, in your mind, that Congress modernize the tax code to respond to the changing nature of our economy and the evolving nature of how goods and services are increasingly provided?

Secretary MNUCHIN. We look forward to working with you. We think it is a significant issue.

Senator THUNE. Good. Okay. We hope so. We would like to see this change get made and get enacted.

In a post-*Wayfair* world, there remains a potential for discriminatory and duplicative taxes on digital goods and services such as online downloads of music and cloud computing services. And while my home State of South Dakota was careful in the way it crafted its sales tax law, the potential for multiple and discriminatory taxes levied on these types of goods and services could threaten the growth and innovation of this important sector of the economy, something that I have worked with Ranking Member Wyden on in the past.

And we have introduced the Digital Goods and Services Tax Fairness Act, a bill which would provide some rules of the road, if you will, for taxing digital goods and services, and it establishes a framework across multiple tax jurisdictions.

Mr. Secretary, do you agree that more certainty on these and other interstate commerce issues is needed after the *Wayfair* decision?

Secretary MNUCHIN. We look forward to working with you on that as well.

Senator THUNE. Well, we are going to give you that opportunity. We are going to have a hearing on that really soon in the Commerce Committee.

The last thing I will say is, we appreciate the work that you did last year to implement changes to Treasury guidance for high-deductible plans used with HSAs. The inclusion of chronic disease management as preventive care is an important step in helping patients with conditions like diabetes or asthma better manage their health, and I look forward to continuing to work with you on that.

And we have one other issue that is related to that. I have a bill called The PHIT Act, and it would allow HSA dollars to be used toward expenses related to physical activity. And I think that is something that is on the preventive side that we can do that would really help in the curve when it comes to reducing health-care costs.

And I would just simply ask you, in response, would you commit to working with me and my staff on ways that we can address that issue through legislation, or through further administrative fixes?

Secretary MNUCHIN. We will; thank you.

Senator THUNE. Great. That was easy. I got all my questions answered.

Mr. Chairman, I yield back.

Senator WYDEN. Thank you, Senator Thune.

One additional area, Mr. Secretary. Senator Menendez and I both asked you about whether the Treasury Department was being tough enough on sanction violators. And Senator Menendez asked if sanctions decisions would be free from political considerations, and you simply said, "no."

Now President Trump has one of his Trump Towers in Istanbul, and senior Halkbank officials have offices there. In a letter that your office sent to me in November—and I am going to put that into the record now.

[The letter appears in the appendix on p. 63.]

Senator WYDEN. You said that when President Erdogan asked Trump to go easy on Turkey, President Trump referred Erdogan's request to you.

So my question to you is, did President Trump ask you to intervene and assist with Turkey's sanctions' violation?

Secretary MNUCHIN. So I want to just clarify one thing on the first part. When the question was asked about political, I was using the word "political" and "policy" interchangeably. So I just want to be clear in my response, I was not differentiating. And perhaps policy was the right response, and not political.

As it relates to—and again, I want to be careful about how I respond to this, because this is subject to ongoing law enforcement with both OFAC and with the Department of Justice. The reason why the President referred Halkbank to me and to DOJ was because there were ongoing issues, and the portion of the OFAC fell under my responsibility. That was the reason why it was referred to me.

Senator WYDEN. So my question is, did President Trump ask you to intervene and assist Turkey with their sanctions violations?

Secretary MNUCHIN. He didn't ask me to intervene. What he asked me to do was to—again, he knew that I was responsible for overseeing the OFAC provision of it, okay? And again, I can't go into the specifics of the investigation. Again, this was a violation—sanctions violation, as you're aware of—as it relates to Halkbank.

And it would not be irregular for us to talk to government officials, specifically where there are areas under my responsibility.

Senator WYDEN. Well, you told me that there were seven meetings. Now I know enough, having served on the committee, the Treasury Secretary is a pretty busy fellow. Seven meetings? What happened in these meetings?

Secretary MNUCHIN. Well, I just want to say, my calendar is public. So there is no surprise. I assume the seven number is correct. But again—

Senator WYDEN. That is what you told me.

Secretary MNUCHIN. But again, I meet with finance ministers. I meet with world leaders with the President on a constant basis. So, many of these discussions had nothing to do with sanctions issues, or Halkbank issues, whatsoever. They had to do with financial issues—we were having trade discussions with Turkey. We were having discussions around foreign policy issues. We were also having other foreign policy discussions.

So again, these are not—I do not want to in any way imply that these were all Halkbank discussions, whatsoever. Almost in every G20 we have been at, we have met with Turkey on a regular basis, on a bilateral basis.

Senator WYDEN. Okay; we will leave it at that for now. Some meetings were about Halkbank and some were about other matters, based on your last answer.

Thank you, Mr. Secretary, for your testimony today on the President's fiscal year 2021 budget. We are going to ask members on both sides of the aisle—I think the staff knows—to submit any written questions for the record by close of business on Wednesday, February 26th.

And with that, the hearing is adjourned.
Secretary MNUCHIN. Thank you, very much.
[Whereupon, at 3:19 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

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

We are pleased to have Treasury Secretary Mnuchin here today to testify on the President's Fiscal Year 2021 budget proposal.

The President's budget includes proposals to confront a number of important policy issues. I look forward to working with the President, the Secretary, and others in the Congress to address these and other pressing issues in the committee's jurisdiction. Drug pricing and the multiemployer pension crisis are two such issues.

This budget proposal comes at a time when the economy is strong, especially for working American families. Better trade deals, less regulation, and lower taxes from tax reform have translated into wage increases, especially for lower-wage earners, and historically tight labor markets.

Over 6.7 million jobs have been created since President Trump was elected, with nearly 70 percent of the job gains occurring since we passed the Tax Cuts and Jobs Act. Unemployment has fallen to a 50-year low. We've had 23 consecutive months with the unemployment rate at or below 4 percent, the longest streak in nearly 5 decades. Unemployment for Hispanic and for African American workers has set all-time record lows. America's middle class is growing, and families are benefiting, with a family of four earning \$73,000 seeing their tax bill cut by over \$2,000 after tax reform.

Statistics like these show that tax reform is a success. The Treasury Department's work to implement the new tax law as we intended has been an important part of that success. We appreciate the diligence and dedication Treasury and IRS have maintained over the last 18 months to release extensive guidance necessary for hardworking Americans and the business community to file their tax returns.

Despite Treasury's steadfast efforts, however, the critics have continued their assault on the Department for doing its job—criticism that is unfounded.

While Treasury plays an integral role when any major tax legislation is enacted, the heavy lifting occurs when the new legislation is implemented. Treasury is following the same process set out in the Administrative Procedures Act that has occurred after enactment of other tax legislation, like the Affordable Care Act.

Critics continuously use preliminary and incomplete data to distort the effects of tax reform to support their political narrative. Their focus on revised CBO projections of corporate tax receipts is just the latest installment, as I discussed in my statement yesterday on the Senate floor.

Similarly, we all recall the misinformation campaign in last year's filing season when critics tried to persuade the public that tax reform was a failure because early tax refunds were down. Of course, they conveniently ignored that the size of a tax refund says nothing about the tax liability of an individual or family. In the end, the criticism proved to be flat-out wrong. Americans got tax relief, and the average size and number of refunds ended up being closely in line with previous years.

I'm hopeful that we can avoid similar scare tactics in this year's filing season. Nothing the critics can say will refute the fact that every income group in every State saw a tax cut under tax reform, or the fact that this is particularly true for low- and middle-income families. Instead, I hope we can work together on policies that will benefit all Americans, including some in the President's budget proposal.

We have a solid foundation of bipartisan accomplishments in recent months, including the SECURE Act, the Taxpayer First Act, and the USMCA trade deal. And, after extensive negotiations, we came together to extend a number of temporary bipartisan tax provisions. I wish more could have been done to resolve them once and for all, as we did in repealing three onerous Affordable Care Act health taxes. But hopefully our efforts in December can lead us to success in future discussions on the expiring provisions that are coming up at the end of this year.

I'm also encouraged by the progress that has been made at the OECD to reach a multilateral global tax agreement on the digital economy. Senator Wyden and I have remained united and bipartisan in our message that unilateral measures that discriminate against American companies cannot be tolerated, and we continue to support Treasury in these negotiations.

As this year progresses, we should build upon these past successes to make sure Treasury and our tax laws are working for the American people.

I've seen administration budget proposals from Republican and Democrat Presidents alike. No matter which party controls the White House, members won't support everything that they see. As a matter of fact, one of former President Obama's last budgets was defeated on a 99-0 vote.

As I've said before, in our system, the President proposes and the Congress disposes. Even so, today's hearing is part of the important process of looking for things that people on both sides can agree on to support the American people in the most fiscally responsible way.

DEPARTMENT OF THE TREASURY
Washington, DC 20220

ASSISTANT SECRETARY

February 11, 2020

The Honorable Ron Wyden
U.S. Senate
Washington, DC 20510

Dear Senator Wyden:

I am writing as a follow-up to the Department of the Treasury's January 10, 2020 response to your December 5, 2019 letter. A recent public statement attributed to your office indicates you may have overlooked our response, which explained how the Department accommodates congressional requests for information collected and maintained by Treasury's Financial Crimes Enforcement Network (FinCEN), including Suspicious Activity Reports (SARs).

Treasury takes very seriously the obligation to protect the confidentiality of information collected and maintained by FinCEN pursuant to the Bank Secrecy Act (BSA), particularly SARs. Disclosure of such information is limited to the circumstances prescribed by statute and regulation. The applicable regulations provide that the Secretary of the Treasury may "within his discretion" disclose this information "for any reason consistent with the purposes" of the BSA. In addition, the regulations explicitly authorize the disclosure of such information in response to a written congressional request that meets certain specifications.

