S. HRG. 113–437

PRESIDENT'S FISCAL YEAR 2015 BUDGET

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

MARCH 5, 2014

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

90–914—PDF WASHINGTON : 2014

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

CONTENTS

OPENING STATEMENTS

ADMINISTRATION WITNESS

ALPHABETICAL LISTING AND APPENDIX MATERIAL

PRESIDENT'S FISCAL YEAR 2015 BUDGET

WEDNESDAY, MARCH 5, 2014

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

The hearing was convened, pursuant to notice, at 10:34 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Schumer, Stabenow, Menendez, Carper, Cardin, Brown, Bennet, Casey, Warner, Hatch, Crapo, Roberts, Thune, Burr, and Isakson.

Also present: Democratic Staff: Joshua Sheinkman, Chief of Staff; Jocelyn Moore, Deputy Chief of Staff; Michael Evans, General Counsel; Todd Metcalf, Chief Tax Counsel; and Adam Carasso, Senior Tax and Economic Advisor. Republican Staff: Chris Campbell, Staff Director; Mark Prater, Chief Tax Counsel and Deputy Staff Director; Nicholas Wyatt, Tax and Nominations Professional Staff Member; Jim Lyons, Tax Counsel; Preston Rutledge, Tax Counsel; Jeff Wrase, Chief Economist; and Caleb Wiley, Professional Staff Member.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. Good morning to all. The committee will come to order.

Before we begin today, I want to assure everyone that you did not accidentally walk into a meeting of the Energy and Natural Resources Committee, which I used to chair. Our friend, Max Baucus, is off to do an outstanding job in China, and this is still the Senate Committee on Finance, with a storied history.

Now, in the story department, I learned recently that Senator Hatch was an outstanding basketball player in high school, and I have learned through my sources that he had a great one-handed set shot. He is even in the Baldwin High School Hall of Fame for basketball.

Now, I played a bit of basketball myself. So Senator Hatch and I may try to figure out a way to get a regular Finance Committee pickup game going, except we are going to probably try to see if we can find some arcane rules so that the young members do not make us look bad. [Laughter.]

I also want to welcome Senator Warner to the Finance Committee. Senator Warner demonstrates continually that our government can have a head and a heart, and we are lucky to have his business expertise and bipartisanship on fiscal issues.

Senator SCHUMER. Let the record show, Mr. Chairman, only Casey and I clapped.

The CHAIRMAN. The record will so show.

I am going to be brief this morning and, of course, state first that it is a tremendous honor to chair this committee and to work with all of you. This committee is the go-to place for tackling America's big domestic challenges, and Senator Hatch and I intend to preserve the committee's history of addressing these vital issues in a bipartisan way.

In addition, the Finance Committee is the principal committee in the Senate with jurisdiction over international trade. Therefore, we are now looking at every possible economic lever to pressure Russia to step back from its unprovoked incursion into Crimea. The fact is, Russia has consistently used trade as a cudgel to bully its neighbors. The committee members will want Secretary Lew to tell us how the administration can best marshal our country's economic might in defense of the people of the Ukraine.

Now, back on the domestic front, the committee has before it several issues with a date stamp on them. Those issues include repealing and replacing the badly flawed Medicare payment system for doctors, enacting bipartisan tax reforms that make the tax code more fair and more pro-growth, shoring up our transportation system, and helping American workers compete in tough global markets.

And we are very pleased to have the Secretary here today to discuss the President's 2015 budget. This conversation on the budget is different than it has been in recent memory, because this year the Congress is actually operating under a bipartisan budget agreement, and the government is not closing down. So there is an opportunity to pivot from these budget battles and to focus on the big challenges before the country.

I would submit that the top challenge is sustaining and expanding our middle class. Today, America has what I call a "Dollar Tree–Niemen Marcus economy." As has been noted in several publications, the bargain stores are doing well, and the high-end retailers cannot keep enough of the expensive items in stock. But stores that cater to the middle class are hurting.

Every one of our big economic challenges depends on sustaining and growing the middle class. And, just briefly, I will tick off a few areas where we can boost that cause.

The first is innovation. Whether it is through the tax code or other action, investment and innovation in research can help turn creative startups into thriving businesses with more good-paying, high-skilled jobs. That is why I plan to move quickly to extend a number of expired tax provisions, such as the research and development credit. Over the long term, that credit, through comprehensive tax reform, could be made even more useful for American startups.