As our prior letter explained, Treasury does not process congressional requests for FinCEN records on a partisan basis. Over the past year, the Department has provided FinCEN records in response to requests from both sides of the aisle. Most of those productions have been in response to requests made or joined by Democratic members. Due to the sensitivity of FinCEN records, it would be inappropriate to comment further on these productions.

The recent statement attributed to your office also appears to reference congressional requests for confidential tax returns and other return information. Disclosure of tax returns and return information is generally prohibited under the stringent protections of 26 U.S.C. § 6103, subject to a carefully delineated list of statutory exceptions. Treasury takes its obligations to protect taxpayer confidentiality seriously, and accordingly takes care to ensure that returns and return information are not disclosed unless one of these statutory exceptions is available.

Sincerely,

Brian T. McGuire

cc: The Honorable Charles E. Grassley

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

Chairman Grassley, Ranking Member Wyden, and members of the committee, I am pleased to be with you today to discuss the President's Fiscal Year (FY) 2021 budget and the Treasury Department's top priorities.

President Trump's economic freedom agenda is working. Tax cuts, regulatory reform, and better trade deals are improving the lives of hardworking Americans. Unemployment remains historically low at 3.6 percent and is at or near all-time lows for African Americans, Hispanic Americans, and veterans. The unemployment rate for women recently reached its lowest point in nearly 70 years. Before President Trump came into office, experts were predicting that we would only grow by 14,000 jobs per month in 2019.¹ We averaged 175,000 jobs per month.²

Wages for non-supervisory workers rose by 3.2 percent in 2019, compared to 3.0 percent for all private-sector employees, which means that wages rose faster for workers than they did for their bosses.³ The improved employment environment means that more Americans have returned to the job market, increasing labor participation. Last month's labor force participation rate among prime-age adults reached 83.1 percent—an 11-year high.⁴

American families are earning more each year and—thanks to the Tax Cuts and Jobs Act—paying significantly lower taxes. They also have more career opportunities now than ever before.

America's economic strength and competitiveness is a bright spot in the world as other nations experience headwinds. In the year to come, we expect even greater economic growth in the United States as we finalize trade deals with some of our most important trading partners. The Phase One deal with China will result in critical, enforceable protections for our businesses and a tremendous boost for our farmers.

The USMCA will further add to our success by setting some of the highest standards ever included in a trade agreement. We are proud to have earned the support of a broad coalition of industries, including manufacturing and agriculture, as well as labor. We are pleased that it passed Congress with strong bipartisan support. I particularly want to thank many members of this committee for their work on this important issue.

In addition to improving our business environment, President Trump's economic policies will result in economic growth that will reduce our national debt and deficits over time. Federal Government revenue increased by 4 percent from FY 2018 to FY 2019.⁵ Unfortunately, in order to secure critical funding to rebuild the military, Democratic members of Congress insisted on increasing other government spending, which resulted in spending growth of 8 percent from FY 2018 to FY 2019.⁶ The administration is committed to working with members from both sides of the aisle to address spending going forward.

The President's FY 2021 budget for the Treasury Department makes clear that we continue to prioritize economic growth as well as our critical role in national security matters. Of particular interest to this committee, we are requesting \$12 billion for the Internal Revenue Service (IRS). This includes funding to implement the Taxpayer First Act and the third year of the Integrated Business Systems Modernization Plan. We continue to bring the IRS into the 21st century by updating systems and utilizing data analytics and other technological advancements to enhance the effectiveness of audit enforcement activities. We are requesting a program integrity cap adjustment to reduce the tax gap, with net savings of \$64 billion over 10 years.

¹ Congressional Budget Office (August 2016). "An Update to the Budget and Economic Outlook: 2016 to 2026."

² Bureau of Labor Statistics (February 7, 2020). "The Employment Situation—January 2019."

³ *Ibid.*

⁴ *Ibid.*

⁵ Bureau of Fiscal Service (October 2019). "Final Monthly Treasury Statement."

⁶ *Ibid.*

We also remain focused on improving customer service for taxpayers by reducing call and wait times and enhancing the IRS's online service capabilities.

I am pleased to join you today to discuss ways for us to work together to make our economy even stronger by creating more jobs and higher wages for hardworking Americans. Thank you very much, and I look forward to answering your questions.

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

QUESTIONS SUBMITTED BY HON. CHUCK GRASSLEY

Question. As you know, last year Senator Scott and I introduced a bipartisan Opportunity Zones reporting bill called the IMPACT Act. The bill, in part, directs Treasury to make publicly available a report that tracks various outcomes and economic indicators.

If enacted, can we count on the Treasury Department to provide the information required in the IMPACT Act to both guard against abuse as well as track the success of the Opportunity Zones program?

Answer. If enacted, Treasury will work to report any information required by the Improving Medicare Post-Acute Care Transformation Act (IMPACT) Act. In its current form, though, several items in the bill may provide challenges to data collection and reporting, and we would be pleased to work with your staff on those issues (which are summarized below).

First, in section 3(a), the bill requires that qualified opportunity funds (QOFs) must annually report information about investments. Included among the data items requested are the following: "the approximate number of residential units (if any) for real property held by such corporation or partnership" and the "average monthly number of full-time equivalent employees of such corporation or partnership for the year." Both measures are of characteristics of businesses that were attractive investment opportunities for QOFs. Treasury believes that total residential units and employment statistics are better measured at a longer time interval, and over a wider area. Note that looking specifically at businesses that receive funding will overestimate the effect of the opportunity zone incentive if those businesses attract employees that would have otherwise worked at another job in the area, and will underestimate the effect of the incentive if other businesses are able to expand as a result of the incentive. Similarly, the construction of residential units may be funded through opportunity zones QOFs, but the total affordable housing in the greater community may not change by the same amount.

Second, the public reporting of information as described in section 3(b) would require substantial masking of tax data to ensure compliance with section 6103 of the Internal Revenue Code taxpayer protections. Without legislating a waiver of section 6103 protections, data from many census tracts and industries will require such censoring.

Treasury appreciates the changes made in 3(b)(3)(B) in response to our prior conversations about data aggregation and reporting. A 5-year window will indeed provide a much clearer picture of local economies due to data availability.

Question. Despite the positive economic growth and record-low unemployment numbers I mentioned in my opening statement, some have argued that the tax cuts aren't benefiting workers and the middle class.

However, according to the White House Council of Economic Advisors, net worth of households has increased 12.1 percent (more than \$12 trillion) during the first 11 quarters of the Trump Administration—more than any other president's first 11 quarters in office since this data was reported.

Importantly, the net worth of the bottom 50 percent of households has increased by 47 percent—more than three times the rate of increase for the top 1 percent of households.

Clearly there's more to be done, especially on policies that will encourage wage growth and discourage wealth inequality. But, Mr. Secretary, wouldn't you agree that workers and the middle class are benefiting from tax reform?

Answer. Workers and the middle class are absolutely benefiting from the administration's tax reform. After the passage of the Tax Cuts and Jobs Act (TCJA), real

wages¹ grew by 1.5 percent per year, compared to the average from 2009 through 2016 of 0.6 percent. If we restrict our focus to wages for production and non-supervisory workers—reflective of the middle and working class—the numbers are 1.7 percent for the post-TCJA period, and 0.6 percent for the previous administration. These numbers reflect wage growth that is over 2½ times as strong after the passage of the TCJA. This wage growth wasn't mandated in the TCJA; instead it was a result of powerful growth incentives in the TCJA causing a labor market as strong as any seen since the 1960s, as measured by the unemployment rate.

Moreover, the TCJA's strong supply-side incentives are designed to encourage investment and thereby boost wages far into the future. Beyond reductions in the statutory rate for large corporations, changes include providing owners of smaller, unincorporated businesses with a 20-percent tax deduction, scheduled to expire in 2026, which helps them compete with large corporations. Further, the 2017 Act provided full expensing for equipment investment through 2022. By encouraging capital deepening, all these measures will improve labor productivity, and thus increase wages, for years to come.

Workers also benefited from individual tax reform. Council of Economic Advisors (CEA) has estimated the average household experienced increased income worth \$4,000 as a result of the law. For tax year 2018, Tax Policy Center estimated that 65 percent of households had lower individual income tax burdens as a result of TCJA, while only 6 percent, mostly upper-income households, had higher burdens. The 15-percent rate paid by many working and middle-class families was cut by 20 percent, whereas the top tax rate paid by the richest families was cut by 7 percent and the second-highest tax rate was not cut at all.

Question. Mr. Secretary, the budget calls for a \$400-million cap adjustment for IRS tax enforcement programs.

I know that IRS Commissioner Rettig has stated publicly that the IRS will be ramping up enforcement of the tax code with regard to suspected tax evasion techniques, such as syndicated conservation easements.

How does such an increase in the budget help with tax enforcement, especially with regard to enforcement against higher-income individuals?

Answer. The FY 2021 request includes resources to help target the tax gap and provide robust civil and criminal enforcement to protect against those who pursue overly aggressive tax positions, while ensuring honest taxpayers have access to the services they need.

The budget proposes a \$400-million discretionary program integrity cap adjustment in FY 2021 to fund investments in expanding and improving the effectiveness and efficiency of the Internal Revenue Service's (IRS's) overall tax enforcement program. The budget proposes \$280 million for the Enforcement account and \$120 million for the Operations Support account. Additional adjustments are provided in future years to fund new initiatives and inflation. These investments will generate \$79 billion in new revenue over 10 years and will cost \$15 billion for net revenue of \$64 billion over 10 years.

The cap adjustment includes additional examination employees. The decline in staffing since FY 2010 has led to a decrease in the individual audit coverage rate from 1.1 percent in FY 2010 to 0.45 percent in FY 2019, which increases the risk to the integrity of the Nation's voluntary tax compliance system. As audit coverage rates continue to decline, individuals and businesses may decide that the chance of the IRS auditing them is minimal, and take riskier positions on their tax reporting, especially since the IRS's audit coverage decline has been widely reported and is public. The additional resources will fund a broad range of compliance priorities and allow for earlier case assignment and resolution.