The Obama administration's budget includes a proposal for business tax reform. I believe a broader approach that comprehensively overhauls our broken, dysfunctional code would do more to give all Americans, especially the middle class, the opportunity to get ahead, and we are going to work in a bipartisan way and with the administration closely on that matter.

A second priority ought to be savings. The vast majority of savings are delivered through the tax system, and it is time for fresh policies that give all Americans the opportunity to accumulate wealth. The President offered one proposal to help workers save, myRA, during the State of the Union address, and the budget includes another called auto-IRAs.

There is an additional idea that ought to be examined. As has been noted previously, establishing a savings account for every American child has had deep conservative roots and significant bipartisan support. The idea of helping young people, particularly ones of modest income, be part of the opportunity to accumulate wealth in this country is especially important, and such accounts could open doors to higher education, homeownership, and retirement security.

Third, the committee is going to focus on education. This is another area where the tax code does not pass the smell test. There are 15 separate incentives to help defray the cost of an education, and each has its own set of mind-numbing rules and definitions. There are ways to improve those incentives, not just in the short term but for the long haul, through real tax reform, so that more Americans can secure the economic mobility that an affordable, high-quality education can give.

Fourth, you cannot have big league economic growth with little league infrastructure. The committee is now working to provide fresh thinking that can pull some of the billions of dollars of private-sector capital off the sidelines and into infrastructure investments that spark new job growth.

And America will soon need a solution to keep the Highway Trust Fund solvent. We are going to go prospecting, colleagues, for bipartisan ideas in both areas.

In closing, this committee is going to focus on other issues outside our borders, besides Ukraine. One aspect of the international trade agenda that a number of colleagues have spoken about is currency manipulation. It is a major challenge confronting American workers and manufacturers. I look forward to working with Secretary Lew and the Department to ensure that our country is doing all it can to address misaligned currencies.

And finally, Secretary Lew, to depart just for a moment from your portfolio, I would like to publicly thank the President for adopting a plan that Senators Crapo and Bennet and I from the Finance Committee and Senators Risch and Udall from the Energy Committee developed to reform Federal wildlife policy. Fires in Oregon and throughout the West have gotten bigger and hotter, but our policies have not kept up. And this new system is going to allow us to get more value out of this, in my view, also helping in a bipartisan way to address the challenge of these natural disasters.

Let me turn now to Senator Hatch for his comments and, also, again express our thanks to Secretary Lew for his appearance.

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

The CHAIRMAN. Senator Hatch?

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH

Senator HATCH. Thank you, Mr. Chairman.

And, Mr. Secretary, we are very happy to have you here.

I want to welcome our distinguished friend from Virginia, Senator Warner, to the committee. We are very pleased to have you on the committee. With your business background, I think it would be a great deal of help to us, to all of us, on this committee.

But before I begin my statement, Mr. Chairman, I would like to take this opportunity to welcome you as the new chairman of our committee. Already you have hit the ground running, and you are, I think, setting a very good example for all of us, and I have really enjoyed the time that we have spent together up until now, and I look forward to a long-term working relationship with you. And, hopefully, we can do even better for this committee as the future occurs.

And for those who do not know, Senator Wyden always plans ahead and thinks about future opportunities and challenges. For example, almost a decade ago, Senator Wyden selected the Senate office closest to our committee offices. [Laughter.]

If you look down the hall, you will see the Oregon State flag. It is unique among our Nation's State flags in that the front and back parts are different from one another. On the front is the State seal, and on the back there is a depiction of a beaver. As this flag demonstrates, it is typical of Oregonians to think outside the box. Senator Wyden is no exception. I am quite certain that he will bring his unique talents to the big job of chairing this great committee.

Mr. Chairman, I look forward to working with you in this new capacity. Right out of the gate, I want to thank you for holding today's hearing. And it is very, very important to have Secretary Lew here and to have this hearing on President Obama's Fiscal Year 2015 budget proposals.

And again, thank you, Secretary Lew, for appearing before us today.

To begin, I would like to note some problems with the process by which this proposed budget has been unveiled. First of all, we received this budget just yesterday, a full month past the statutory deadline. And what budget information we did receive yesterday is incomplete. For example, when you look at the appendix of the budget, there is often reference to a section called, "Analytical Perspectives," but those perspectives are nowhere to be found.

I assume that the rest of the budget information is forthcoming. Still, we can only wonder why it is being released a few pieces at a time. The administration appears to be approaching this hearing in the same way, as we did not receive Secretary Lew's written testimony until late last night, which was less than helpful.

When we get past the process issues and into the substance of the President's budget, we see that the administration appears to be short on new ideas. Indeed, this budget consists largely of proposals from President Obama's past budgets, which is surprising, given that none of them has received a single affirmative vote in Congress.

These proposals represent a continuation of three familiar themes. First, we see the administration's continued insistence that we can achieve prosperity by adopting more tax-and-spend policies that grow the Federal Government.

Second, there are the proposals centered on the apparent belief that ever more income redistribution will somehow lead to economic growth and job creation.

And finally, we see another attempt to define "tax reform" as a process of raising taxes in order to fuel more Federal spending, while closing whatever the administration deems to be a "loophole" in the tax code.

Based in part on rosy economic assumptions, the administration believes that its proposals will reduce our high debt-to-GDP ratio, but to get there and to help fulfill its tax-and-spend objectives, the budget envisions well over $1 trillion of additional taxes in the face of a persistently sluggish economy.

I think that bears repeating. President Obama's latest budget contains more than $1 trillion in proposed tax hikes. The administration claims, as it has for years now, that these additional revenues are needed to restore fiscal responsibility and reduce the deficit as part of the "balanced approach."

However, we need to look at the facts. Let us consider the deficit reduction that has occurred since the high deficit watermark achieved in fiscal year 2009. From the deficit of over $1.4 trillion in that year, the deficit fell to a still high $680 billion in fiscal year 2013. Of the $736 billion of deficit reduction, $670 billion came from increased revenue and only $66 billion came from reduced outlays.

So in terms of budget realizations, rather than promises for the future, less than 9 percent of the deficit reduction between 2009 and 2013 came from reductions in spending. The vast majority came from increased revenue. Yet remarkably, in the face of that history, the administration's insatiable desire for higher taxes leads it to propose more tax hikes along with even more spending.

Put simply, the tax hikes envisioned in the President's budget are not what our struggling economy needs. Unfortunately, while having pledged to focus like a laser on jobs, this administration decided, over the past 5 years, to focus on expanding government with a failed stimulus, the Affordable Care Act, and initiatives like the Dodd-Frank Act that is growing the big banks and shrinking community banks.

None of these efforts laid a foundation for economic growth, and, sadly, the budget offered this week does not present a vision for such growth in the future. Instead, this budget proposal appears to be a political document designed to shore up support from the President's left-leaning base in an election year. Now this, needless to say, is disappointing given all of the real challenges our Nation continues to face.

And as you can see, Mr. Chairman, we have a lot to discuss today when it comes to the proposals in this budget, and there are other issues at the Treasury Department that also warrant our attention today.

For example, I find it incredible that even with all the challenges our Nation is facing, the Treasury Department has decided to place the singling out of 501(c)(4) organizations for scrutiny near the top of its administrative agenda. As with the budget, it appears that politics are driving the decision-making when it comes to promulgating regulations for Treasury. In my view, it would be useful for the administration to focus more on growth in the economy and jobs than on how the President's party will fare in the next election.

With those concerns in mind, I look forward to today's hearing, and I want to thank you, Mr. Chairman, and welcome you, again, as our leader on this committee.

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

The CHAIRMAN. Thank you, Senator Hatch. And particularly, your focus on the bipartisanship that we have been talking about is especially helpful.

Secretary Lew, we are glad to have you. We will put your prepared remarks into the record, and please proceed as you wish.

STATEMENT OF HON. JACOB J. LEW, SECRETARY, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Secretary LEW. Thank you very much, Chairman Wyden, Ranking Member Hatch, members of the committee. I thank you for this opportunity to appear before you today to testify on the President's budget.

I want to add my personal congratulations to Chairman Wyden as we begin his first hearing as chairman of the Finance Committee. We have worked together for so many decades. It is a real honor to be the first witness——

The CHAIRMAN. The days when I had a full head of hair and rugged good looks. [Laughter.]

Secretary LEW. And it is also a pleasure to welcome Senator Warner here as the committee's newest member.

Before I begin, let me say a few words about the situation in Ukraine. As President Obama has explained in no uncertain terms, the steps Russia has taken to violate Ukraine's sovereignty, Ukraine's territorial integrity, are a breach of international law.