Question. Mr. Secretary, there have been accusations that Treasury issued tax reform regulations that it didn't have the authority to write.

As you know, Treasury has broad authority to issue regulations under section 7805 and many other specific provisions of the Internal Revenue Code. Historically, Treasury has asserted significant authority to administer and implement the tax law, regardless of whether the administration was Republican or Democratic.

While that authority has limits, the proposed regulation in question relating to the new Global Intangible Low-Taxed Income, or GILTI, rules seems squarely with-

¹Average hourly earnings deflated by personal consumption expenditure prices.

in Treasury's regulatory authority. The GILTI rules are intended to prevent companies from generating profits in zero or low-taxed jurisdictions without paying some U.S. tax.

The high-tax exemption that is the subject of the Democrats' recent criticism is targeted at preventing double taxation where companies have already paid high levels of foreign tax. This regulation is consistent with the intent of GILTI and with pre-existing anti-abuse rules targeting low-taxed foreign earnings.

Mr. Secretary, doesn't Treasury thoroughly consider statutory authority and congressional intent when writing regulations, and wasn't this the case with the proposed high-tax exemption?

Answer. The Treasury Department treats questions of statutory authority with the utmost thoroughness and seriousness. That was certainly the case with respect to Global Intangible Low-Taxed Income (GILTI) high-tax exception mentioned in your question. As explained in a February 11, 2020 letter from Deputy Assistant Secretary Vaughan, Treasury's regulations are fully consistent with governing law in substance as well as process. The GILTI regulation was reviewed and approved by several members of Treasury's Office of Tax Policy and the IRS's Office of Chief Counsel, in addition to Treasury's General Counsel. The legal authority for the rule was clearly explained in the regulation's preamble, which was issued in final form this summer. In short, we strongly agree with your assessment of the statutory authority for the high-tax exception.

QUESTION SUBMITTED BY HON. CHUCK GRASSLEY AND HON. RON WYDEN

Question. We understand that historically OMB has listed IRS whistleblower awards as subject to sequestration under the Budget Control Act of 2011. We question that decision, as awards under 7623(a) of the Internal Revenue Code are discretionary, but awards under section 7623(b) are mandatory with no discretion. Whistleblower awards made under section 7623(b) are paid from collected proceeds and are not paid from appropriated funds. Therefore, applying sequestration to these amounts overrides the mandatory nature of these awards, as Congress enacted into law. We know recently OMB reconsidered whether AMT-based tax refunds would be subject to sequestration and arrived at the correct answer that such refunds should be exempt. Are you willing to ask OMB to make a similar examination of IRS whistleblower awards under section 7623(b) and work with our staffs and other experts in this area to consider whether they should be exempt from sequestration?

Answer. The Treasury Department is always willing to work with your staffs to consider legal and policy issues, including the treatment of whistleblower awards under section 7623(b). It is important to note, however, that the determination of whether various provisions are subject to sequestration under the Budget Control Act of 2011 is made by the Office of Management and Budget (OMB) and any change in position would need to be made by OMB.

QUESTIONS SUBMITTED BY HON. JOHN CORNYN

Question. Secretary Mnuchin, in 2018 I led the effort to modernize the Committee on Foreign Investment in the U.S., also known as "CFIUS," via the enactment of the Foreign Investment Risk Review Modernization Act or FIRRMA. FIRRMA gave CFIUS broad authority to review and assess foreign investments coming into the U.S. by expanding its regulatory authority and by granting the committee its own budget. Last year, the committee received its own independent budget for the first time, totaling \$20 million, with about half derived from user fees.

Can you describe how the transition for CFIUS is moving along and provide some insight into the cases CFIUS is reviewing?

How much does CFIUS expect to receive in user fees this fiscal year and how much has been collected to date?

CFIUS reviews increased significantly from 2010 through 2018. But it appears there are no statistics available for the number of cases CFIUS reviewed in 2019. Can you provide my office with an estimate of funds by object class and full-time equivalents for FY 2020, FY 2021, and updated caseload for 2019?

Answer. Implementation of the Foreign Investment Risk Review Modernization Act (FIRRMA) will help ensure that identified national security risks arising from

certain foreign investments are effectively addressed. Implementation has involved several primary lines of effort: regulatory implementation, staffing, and infrastructure. Several highlights include:

- *Regulatory Implementation:* In January 2020, Treasury issued two final regulations implementing FIRRMA that became effective in February 2020, meeting the statutory deadline. In April 2020, Treasury issued an interim rule establishing a fee for transactions filed as a formal written notice. In May 2020, Treasury issued a proposed rule revising the scope of mandatory declarations for certain transactions involving critical technologies.
- *Staffing:* Since FIRRMA’s enactment in August 2018, Treasury’s Office of Investment Security and Office of General Counsel have utilized FIRRMA’s special hiring authority to increase CFIUS-related staff from 23 employees to 74 staff and contractors. The expanded resources have allowed the CFIUS to process cases more efficiently, conduct more work identifying non-notified transactions, and proactively promote investment screening mechanisms with numerous U.S. allies and partners.
- *Infrastructure:* In FY 2020, Treasury began renovations within Main Treasury to accommodate the expanded Investment Security staff in secure workspaces. The first phase was completed in August 2020, and additional renovations should be completed in FY 2021 and early FY 2022. In May 2020, Treasury implemented a new Case Management System that facilitates the filing of transactions through a secure online portal, enabling more efficient and effective review and management of case load.

In calendar year (CY) 2019, 231 notices were filed with the Committee on Foreign Investment in the United States (CFIUS). Additionally, in CY 2019, CFIUS processed and completed action for 94 declarations submitted under the “pilot program” related to critical technology transactions. In July 2020, Treasury submitted its Annual Report to Congress for CY 2019, providing further detail regarding the transactions that CFIUS reviewed last year.

On April 27, 2020, Treasury issued an interim rule establishing a fee for the filing of a formal written notice. On May 1, 2020, Treasury began collecting fees. The rule applies a tiered fixed-fee schedule based upon transaction value—with fees ranging from zero to \$300,000. Through November 13, 2020, Treasury has collected \$5.6 million in filing fees.

The total amount of fees collected per fiscal year will depend upon the number and nature of formal written notices that are filed—factors that are largely outside of CFIUS’s control. Informed by historical data, the President’s Budget for FY 2020 estimated collection of \$10 million in fees in FY 2020. This estimate was developed before both the issuance of FIRRMA’s implementing regulations (including the interim filing fee rule) and the severe disruption of global economic activity by the COVID–19 pandemic.

On May 15, 2020, Treasury released the public unclassified CFIUS Annual Report to Congress for CY 2018, along with summary data for CY 2019. The report and the file, “Notices, Withdrawals, and Presidential Decisions for Covered Transactions” are accessible at <https://www.treasury.gov/cfius/>.

In CY 2019, 231 notices of covered transactions were filed with CFIUS. Additionally, in CY 2019, CFIUS processed and completed action for 94 declarations submitted under the “pilot program” related to critical technology transactions.

Treasury’s spending plan estimates for FY 2020 and FY 2021 are as follows, based on projected expenditures during the fiscal year, using both single year and no-year appropriations:

Category	FY 2020	FY 2021
Salary and Benefits	\$10,360,000	\$18,900,000
IT Infrastructure	\$6,800,000	\$9,600,000
Facility Construction	\$8,740,000	\$3,300,000
Other Direct Costs *	\$8,396,000	\$10,896,000

Category	FY 2020	FY 2021
Total	\$34,296,000	\$42,696,000
Projected FTE	58	102

*Other direct costs include data subscriptions, travel, training, computer/phone seat costs, processing of security clearances and badging, and other personnel shared services. FTE is a driver for several of these costs and is expected to increase in FY 2021.

QUESTIONS SUBMITTED BY HON. TODD YOUNG

SIPPRA IMPLEMENTATION

Question. Almost exactly 2 years ago, President Trump signed the bipartisan Social Impact Partnerships to Pay for Results Act, also known as “SIPPRA,” into law—a law which I and Senator Bennet championed for years. The bill created the first Federal outcomes fund, and tasked the Department of Treasury with its administration.

I want to commend you for your work and that of your staff in standing up this new program and preparing to issue the first grants. I know it’s been difficult, but that’s because you and your team have been trailblazers—creating an entirely new way for government to fund programs that deliver results, one that I hope we can build on going forward. Your department ran a rigorous and thorough competition, and a bipartisan commission unanimously recommended eight finalists receive contracts where they will be paid if they deliver results. One of those finalists, I’m proud to say, hails from Indiana.

I want to convey the importance of moving forward with this first round of awards. I know it’s been a complicated process, but making these initial awards is critical so that we can continue building momentum for this innovative approach that our legislation sought to catalyze.

If your department or other Federal departments have further clarifying questions for these finalists before awards can be made, I encourage you and your team to continue to work with finalists to answer those questions.

Can you please speak to what, if any, obstacles your department faces as it finalizes this process?

Will you please provide me and my staff with an updated timeline for the SIPPRA award process at your earliest convenience, and additional information on the SIPPRA Interagency Council’s current selection process?

Answer. The primary challenge that the SIPPRA program faces is the availability of staff from Treasury, partner agencies, and applicants to move toward final SIPPRA awards. The novel COVID–19 public health emergency has impacted the SIPPRA program in the following ways:

- The Treasury SIPPRA team has focused on implementing certain Coronavirus Aid, Relief, and Economic Security (CARES) Act programs since April 2020. During the first half of 2020, this did not significantly slow SIPPRA program progress since the critical path activity since fall 2019 was the Federal Interagency Council on Social Impact Partnership (Council) certification process. As the critical path has pivoted to post-certification award determination activities, the Treasury SIPPRA team’s involvement with CARES Act initiatives continues to impact the timing of making SIPPRA awards.
- SIPPRA permits Treasury to transfer authority to different Federal agencies to administer SIPPRA awards after Treasury makes the final award determination. As such, Treasury has been working with the relevant agencies to transfer award administration and finalize the project and the independent evaluation grant agreements, but this process has slowed significantly because many of the agencies have been and continue to be focused on implementation of their respective CARES Act programs or other COVID–19 related relief projects.

We will be happy to provide to you and your staff an updated timeline for the SIPPRA award process.

SLOT JACKPOT REPORTING THRESHOLD

Question. In 2018, Congress enacted the Tax Cuts and Jobs Act to simplify and modernize our outdated tax code. While I applaud the work of the administration to implement TCJA, I also believe much can and should be done by Treasury to review existing and outdated regulations to ensure they do not place undue compliance burdens on individuals and businesses. One unduly burdensome regulation that still needlessly harms my constituents and businesses in Indiana is the current \$1,200 slot jackpot reporting threshold, which has been in place for approximately 40 years. Accounting for inflation, that number should be more than four times higher today—roughly \$5,000. Unfortunately, however, the threshold amount has remained static and, as a result, continues to impact many more of my constituents than was originally intended. Furthermore, this information reporting requirement often does not result in a filing obligation for the taxpayer. The result is additional compliance obligations for businesses and superfluous filings submitted to the IRS.

Are you willing to consider updating the current slot jackpot reporting threshold to reflect 4 decades of inflation? Additionally, will Treasury add updating the information return regulations to the priority guidance plan?

Answer. The Treasury Department and IRS appreciate this feedback about the reporting threshold, and we are sensitive to any concerns about requirements that are viewed as imposing unnecessary compliance burdens on taxpayers. In evaluating the reasonableness of any reporting rule of this kind, the Treasury Department and the IRS must weigh the burdens against the compliance benefits provided through third-party reporting. With that in mind, we are open to hearing more from the gaming industry about the burdens imposed by the current reporting thresholds. Additional information will further inform how to evaluate and prioritize this matter going forward.

U.S.-UK TRADE AGREEMENT

Question. Thank you for your efforts in responding to digital service taxes (DSTs) in France and other countries.

As we've seen, an increasing number of our trading partners are penalizing U.S. exporters by implementing discriminatory revenue taxes on digital services provided by U.S. firms. These DSTs are narrow in scope and are specifically designed to target U.S. digital companies and the U.S. tax base. The taxes range in size from 2 percent to 7 percent, and some could go as high as 15 percent. These taxes apply to revenue, not to income, and they are bringing in a larger range of American content companies, tech companies, travel firms, telecom firms, and others.

France's discriminatory DST has a \$500-million annual price tag for U.S. companies—tax revenue that is properly allocable to the U.S. The response from Treasury and USTR has been very helpful. But in the meantime, other countries like Austria, Czech Republic, Italy, Spain, Turkey, and the UK are moving forward with their own digital taxes. Expected DST collections from these taxes would be over \$3 billion annually. And the new European Commission President has threatened to reintroduce an EU-wide digital tax at the end of this year.

What more can the U.S. Government do to counter these discriminatory taxes? In particular, given progress towards a U.S.-UK trade agreement, how can the U.S. Government hold the UK accountable regarding their consideration of a DST? I also would encourage continued close coordination between Treasury and USTR on this important issue.

Answer. In July 2019, the Office of the United States Trade Representative (USTR) began an investigation under section 301 of the Trade Act of 1974 (section 301) to determine whether the French DST is unreasonable or discriminatory and burdens U.S. commerce. In December 2019, USTR announced its determination that the French (DST) is unreasonable or discriminatory and burdens or restricts U.S. commerce and therefore is actionable under sections 301(b) and 304(a) of the Trade Act. Pursuant to that determination in July 2020, USTR announced that the imposition of 25-percent duties on certain products from France including handbags and cosmetics. However, in recognition of the ongoing bilateral and multilateral discussions between France and the United States to reach a satisfactory resolution to this matter, USTR, pursuant to section 305(a) of the Trade Act, suspended the additional duties for up to 180 days to allow additional time for those discussions to continue.

On June 2, 2020, the USTR announced the initiation of further section 301 investigations of DSTs that have been adopted or are being considered by a number of U.S. trading partners, including Austria, Brazil, the Czech Republic, the European Union, India, Indonesia, Italy, Spain, Turkey, and the United Kingdom. The Treasury Department is coordinating closely with the USTR on these matters and is actively involved in the UK-U.S. trade agreement negotiations.

We are also working diligently on the Organisation for Economic Co-operation and Development-G20 effort to preserve and renew an international consensus on the taxation of multinational enterprises in a rapidly changing global economy. While this process is important for the United States, the United States has consistently objected to the adoption of measures that focus solely on digital businesses, whether DSTs or proposals for a new international consensus that taxes more heavily only a limited group of predominately U.S.-based companies. We hope that an agreement can be reached. Meanwhile, the United States remains opposed to DSTs and similar unilateral measures.

QUESTION SUBMITTED BY HON. BEN SASSE

Question. It is my understanding that the Office of Tax Policy and its counterparts at the IRS have for some time been working on guidance addressing “private use” rules applicable to public power entities—like those in my State—that make use of tax-exempt bonds. I appreciate the diligence that Treasury personnel have brought to bear on this issue but recognize also that filers must work under requirements imposed by Federal tax law that are not always clear. Could you please provide an update on Treasury’s work in this area?

Answer. The “private use” rules in the Internal Revenue Code related to tax-exempt bonds are complex. While addressing these rules is an important guidance project, significant Office of Tax Policy and IRS resources have been devoted to quickly implementing guidance that addresses issues related to COVID-19, including the CARES Act. The Office of Tax Policy and its counterparts at the IRS continue to study the “private use” rules as well as those applicable to public power entities and plan to focus on these rules going forward.

QUESTIONS SUBMITTED BY HON. ROBERT MENENDEZ

FIRPTA NOTICE 2007-55

Question. In December 2019, I and 10 other bipartisan members of the Senate wrote you a letter urging the Treasury Department to withdraw section 2 of IRS Notice 2007-55. This notice has hurt foreign direct investment in commercial real estate, transportation assets, housing stock, and other essential infrastructure and the time for its repeal has long come.

Please provide an update on Treasury’s response to the Senate’s most recent letter and the agency’s consideration of withdrawing section 2 of IRS Notice 2007-55.

Answer. The Foreign Investment in Real Property Tax Act (FIRPTA) reflects an important tax policy principle—namely, that foreign investors should not be taxed in a more favorable manner on U.S. real estate investments than U.S. investors. It is consistent with the accepted international norm for countries to impose tax on the gains of foreign investors from real property located within their borders, and that right to tax is preserved in most income tax treaties.

Encouraging foreign investment in the United States, including in commercial real estate and infrastructure, is an important priority.

One example concerns the exemption for qualified foreign pension funds from FIRPTA as a result of the enactment in 2015 of the Protecting Americans from Tax Hikes Act. In response to comments regarding ambiguities in the statute, the Treasury Department has worked with the House on technical corrections to the statutory language. Furthermore, Treasury and the IRS recently issued proposed regulations to address certain ambiguities in the legislation that will further encourage investment in the United States by foreign pension funds.

Implementation of the TCJA and responding to the pandemic have been top priorities for Treasury, but once TCJA implementation and the pandemic response are

further along, Treasury will consider Notice 2007–55, taking into account the new international tax rules.

We look forward to working with Congress to explore ways in which we can achieve our shared goal of encouraging foreign investment in U.S. infrastructure while protecting the U.S. tax base.

CDFI BOND GUARANTEE PROGRAM (BGP)

Question. The administration's budget proposal signals an intention to tighten the BGP's collateral and cash requirements and add new risk mitigation strategies. The BGP has operated for years, as intended, with no loss to taxpayers. Safeguards already in place are more than adequate, and indeed, probably overly constrictive on CDFI participants.

How will the proposed changes increase economic and community development in low-wealth markets as the BGP is designed to do?

Answer. The FY 2020 Notice of Guarantee Availability for the BGP includes new overcollateralization requirements as outlined in the FY 2021 budget submission, as well as the enhanced use of other preliminary recommendations to mitigate risk. It is unknown at this time whether the new collateralization requirements will increase the availability of BGP financing in low-wealth communities. Applications for the FY 2020 round were reviewed over the summer and a \$100 million guarantee approval was publicly announced on September 30, 2020. Treasury will consider whether implementation of the remaining preliminary recommendations are necessary, feasible, and will produce the desired policy results, after considering the results of the FY 2020 funding round and the effect of the implementation of the risk mitigation strategies.

Question. What is the Treasury Department doing to increase access and utilization of the BGP?

Answer. With respect to the two proposed changes implemented in FY 2020, the Community Development Financial Institutions (CDFI) Fund has hosted a series of webinars and conference calls to answer questions and help ensure that potential Qualified Issuer and Guarantee applicants have the information they need to consider whether to apply. Treasury will also consider how other potential changes to the BGP, such as streamlining escrow agent and custodian structure and creating a designated bonding authority, could produce the desired policy results of allowing more credit-worthy CDFIs to utilize the BGP to offer long-term, low-cost financing to low-wealth communities.

SANCTION ENFORCEMENT

Question. Mr. Secretary, you have appeared before this committee since the passage of CAATSA in 2017 and committed to implementing the law. A law, which mostly includes mandatory, not discretionary sanctions. I have been disappointed by the lack of attention to this sanctions regime despite broad bipartisan support for the law. The administration has yet to impose required sanctions on Turkey for its purchase of the S400 air defense system from Russia. I know that responsibility for that section of the law rests with the State Department, but it speaks to an overall clear lack of political will on the part of the administration to impose sanctions on the Kremlin.