At this time, we are looking into a wide range of options, including sanctions and ways to increase Russia's political and economic isolation. Our ultimate goal is to deescalate the situation in Ukraine.

As the Ukrainian government prepares for elections in May, it is critical that the international community support their efforts to restore economic stability. I have spoken with the Ukrainian Prime Minister a number of times now, and he has told me that his government is ready to adopt vital economic reforms.

We have been working closely with the international partners and Congress to develop an assistance package that will help the Ukrainian government implement the reforms needed to restore financial stability and return to economic growth.

As part of this international effort, the United States has developed a package of bilateral assistance focused on meeting Ukraine's most pressing needs. This package will include a $1-billion loan guarantee and IMF quota legislation which will support the IMF's capacity to lend additional resources to Ukraine and help preserve continued U.S. leadership within this important institution at a critical time.

While the United States will not increase our total financial commitment to the IMF by approving the 2010 reforms, it is important to note that for every $1 the United States contributes to the IMF, other countries provide $4 more. At a time when the U.S. is at the forefront of international calls urging the Fund to play a central and active first responder role in Ukraine, it is imperative that we secure passage of IMF legislation now so we can show support for the IMF in this critical moment and preserve our leading influential voice in this institution.

I want to be clear that, even as we deal with the unfolding events in Ukraine, we continue to focus on our central objective: expanding opportunity for all Americans.

Over the past 5 years, we have accomplished a number of important things to make our country stronger and better-positioned for the future. In fact, since 2009, the economy has steadily expanded. Our businesses have added 8.5 million jobs over the last 47 months, the housing market has improved, and rising housing prices are pulling millions of homeowners from under water. At the same time, household and business balance sheets continue to heal, exports are growing, and manufacturing is making solid gains.

The truth is, as the President said in the State of the Union address, we are more ready to meet the demands of the 21st century than any other country on earth. Nevertheless, our economy was thrown against the ropes by the worst recession of our lifetimes, and, while we are back on our feet, we are not yet where we need to be. Everyone here understands that. The question is, what are we going to do about it?

The President's budget lays out a clear path to move us in the right direction. It not only fulfills the President's pledge to make this a year of action, it offers a framework for long-term prosperity and competitiveness. This budget addresses the critical issues we face as a Nation.

It recognizes that, while corporate profits have been hitting all-time highs, middle-class wages have hit a plateau, with long-term unemployment an ongoing challenge. It recognizes that, while the stock market has been vibrant, saving for retirement and paying for college is little more than a dream for millions of families. It recognizes that, while our national security threats are shifting and we are bringing the war in Afghanistan to a responsible end, soldiers, military families, and veterans struggle to succeed in our economy. And it recognizes that, while work is being done to put the final pieces of financial reform in place, reforms like the Volcker rule have made our financial system stronger and an engine for economic growth once again.

The solutions in this budget flow from a frank assessment of these challenges. They are carefully designed to show the choices we can make to increase opportunity and bolster the middle class.

For instance, a cornerstone of these proposals is to expand the Earned Income Tax Credit so it reaches more childless workers. We know this tax credit is one of the most effective tools for fighting poverty, and it is time to adjust it so it does an even better job of rewarding hard work. This tax cut, which would go to more than 13 million Americans, will be fully offset by ending tax loopholes that let high-income professionals avoid the income and payroll taxes that other workers pay.

Another initiative that will make a difference for hardworking men and women is myRA. This retirement security program will be available later this year, and it will allow Americans to start building a nest egg that is simple, safe, and can never go down in value.

While this budget puts forward essential pro-growth initiatives, it also calls on Congress to reinforce our growth-enhancing strategies by passing measures like comprehensive immigration reform and trade promotion authority. But even as it does these things, make no mistake—this budget is also serious about building on the success we have made together to restore fiscal responsibility.

The fact of the matter is, the deficit as a share of GDP has fallen by more than half since the President took office, marking the most rapid decline in the deficit since the period of demobilization following the end of World War II. The deficit is projected to narrow even more this year, and today we are charting a course that will push the deficit down to below 2 percent of GDP by 2024 and rein in the national debt relative to the size of the economy over 10 years.

Last year, the President put forward his last offer to Speaker Boehner in his budget as part of a balanced compromise. This year's budget reflects the President's vision of the best path forward. While the President stands by his last offer, he believes that the measures in his budget are the best way to strengthen our economy now.