With the 2020 election fast approaching, there are legislative efforts here in the Senate including the Defending American Security from Kremlin Aggression Act, which would impose crushing sanctions on Russia if it interferes again. This bill passed with a strong bipartisan vote out of the Foreign Relations Committee and should be enacted into law if we are serious about protecting our election. Few in the Senate believe that any political will exists in the administration to take a tough line with Russia. So here is your chance to clearly tell us.

With less than 9 months to go before election day, what specific steps will your department take to deter Russian interference in our election?

What specifically will you do between right now and election day to protect our democracy?

Answer. As we have demonstrated, Treasury will aggressively utilize the full range of its authorities against those who attempt to interfere in our elections. Executive Order (E.O.) 13848, which the President issued on September 12, 2018, authorizes Treasury to designate foreign persons, including those in Russia, determined to have interfered in a U.S. election. This E.O. adds to the broad range of

authorities under which Treasury may take action against malign actors, whether based in Russia or elsewhere, who attempt to interfere in our elections.

Additionally, Treasury will continue to use authorities provided by Countering America's Adversaries Through Sanctions Act (CAATSA) and E.O. 13694, as amended, to impose sanctions on malicious cyber-enabled actors, including those determined to have interfered with or undermined election processes or institutions.

While we cannot preview any future sanctions actions that we will take, rest assured that Treasury continues to use its authorities to apply pressure and hold Russia accountable for its actions. For instance, in September 2019, Treasury imposed sanctions under E.O. 13848 against 16 Russian entities and individuals, including affiliates of the Russian Internet Research Agency and its Kremlin-linked financier Yevgeniy Prigozhin, in response to attempts to influence our 2018 midterm elections.

A whole-of-government approach is necessary to counter any foreign intervention in our election process, and we have worked in close coordination with other agencies to implement that approach.

HALKBANK AND SANCTIONS

Question. Based on reports, when President Erdogan raised concerns last year to President Trump about Halkbank, a Turkish bank accused of the largest Iran sanctions violations in U.S. history, he responded that Treasury, along with Justice, would handle it. Indeed, you seemed to confirm those reports in a letter to Senator Wyden.

Did the President ask you to take any action, or refrain from taking any action, regarding Halkbank? Did he suggest in any way that you "go easy" on the bank, or do a favor for President Erdogan?

Has the President directed you or the Department to intervene in any other matters regarding sanctions?

Rudy Giuliani has represented Reza Zarrab, an international gold trader who, according to DOJ prosecutors was at the "heart of [a] massive and brazen scheme" to help Halkbank evade U.S. sanctions. Has Rudy Giuliani met or contacted you to discuss Reza Zarrab, Halkbank, or anything related to Iran sanctions?

According to calendars released through FOIA, you met with Rudy Giuliani in July 2017. What, specifically, was that meeting regarding? That was a few months after Zarrab reportedly hired Giuliani. Did he raise Zarrab at that meeting?

Have you or the Treasury Department taken any action based on a request or inquiry by Rudy Giuliani?

Answer. Senator Wyden entered a copy of the referenced November 20, 2019 letter from the Department of the Treasury to Senator Wyden in the hearing record on February 12, 2020. As that letter and Secretary Mnuchin's February 12 testimony make clear, the Department of the Treasury and the Department of Justice (DOJ) are the executive branch departments responsible by law for the investigation and enforcement of economic sanctions. Accordingly, any referral to Treasury and the DOJ regarding a potential sanctions violation is appropriate. DOJ has exclusive authority over criminal prosecutions of alleged schemes to evade U.S. sanctions, though Treasury routinely consults with DOJ on such matters. On October 15, 2019, DOJ charged Halkbank with a multi-year scheme to violate and evade U.S. national security controls against the Government of Iran. The U.S. government treats pending criminal matters with the utmost sensitivity, and Treasury is unable to comment on any ongoing prosecution of potential sanctions violations or potential investigations thereof. The Secretary's consistent position is that the United States expects full compliance with all applicable sanctions programs.

OFAC

Question. I continue to be concerned that the Trump administration does not take Russia sanctions seriously. As you know, OFAC is a demand-driven organization, and they clearly are not getting signals from the White House that Russian is national security threat that needs to be addressed with priority and urgency. Because of this lack of demand, OFAC has not dedicated adequate resources towards developing targets with respect to the Russia sanctions regime. I understand that only a small percentage of OFAC targetters are dedicated to Russia sanctions. This flies in the face of the will of the Senate which voted 98-2 in 2017 for the CAATSA bill.

Do you agree with an overwhelming majority of the Senate that sanctioning Russia targets should be a priority?

Will you work with the White House to increase the demand for new Russia sanctions?

Will you commit to increase the amount of OFAC targetters dedicated to Russia sanctions?

Answer. Treasury continues to prioritize the use of its authorities to apply pressure and hold Russia accountable for its actions. In fact, this administration has sanctioned approximately 330 Russia-related entities and individuals.

Our sanctions are intended to impose costs on those supporting the Kremlin's malign activities, and ultimately shape Russia's behavior. It is important to do this in a way that minimizes unintended and negative spillover to the United States, our European allies, and the global economy. We have targeted a broad range of malign activities in which Russia has engaged, including Russian interference in democratic elections, its purported occupation of Crimea, aggression in eastern Ukraine, support for the Assad regime in Syria and the illegitimate Maduro regime in Venezuela, and malicious cyberattacks, among other activities. Additionally, we are constantly investigating new targets to counter, disrupt, or deter unacceptable Russian behavior.

While our current authorities allow us to target illicit actors supporting all of these malign activities, we welcome the opportunity to consult on any proposed legislation to develop new authorities to further increase pressure on Russia. We remain mindful of Russia's interlinkages with the global economy, and we encourage a strategic approach to ensure that the cost of sanctions is borne by the Russian economy, minimizing negative spillover impact.

Regarding resourcing, we remain grateful to Congress for continued support through the increase of funds in recent years. To carry out its mission, each year, the Office of Foreign Assets Control (OFAC) receives a portion of the Terrorism and Financial Intelligence appropriation. All funding is utilized to support sanctions programs that the U.S. Department of the Treasury administers. Over the past few years, OFAC has received increases in its annual funding to hire additional employees for all areas of the sanctions cycle. For instance, funding increases were directly utilized to increase staffing of OFAC sanctions investigators for various sanctions programs, including Russia sanctions. These investigators build evidentiary packages regarding potential sanctions targets, which is the vital first step of the sanctions process. OFAC has also increased its staff in its Licensing, Regulatory Affairs, Enforcement, and Compliance areas, all of which assist the general public and the financial sector on adhering to sanctions regulations, including those related to Russia. Drawing on OFAC's recent submission to Congress under the National Emergencies Act, the overall resources to support the Ukraine/Russia-related sanctions program accounts for nine percent of OFAC's workforce. In addition, OFAC is able to shift employees among sanctions programs, to surge support as the need arises.

TURKEY

Question. The President has previously admitted that he has a "little conflict of interest" when it comes to Turkey, because of Trump Towers Istanbul, from which he continues to benefit. Has the president ever raised Trump Towers Istanbul with you? If so, in what context?

Has the President ever raised any personal or financial interest he has in Turkey? If so, in what context?

In any of your meetings with President Erdogan or Turkish officials, have you, or has anyone from the Department, raised Trump Towers Istanbul? If so, what was discussed regarding Trump Towers Istanbul?

Do you think it would be appropriate, or inappropriate for you or a Turkish official to raise Trump Towers Istanbul in an official meeting?

Do I have your commitment that the President's ongoing financial interests in Turkey will play no role in U.S. policy towards Turkey, including on sanctions, investigations, or otherwise?

Answer. The Treasury Department develops policy based on the best interests of the United States, and executes its duties in accordance with the law. The Department abides by all applicable ethics laws and regulations. As stated above, the Sec-

retary's consistent position is that the United States expects full compliance with all applicable sanctions programs.

INFORMATION REQUESTS FOR CHILDREN OF PRESIDENTIAL CANDIDATES

Question. Mr. Secretary, the President's budget proposes to transfer the Secret Service back to the Treasury Department, and I take it that you support that proposal. Correct?

As I understand it, during negotiations with Congress over the transfer issue, you have agreed to a provision that would make available, to the public, the cost of Secret Security protection for the President, the Vice President, and their families. However, you have insisted that the information not be made public until after the 2020 election.

In a recent letter, Chairman Grassley and Chairman Johnson asked the Secret Service to provide information about any Secret Service protection provided to Hunter Biden.

If the Secret Service is transferred back to Treasury, would you approve such a request?

Would you provide the Finance Committee with information regarding Secret Service protection for Vice President Biden's son?

If so, do you think it is fair to provide the public with information about Secret Service protection provided to Vice President Biden's son, but not about President Trump and his children?

The Treasury Department is reportedly complying with a document request from Senate Republicans referencing the children of a Democratic presidential candidate.

If Treasury received a document request referencing the children of a Republican presidential candidate, would the Department comply with that as well?

According to public reporting, in draft legislation that would move the Secret Service from DHS back to Treasury—a move which you support—the administration objected to a reporting requirement to disclose the costs of presidential travel before November, because it might negatively affect the Republican presidential candidate.

Why don't you have similar trepidation about releasing the information that Senate Republicans have requested, which are related to a Democratic presidential candidate?

Answer. It would be inappropriate to comment on a congressional request sent to another agency or to speculate on a request that has not been received by Treasury. Treasury responds to congressional requests for information from members on both sides of the aisle and does not respond to any request on a partisan basis. Indeed, over the past 3½ years, the vast majority of information Treasury has provided to Congress to accommodate its legislative oversight function has been in response to requests made or joined by Democratic members of Congress. The Department does not generally comment on specific congressional requests out of deference to requesters, but for further information, I respectfully refer you to the February 11th letter that Treasury sent to Senator Wyden and was entered into the February 12th hearing record.

QUESTION SUBMITTED BY HON. SHERROD BROWN

Question. Last month, President Trump signed what he is calling Phase One of a trade agreement with China. The agreement included commitments that the Chinese government will purchase U.S. products, protect intellectual property and stop forced technology transfers. China has made commitments on intellectual property and tech transfers going back 20 years and hasn't lived up to them.

What specific commitments on intellectual property and tech transfers in the agreement with China have never been negotiated by any previous administrations or previously agreed to by China?

Answer. China made promises on forced technology transfer in previous bilateral dialogues, but China's obligations under the Technology Transfer chapter of the Phase One agreement cover a broader scope and with greater detail. The Intellectual Property chapter contains numerous commitments that China did not make in previous bilateral dialogues, including commitments related to trade secret mis-

appropriation, unauthorized disclosures of trade secrets and confidential business information by government authorities, and early resolution of pharmaceutical patent disputes, among others. In addition, China's obligations under the Technology Transfer and Intellectual Property chapters also are subject to Phase One agreement enforcement provisions.

QUESTIONS SUBMITTED BY HON. CATHERINE CORTEZ MASTO

ESTIMATE ON GROWTH AND COST OF THE TAX CUTS AND JOBS ACT

Question. Given that CBO and the Federal Reserve estimate lower GDP growth over the next 10 years than does Treasury, how much over time does the tax bill cost and when, specifically, will it pay for itself under the aforementioned rates?

Answer. Following full implementation of TCJA, both real wage rates and GDP growth rates were significantly higher than what was realized during the previous 8 years. Our resulting revenue estimates prior to the onset of COVID-19 continued to fully cover the static revenue impacts of tax reform. Such revenue estimates are not made using others' economic growth forecasts.

WAGE GROWTH

Question. What is the effect of the Tax Cuts and Jobs Act on "real wage growth"?

While economists have seen some growth in wages at the bottom of the distribution (*i.e.*, lowest wage workers), does it hold true that most of that has been driven by State and local minimum wage increases?

Answer. After the passage of the TCJA, real wages² grew by 1.5 percent per year, compared to the average from 2009 through 2016 of 0.6 percent. If we restrict our focus to wages for production and nonsupervisory workers—reflective of the middle and working class—the numbers are 1.7 percent for the post-TCJA period, and 0.6 percent for the previous administration. These numbers reflect wage growth that is over two and a half times as strong after the passage of TCJA. This wage growth wasn't mandated in the TCJA, which unlike minimum wage laws didn't attempt to legislate wages; instead it was a result of powerful growth incentives in the TCJA causing a labor market as strong as any seen since the 1960s, as measured by the unemployment rate.

Moreover, the TCJA's strong supply side incentives are designed to encourage investment and thereby boost wages far into the future. Beyond reductions in the statutory rate for large corporations, changes include providing owners of smaller, unincorporated businesses with a 20-percent tax deduction, scheduled to expire in 2026, to help them compete with large corporations. Further, the 2017 Act provided full expensing for equipment investment through 2022. By encouraging capital deepening, all these measures will improve labor productivity, and thus increase wages, for years to come.

With respect to minimum wages, these cannot be responsible for very much of the observed wage growth we have seen simply because they haven't affected that many workers. Although some minimum wage hikes have been large (for instance, a 20-percent hike this year in New Mexico), the population-weighted national average increase in combined State and Federal minimum wage in recent years has been closer to 4 percent. From 2017 through 2019, average wage growth for the economy overall was about 3 percent, which compares favorably with the period from 2007 through 2010, when overall wage growth was 2.6 percent but population-weighted national average minimum wages were rising by about 6 percent. In both cases, overall labor market conditions, influenced by administration policies, were more important in determining wage growth than were changes in statutory minimum wages.

A study³ by the CEA found that only 1.4 percent of all workers were affected by minimum wage hikes in 2018 and 2019, because the vast majority of Americans earn more than minimum wage. As a result of so few workers being directly affected, CEA finds that minimum wages contributed only 0.2 percent of the wage growth observed among the bottom third of the income distribution in that time period.

² Average hourly earnings deflated by personal consumption expenditure prices.

³ "Minimum wage increases do not explain low-wage workers' earnings gains." CEA Economic Issue Briefs, February 25, 2020.

Minimum wage increases, if anything, incentivize firms to hire fewer workers and use more labor-replacing technology, worsening inequality and the labor market outlook for lower-income Americans.

RENEWABLE ENERGY TAX INCENTIVES

Question. The FY 2021 budget cuts energy-related tax incentives, but the solar industry analysis shows a 10-year Investment Tax Credit extension drives \$87 billion in investment and over 113,000 jobs.

What is the justification to cut incentives that create more than twice the benefit for the economy as they cost?

Is it the administration's position that tax incentives for oil and gas extraction are better for the economy and environment than tax incentives for clean energy resources? Please provide a justification.

Has the administration considered how repealing the tax incentives will impact the quarter million Americans working in installation, manufacturing, engineering and other jobs supported by clean energy tax policies? Please provide a justification.

Answer. The administration is supportive of all American energy sources and applauds the job creation and retention across the sector. With respect to the energy-related tax incentives proposed to be cut in the FY 2021 budget, the administration believes that the industries supported by those tax incentives have shown great success and resilience and are no longer in a position where government assistance is needed.

TAX AVOIDANCE

Question. What are the proactive and public-facing policies this administration can commit to in order to stem tax avoidance, specifically for new "pass-through businesses"?

Answer. The administration is committed to stemming tax avoidance through the efforts of the Treasury Department and the IRS. In order to improve taxpayer compliance and address tax avoidance, the IRS continues to focus its resources on service-wide strategies to combat abusive transactions, as well as to uncover the use of various methods to conceal transactions or assets offshore, address the tax effects arising from the evolving digital world economy, and in high-dollar, multi-year employment tax cases. Specifically, the IRS is initiating an effort to increase audits of high-income individuals and related passthrough entities (*e.g.*, partnerships, trusts, and S corporations) and will begin examinations of taxpayers within this category this summer. This is in addition to ongoing activity of the Global High Wealth work underway for several years that looks to the network of closely held businesses, including passthrough entities, employed to operate a wide range of activities and that may also be used to mask activities that improperly reduce Federal Income Tax liabilities. These audits require specialized skill and are more complex when offshore entities are introduced into the network of closely held businesses.

A Partnership Research Study to measure strategic level reporting compliance is currently underway. Audit results will be used to better understand the nature and extent of partnership misreporting and improve the ability to detect and reduce non-compliance, develop and improve workload selection methods, and guide resource allocations.

The IRS also has several issue-specific campaigns focused upon passthrough business activities and has initiated a broad Tax Cuts and Jobs Act Campaign, which will evaluate structures and transactions implemented to take advantage of specific provisions of the legislation. The IRS is also focused on deterring potential tax avoidance through micro-captive insurance transactions, where the insured business is frequently a pass-through entity, and syndicated conservation easements, which use a partnership structure that may consist of several tiers of investors, to achieve an improperly inflated charitable contribution deduction by individual investors.

Finally, the IRS continues to update its systems and utilize data analytics and other technological advancements to enhance the effectiveness of audit enforcement activities to reduce the tax gap. An important advancement in this work is the creation of an agency-wide board to share methods and approaches to identifying available data sources and exploiting the data using a variety of tools to identify instances of suspected or known non-compliance.

Question. How can the IRS can reduce tax evasion? What audit procedures, collections, and criminal tax prosecutions can the Treasury Department expand?

Answer. In order to support the agency's efforts to detect and deter fraud while strengthening the National Fraud Program, the IRS recently formed the Office of Fraud Enforcement (OFE). The OFE will work to strengthen the internal compliance relationships in the IRS between criminal investigation agents and civil-side revenue agents and revenue officers and work with external partners. In addition, the IRS recently designated a position to coordinate ongoing investigations and develop new approaches to identify promoters of aggressive tax arrangements.

The IRS continues to utilize civil and criminal penalties as well as parallel investigations to deter and/or stop tax evasion. Parallel investigations occur when both IRS's Criminal Investigation (CI) division and a civil enforcement division investigate the same individual or entity at the same time. The goal of a parallel investigation is to ensure the IRS effectively balances civil and criminal actions to achieve maximum compliance. Simultaneous, but separate, parallel criminal and civil actions, including promoter investigations, play a key role in the IRS's efforts to stop the proliferation of abusive transaction schemes.

To reduce tax evasion in the collection arena, the IRS focuses its resources on addressing egregious employment tax violators by taking appropriate actions including asserting the Trust Fund Recovery Penalty, referring cases for criminal fraud, and partnering with the Department of Justice on suits for injunctive relief. Additionally, investigations of successor and fabricated entities and bankruptcy fraud are investigated by IRS Collection.

In efforts to identify scams, the IRS is carefully reviewing every Form 7200, Advance Payment of Employer Credits Due to COVID-19, to prevent fraud that includes what appears to be a new business trying to claim the credit. Suspicion of fraud results in the OFE conducting further research and coordinating with CI.

On the criminal side, the IRS continues to use data analytics to identify large areas of non-compliance. CI added a new Applied Analytics section and hired data scientists to take advantage of tools like Palantir and to better collaborate with other IRS Business Operating Divisions, law enforcement agencies, and academia. The Nationally Coordinated Investigations Unit (NCIU) is a data-driven section within CI that focuses on case-development of national issues including international tax enforcement and employment tax. The NCIU proactively addresses key non-compliance issues and emerging threats using cutting edge techniques to better manage and leverage all available data to better select criminal cases to ensure nationwide coverage of all program areas.

FINANCIAL SERVICES FOR CANNABIS

Question. If Congress opens the door to cannabis banking through legislative action, does the Department commit to facilitating the deployment of financial services for cannabis and cannabis-affiliated businesses?

Answer. The Department of the Treasury will implement any legislation passed by Congress and signed into law by the President.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI)

Question. Has the administration conducted public research on the Community Development Financial Institution (CDFI) program's impact?