As this budget demonstrates, the President is firmly committed to making tough choices to tackle our fiscal challenges, and our fair and balanced solutions represent a comprehensive approach to strengthening our Nation's financial footing.

This approach shrinks the deficit and debt by making detailed, responsible changes to Medicare, while eliminating wasteful corporate tax loopholes and subsidies that do not help our economy and scrapping tax breaks for those who do not need them.

Increasing basic fairness in our tax code is not just about improving our Nation's fiscal health, though. It is also about generating room so we can make investments that will strengthen the foundation of our economy for years to come.

That means helping to create more jobs, by repairing our infrastructure, increasing manufacturing, boosting research and technology, and fostering domestic energy production. It means training Americans so they can get those jobs, by promoting apprenticeships and upgrading worker training programs. It means improving our education system by expanding access to preschool and modernizing high schools. And it means making sure hard work pays off by creating more Promise Zones, increasing college affordability, and raising the minimum wage to $10.10 an hour and indexing it to inflation.

In closing, let me point out that this budget represents a powerful jobs, growth, and opportunity plan. It is carefully designed to make our economy stronger, while keeping our fiscal house in order. What is more, it offers Washington a real chance to work together. As everyone on this committee knows, for too long, brinkmanship in Washington has been a drag on economic growth. But we have seen a significant amount of bipartisan progress in recent months, and that has helped improve economic momentum.

Some cynics say it is fleeting, some call it election-year posturing, but I do not agree. I believe this progress is real. I believe we can keep finding common ground to make a difference, and I believe we can continue to get serious things done on behalf of the American people by working together.

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

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

The CHAIRMAN. Secretary Lew, thank you, and we too look forward to working with you.

Let us begin with Ukraine, if we might. It appears to me that Vladimir Putin's actions in the Ukraine represent a last gasp for grandeur. His efforts to expand Russia's footprint will only work to further isolate the country he calls home.

Yesterday, Russia test-launched an intercontinental ballistic missile. But when was the last time a Russian company launched a new automobile line, an airplane, or an Internet company that could compete on the world stage? To me, his efforts to show power through 20th-century imagery only demonstrate the weakness that Russia is showing under Mr. Putin's leadership.

Now, Senator Hatch and I have zeroed in on a number of areas, particularly in the trade domain, where we think we can promote sensible policies to hold Mr. Putin accountable, such as ensuring that Russia's World Trade Organization agreements are fully enforced. They are not now.

So we can use trade tools at our disposal to help Ukraine and similarly situated countries.

So what I thought I would do for the first question, Secretary Lew, is to ask what you think your best economic levers are at this point. And then give us, if you might, your sense of how we might have some guidelines to evaluate all of the proposals.

I think, Senator Hatch, I have almost lost count of all the ideas that have been proposed for dealing with Russia.

But if you might, start there, Secretary Lew. What do you think the best economic levers are? What do you think the guidelines are, particularly as they relate to timeliness—as you made the point—working with allies? What do you think the guidelines are that we might use?

Secretary LEW. Mr. Chairman, I think that the President has been clear, we have been clear, that Russia has to be held accountable for the actions it has taken, and Russia also has to have a path to step back from what is dangerous escalation unless it stops. I think that the actions the President has announced illustrate serious attempts and, I think, effective ways to start this process of increasing Russia's isolation.

The G–8 is a very important meeting to Russia. We have already withdrawn from participation in preparations for it, and we are on a path where I think it is clear that Russia cannot sit at a G–8 meeting while it is pursuing the policies that it is now pursuing.

We have withdrawn a trade mission that was supposed to be working with Russia to continue making progress on a national investment treaty. We have withdrawn a presidential delegation that was supposed to be attending the Paralympics, something that we very much support, but it is not a time for a presidential delegation to be going to Russia.

The President has made clear that he has asked us to develop further options. We will continue to develop those options. And I am going to reserve for the President the right to address future steps that we—he—might take, but we are clear that there need to be steps that hold Russia accountable for actions taken to date, and what we have to do has to be responsive and proportional as we go forward.

The CHAIRMAN. If you could, Mr. Secretary, because of the urgency of the situation, let us say within 48 hours, if you could particularly give us some measures or guidelines in terms of how we would evaluate the proposals, and if you could get that to Senator Hatch, that would be helpful—Senator Hatch and I.