The only justification in the budget for eliminating the CDFI program is "over-reliance." How did the administration come to this conclusion? What research is this based on? Please provide an evidence-based justification.

Answer. The administration is committed to promoting growth and jobs in low-wealth communities. Since its creation in 1994, the CDFI Fund has awarded nearly \$3.6 billion to CDFIs, community development organizations, and financial institutions through programs including the Bank Enterprise Award Program, the Capital Magnet Fund, the CDFI Program, the Healthy Food Financing Initiative, and the Native American CDFI Assistance Program. In addition, the CDFI Fund has allocated \$61 billion in tax credit allocation authority to Community Development Entities through the New Markets Tax Credit (NMTC) Program, and guaranteed bonds in the amount of over \$1.6 billion through the CDFI Bond Guarantee Program (BGP).

Difficult decisions have to be made in allocating money between different priorities, and the FY 2021 budget will allow the CDFI fund to administer ongoing program functions including the NMTC and zero subsidy BGP. In addition, under the FY 2021 budget the CDFI fund will continue to conduct ongoing program compli-

ance reviews of prior-year award recipients for all programs. The budget request is also intended to cover the cost to administer certification of CDFIs, as required by the Riegle Community Development and Regulatory Improvement Act of 1994, as well as Community Development Entities, as required by the NMTC Program.

SLOT TAX THRESHOLD

Question. The current IRS reporting minimum threshold for reporting slot machine winnings is \$1,200 for a single machine payout and has not been adjusted for inflation or changed since the requirement was implemented in 1977. Adjusted for inflation, the threshold would be around \$5,000.

Under current regulations, when a player hits a winning jackpot worth \$1,200 or more, the operator is required to pull the slot machine offline until all necessary paperwork is filled out by the winning player and casino operator. This can often times take up to an hour for before the player returns to the casino floor and the machine is reactivated, which seems overly burdensome and disruptive for both parties. While I believe it is important to ensure that the appropriate taxes are collected on gambling winnings, I also think it is imperative that this is accomplished in an efficient and effective manner.

I am an original cosponsor of the Improving Laundering Laws and Increasing Comprehensive Information Tracking of Criminal Activity in Shell Holdings Act or the ILLICIT CASH Act. Section 204 of that bill requires the Treasury Secretary review thresholds for currency transaction reports and for suspicious activity reports.

Has the Treasury Department considered changing the slot machine winnings threshold? If yes, what changes has it considered?

Will you commit to review the current slot tax threshold regulations and take appropriate action to modernize them?

Answer. The Treasury Department and IRS appreciate this feedback about the reporting threshold, and we are sensitive to any concerns about requirements that are viewed as imposing unnecessary compliance burdens on taxpayers. In evaluating the reasonableness of any reporting rule of this kind, the Treasury Department and the IRS must weigh the burdens against the compliance benefits provided through third party reporting. With that in mind, we are open to hearing more from the gaming industry about the burdens imposed by the current reporting thresholds. Additional information will further inform how to evaluate and prioritize this matter going forward.

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

This administration's budget is built on policies that pillage working families to pay for brand-new windfalls for corporations and the wealthy. That harmful agenda has been on clear display over the last few weeks in two events I want to address.

First, it recently came to light that the Trump administration—acting on their own—found a way to milk the 2017 tax law to create more than \$100 billion in shiny new corporate tax loopholes. Understand that these are not the same huge loopholes I and others warned about back in 2017 when the bill was written. These are the product of tricky regulatory maneuvering—some of which looks to me like it goes beyond the Treasury's legal authority. The bottom line, it sure looks like corporate special interests are going to make off with new loopholes worth \$100 billion in addition to their outlandish share of the original \$2-trillion Trump tax law.

Senator Brown and I want to stop this fleecing of American taxpayers. Today we're introducing legislation that will start closing these loopholes and fixing this new source of unfairness. When people say the tax code is rigged and the Trump administration has made it worse, what I've described is a textbook case of what they're talking about.

Not long after the news of these new tax loopholes broke, the President went to Davos. During an interview he was asked whether during a second term he would cut programs like Medicare, Medicaid, and Social Security. He said, yes, he would. He called it "actually the easiest of all things."

So here you've got a perfect snapshot of this administration's policies robbing working families to pay off special interests and those at the top. The President says that shredding the safety net is a piece of cake.

He's talking about Medicaid, a program that pays for two out of three nursing home beds in America, a country where growing old is expensive and families run out of money to pay for long-term care. He's talking about Medicare, without which millions of seniors would have no hope of getting high-quality health care or affordable prescription drugs. He's talking about Social Security, which keeps American workers from retiring into deprivation and desperation.

The Trump budget cuts those programs by more than \$1.5 trillion combined. That might sit just fine with the ballroom crowd at Mar-a-Lago, but it's a terrifying prospect for the hundreds of millions of Americans who every month are walking an economic tightrope, are counting on Medicare, Medicaid, and Social Security to be around today and in the future.

Add it up, and the picture is clear: the Trump administration will tune out the needs of middle-class families but gives the world to any corporate lobbyist who comes calling at the Treasury Department. You see it in Secretary Mnuchin's stewardship. You see it in the budget. You see it in the President's own words.

DEPARTMENT OF THE TREASURY
Washington, DC 20220

November 20, 2019

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

Dear Senator Wyden:

I write in response to your October 24, 2019 letter regarding Türkiye Halk Bankası A.S., a/k/a Halkbank.

As your letter notes, on October 15, 2019, the Department of Justice (DOJ) charged Halkbank with a multi-year scheme to violate and evade U.S. national security controls against the Government of Iran.¹ The U.S. Government treats any matter under criminal indictment by DOJ with utmost sensitivity, and the Department of the Treasury is unable to comment on this or any other ongoing prosecution of potential sanctions violations or potential investigations thereof.

Treasury and this Administration take potential sanctions violations very seriously. For example, in 2017, Treasury officials provided extensive information to DOJ concerning the investigation into Mehmet Hakan Atilla, former Deputy General Manager of International Banking at Halkbank, referenced in your letter. In January 2018, in the U.S. District Court for the Southern District of New York, Atilla was found guilty of conspiring with others, including Reza Zarrab, an Iranian-Turkish gold trader, to use the U.S. financial system to conduct transactions on behalf of the Government of Iran and other Iranian entities and defraud U.S. financial institutions by concealing the true nature of the transactions. Specifically, Atilla was convicted of conspiracies to defraud the U.S., to violate the International Emergency Economic Powers Act (IEEPA), to commit bank fraud, and to commit money laundering, as well as a substantive count of bank fraud.

Treasury is proud of its role as an integral part of the Administration's maximum pressure campaign against the Iranian regime and administers a robust sanctions program against the Government of Iran and those who act on its behalf. On this and other fronts, federal law entrusts Treasury and DOJ with authority over enforcement of U.S. sanctions. DOJ has exclusive authority over criminal prosecutions of alleged schemes to evade U.S. sanctions, though Treasury routinely consults with DOJ on such matters.

Treasury will not hesitate to target prohibited or sanctionable conduct involving Iran wherever it occurs. While the Department does not comment on its investigations of potential violations of sanctions prohibitions or possible sanctions actions

¹See Department of Justice press release, "Turkish Bank Charged in Manhattan Federal Court for its Participation in a Multibillion-Dollar Iranian Sanctions Evasion Scheme" (October 15, 2019), available at: <https://www.justice.gov/usao-sdny/pr/turkish-bank-charged-manhattan-federal-court-its-participation-multibillion-dollar>.

against specific targets, as a general matter, we have aggressively used our authorities to pursue enforcement actions against those who violate our sanctions prohibitions within U.S. jurisdiction, as well as to impose designations and other sanctions against those who support the Iranian regime's malign activity or engage in other sanctionable conduct, including conduct that is wholly outside of the United States.

The Department's authorities for pursuing such actions include Executive Orders 12957 and 12959, as clarified by Executive Order 13059, which prohibit, among other things, the exportation, re-exportation, sale or supply, directly or indirectly, to Iran of any goods, technology, or services from the U.S. or by a U.S. person. In addition, in 2018, the President broadened the scope of the sanctions that were in effect prior to January 16, 2016 and directed the reimposition of U.S. sanctions relating to Iran that had been lifted or waived in connection with the Joint Comprehensive Plan of Action (JCPOA). These sanctions include all relevant blocking sanctions, menu-based sanctions, and correspondent account and payable-through account sanctions, as determined by Treasury or State, consistent with applicable authorities.

The Secretary of the Treasury generally implements the sanctions imposed by the Iran program through regulation. Transactions prohibited by these authorities, including transactions with the purpose of evading or avoiding sanctions, which are not otherwise licensed by OFAC, constitute violations of IEEPA or other applicable law. Depending on the facts and circumstances of a particular matter, an OFAC investigation may lead to a finding of violation, civil monetary penalty, or criminal referral.

With respect to your letter's questions, Secretary Mnuchin has met with senior officials from the Government of Turkey on multiple occasions to discuss a range of foreign policy and national security issues, and a list of those meetings, based on the Secretary's official schedule, is enclosed. At some of those meetings, Turkish government officials expressed concern about the impact on Halkbank of U.S. economic sanctions on Iran. As was publicly reported, when Prime Minister Erdogan raised concerns directly with President Trump in April 2019, the President referred the issue to the Executive Branch departments responsible by law for the investigation and enforcement of economic sanctions—the Treasury and DOJ. As previously noted, the U.S. Government treats pending criminal matters with utmost sensitivity, and Treasury is unable to comment on any ongoing prosecution of potential sanctions violations or potential investigations thereof. The Secretary's consistent position is that the United States expects full compliance with all applicable sanctions programs.

If you have further questions, please direct your staff to contact the Office of Legislative Affairs.

Sincerely,
 Frederick W. Vaughan
 Deputy Assistant Secretary
 Office of Legislative Affairs

cc: The Honorable Charles E. Grassley, Chairman

Enclosure

As referenced in the accompanying letter, provided below is a list of meetings based on Secretary Mnuchin's official schedule involving the Secretary and senior officials from the Republic of Turkey:

- April 22, 2017: Pull Aside at World Bank/IMF Annual Spring Meetings with Deputy Prime Minister Mehmet Simsek of Turkey.
- October 13, 2017: Pull Aside at World Bank/IMF Annual Fall Meetings with Deputy Prime Minister Mehmet Simsek of Turkey.
- July 21, 2018: Bilateral Meeting with Finance Minister Berat Albayrak of Turkey.
- April 12, 2019: Pull Aside at World Bank/IMF Annual Spring Meetings with Finance Minister Berat Albayrak of Turkey.

- April 15, 2019: POTUS Meeting at The White House with Finance Minister Berat Albayrak of Turkey.
 - June 29, 2019: POTUS Bilateral Meeting in Osaka, Japan with President Recep Tayyip Erdoğan of Turkey.
 - November 13, 2019: POTUS Working Lunch at The White House with President Recep Tayyip Erdoğan of Turkey.
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COMMUNICATION

Center for Fiscal Equity

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Statement of Michael Binder

Chairman Grassley and Ranking Member Wyden, thank you for the opportunity to participate in the annual budget ritual.

As we all know, the appropriations process for the next fiscal year takes place within the context of the Bipartisan Budget Act of 2019. In an election year, staying within the current parameters is the best course. Early passage makes transition easier for the next administration and Senate, regardless of electoral outcomes. Even if the President is reelected, staff turnover is to be expected in the Department and the Committee. If changes are to be made due to changes in party, enactment before the election can always be supplemented with new legislation.

We see three issues of concern for the coming fiscal year. The first is to provide increased funding for the Office of Tax Policy. Whether tax cuts or comprehensive reform is on the horizon, having a full partner in the Department is essential for estimating support and a quick turnaround from enactment to the issuance of regulator guidance.

The second area of concern is tax administration. While a common refrain on this to pie is the adequacy of software, this is a canard. SAS is the current programming language. It is constantly being updated on the vendor side and training is available, if funded. The problems are thus training and beta testing, not the age of the software. More important is the need for stronger audit resources, especially for complicated high-income and corporate returns. More auditing means more compliance, even among those who are not audited.

The IRS has lost resources to do this, both through retirement and underfunding. Using the A-76 process for both programming and auditing allows for the rehiring of revenue agents and an easier acquisition of new ones, particularly those with experience in finding loopholes in the current system. Creating or utilizing more than one firm will keep labor rates and profits lower. Comprehensive tax reform, which is discussed next, will also require massive retraining, although the reforms we propose will shift most such activity to the states. A cadre of agency and contract experts in more than one firm should be ready to migrate when this occurs.

Tax reform will reduce complication. Please find our current (and evolving) proposals for long term reform in Attachment One. While they are a longer-term prospect than the 2021 appropriation for the Department, they still fall within the jurisdiction of the Committee. We do not expect action upon tax reform until the next Congress, but it is always good to highlight our proposals.

Shifting to a single system for all business taxation, particularly enacting invoice value-added taxes to collect revenue and employer-based subtraction value-added taxes to distribute benefits to workers will end the need for filing for most, if not all, households. Any remaining high salary surtax would be free of any deductions and credits and could as easily be collected by enacting higher tiers to a subtraction VAT. Note that a subtraction VAT collection will closely duplicate the collection of payroll and income taxes—as well as employment taxes—but without households having to file an annual reconciliation except to verify the number of dependents receiving benefits.

Creation of an Asset VAT to tax capital gains and returns would also greatly simplify taxation. Recent reforms to corporate, pass-through and dividend taxation with a consolidated rate of 21% will make agreement on a final number easier—especially if Affordable Care Act and Pease taxes are also eliminated. The current tax with these is in the neighborhood of 23%. It was 25 % in the prior administration. If both parties agree to end the debate at 24% (or 20% of invoice), K Street can be converted to high-end condominiums.

There is no reason to fear consumption taxes, as they are implicit in the current system. These taxes are withheld by employers for the income and payroll taxes of their labor force. A VAT simply makes these taxes visible while subtraction value-added taxes make them manageable, allowing employers to adjust pay more easily for larger families, pay for health care or insurance and fund public and non-public schools for dependents and college or technical training for workers, as well as retirement plans that give employees a stake and a say in the firm and a more secure retirement.

Tax reform will simplify tax administration on all levels. Firms will submit electronic receipts for I-VAT and C-VAT credit, leaving a compliance trail. S-VAT payments to providers, wages and child credits to verify that what is paid and what is claimed match and that children are not double credited from separate employers. A-VAT transactions are recorded by brokers, employers for option exercise and closing agents for real property. With ADP, reporting burdens are equal to those in any VAT system for I-VAT and A-VAT and current payroll and income tax reporting by employers.

Employees with children will annually verify information provided by employers and IRS, responding by a postcard if reports do not match, triggering collection actions. The cliché will thus be made real.

High salary employees who use corporations to reduce salary surtax and pay I-VAT and S-VAT for personal staff. Distributions from such corporations to owners are considered salary, not dividends.

Transaction-based A-VAT payments end the complexity and tax avoidance experienced with income tax collection. Tax units with income under \$75,000 or only one employer need not file high salary surtax returns. Separate gift and inheritance tax returns will no longer be required.

State governments will collect federal and state I-VAT, C-VAT, S-VAT payments, audit collection systems, real property A-VAT and conduct enforcement actions. IRS collects individual payroll and salary surtax payments, perform electronic data matching and receive payments and ADP data from state. SEC collects A-VAT receipts.

I-VAT gives all citizens the responsibility to fund government. C-VAT invoices encourage lower carbon consumption, mass transit, research and infrastructure development. A-VAT taxation will slow market volatility and encourage employee ownership, while preserving family businesses and farms. Very little IRS Administration will be required once reform is fully implemented. All IRS employees could fit in a bathtub with room for Grover Norquist.

Thank you again for the opportunity to add our comments to the debate. Please contact us if we can be of any assistance or contribute direct testimony.

Attachment One—Tax Reform, Center for Fiscal Equity, November 13, 2019

Individual Payroll Taxes. These are optional taxes for Old-Age and Survivors Insurance after age 60 (or 62). We say optional because the collection of these taxes occurs if an income sensitive retirement income is deemed necessary for program acceptance. Higher incomes for most seniors would result if an employer contribution funded by the Subtraction VAT described below were credited on an equal dollar basis to all workers. If retained, the ceiling should be lowered to \$75,000 reduce benefits paid to wealthier individuals and a floor should be established so that Earned Income Tax Credits are no longer needed. Subsidies for single workers should be abandoned in favor of radically higher minimum wages.

Income Surtaxes. Individual income taxes on salaries, which exclude business taxes, above an individual standard deduction of \$75,000 per year, will range from 6% to 36%. This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, stra-

tegic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction. Transferring OASDI employer funding from existing payroll taxes would increase the rate but would allow it to decline over time. So would peace.

Asset Value-Added Tax (A-VAT). A replacement for capital gains taxes, dividend taxes, and the estate tax. It will apply to asset sales, dividend distributions, exercised options, rental income, inherited and gifted assets and the profits from short sales. Tax payments for option exercises and inherited assets will be reset, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed. As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. These taxes will fund the same spending items as income or S-VAT surtaxes. This tax will end Tax Gap issues owed by high-income individuals. A 24% rate is between the GOP 20% rate and the Democratic 28% rate. It's time to quit playing football with tax rates to attract side bets.

Subtraction Value-Added Tax (S-VAT). These are employer paid Net Business Receipts Taxes that allow multiple rates for higher incomes, rather than collection of income surtaxes. They are also used as a vehicle for tax expenditures including health care (if a private coverage option is maintained), veterans' health care for non-battlefield injuries, educational costs borne by employers in lieu of taxes as either contributors, for employee children or for workers (including ESL and remedial skills) and an expanded child tax credit.

The last allows ending state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). An inflation adjustable credit should reflect the cost of raising a child through the completion of junior college or technical training. To assure child subsidies are distributed, S-VAT will not be border adjustable.

The S-VAT is also used for personal accounts in Social Security, provided that these accounts are insured through an insurance fund for all such accounts, that accounts go toward employee ownership rather than for a subsidy for the investment industry. Both employers and employees must consent to a shift to these accounts, which will occur if corporate democracy in existing ESOPs is given a thorough test. So far it has not.

S-VAT funded retirement accounts will be equal dollar credited for every worker. They also has the advantage of drawing on both payroll and profit, making it less regressive.

A multi-tier S-VAT could replace income surtaxes in the same range. Some will use corporations to avoid these taxes, but that corporation would then pay all invoice and subtraction VAT payments (which would distribute tax benefits). Distributions from such corporations will be considered salary, not dividends.

Invoice Value-Added Tax (I-VAT). Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S-VAT, then they would be funded by the I-VAT to take advantage of border adjustability. I-VAT also forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. Enactment of both the A-VAT and I-VAT ends the need for capital gains and inheritance taxes (apart from any initial payout). This tax would take care of the low income Tax Gap.

I-VAT will fund domestic discretionary spending, equal dollar employer OASI contributions, and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I-VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs. The latter could also be funded by the asset VAT (decreasing the rate by from 19.5% to 13%).

As part of enactment, gross wages will be reduced to take into account the shift to S-VAT and I-VAT, however net income will be increased by the same percentage as the I-VAT. Adoption of S-VAT and I-VAT will replace pass-through and proprietary business and corporate income taxes.

Carbon Value-Added Tax (C-VAT). A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expen-

sive item with lower carbon is purchased. C-VAT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels (including fusion). This tax would not be border adjustable.