The question I wanted to ask with respect to the domestic challenges is, I think we all know that, while the economy certainly has improved in a number of areas, we still have an enormous challenge in terms of dealing with the long-term unemployed. We have lots of folks out of work who, as a result of technological changes and a whole host of factors, have been unemployed for a long, long time.

How does the President's budget, in your view, best address the needs of the long-term unemployed?

Secretary LEW. Mr. Chairman, I think, in a sense, the entire budget is an answer to that question, because it is not just one thing that we have done. It is really the frame. We need to drive economic growth, because the engine for creating jobs in this economy is economic growth. In its entirety, that is what this budget is designed to do.

Specifically, we have targeted areas, from extending unemployment benefits for the long-term unemployed to skills training to establishing manufacturing hubs to extending the Buy America bonds—which we are now calling America Fast-Forward bonds—to continue to fund infrastructure spending, something that you were one of the champions of. These are the kinds of things we need to do.

I think it is clear that if you look at the policy thrust of building our infrastructure and skills training—and by skills training, I think it is important to start at early childhood and go all the way to retraining when someone loses their job—those are the things we need to do to have a vibrant economy in the future, and this budget lays forth a vision of how to achieve that.

The CHAIRMAN. Thank you.

Colleagues, if we are going to stick to the 5-minute rule or get close to it, I had better start by setting an example. So my time has expired.

Senator Hatch?

Senator HATCH. Thank you, Mr. Chairman.

Secretary Lew, I appreciate you appearing here today, and we appreciate what a difficult job you have.

The nonpartisan Congressional Budget Office says that over the next 10 years spending on Social Security, Medicare, Medicaid, CHIP, and exchange subsidies will total over $21.6 trillion. Moreover, that spending will grow at an average rate of 4.4 percent compared to growth in the size of the economy, which is projected to average 2.8 percent. Of course, that means that growth in the entitlement spending is unsustainable.

Now, Mr. Secretary, I have two questions regarding the entitlements that I just mentioned.

First, in light of the CBO projection of over $21.6 trillion of spending in the entitlements—and that is just some of the entitlements—by how much does the President's budget propose to reduce that spending? And second, does the budget propose to reduce growth in the entitlement spending at all, and, if so, how?

Secretary LEW. I think that the observation that you are referring to is one that we have seen for a long time. It has to do with the demographic aging of the baby boomers and the fact that people my age and older are retiring. So we knew that there was going to be an increase of spending on entitlement programs. The question was, would our fiscal house be in order to deal with that?

What this budget shows is that, for the 10-year period covered by this budget, we reduce the deficit as a percentage of GDP to less than 2 percent. We are on a path that is sustainable, and it is a solid, firm foundation.

In that period, we have instituted additional savings in entitlements. We have $400 billion of specified savings in Medicare. And obviously, these are challenges that we have all known were coming for decades.

I think that keeping our fiscal house in order is of critical importance. How we do that reflects how we build an economy that is growing, and growth has a lot to do with our ability to tackle the demographic challenge.

Unless we can get sustained growth into a healthy place, those fiscal challenges will only be more complicated. So I think this budget is a blueprint that deals in the right way with the next 10 years in laying a foundation for the future.

Senator HATCH. Last year, the Social Security trustees, which include you, reported that the Social Security Disability Insurance Trust Fund will be exhausted in 2016. As a trustee, Secretary Lew, you urged that lawmakers act in a timely way to, quote, "phase in necessary changes and give workers and beneficiaries time to adjust to them."

Now, Mr. Secretary, in the face of the impending exhaustion of the Disability Insurance Trust Fund, what does the budget propose, if anything, to address the exhaustion of that fund or to address the impending exhaustion of the Social Security Retirement Trust Fund a bit further down the road?

Secretary LEW. Senator Hatch, obviously the time frame for the Disability Trust Fund is much more immediate—2016—versus decades away. I think that when experts look at what the options are for the Disability Trust Fund in the short term, there is a general agreement that there is going to need to be some kind of a reallocation of premiums that go into the trust funds for the short term.

In the longer term, what our budget does is, it lays out a program of program integrity to make sure that people who apply for disability are eligible for it, and we would work together with the

Congress to make the kinds of changes we need to to protect that critically important program and make sure it is sound in the long term, and we look forward to working together on a bipartisan basis on that.

Senator HATCH. Page 33 of the budget document discusses the future unsustainable deficits and debt and alludes to a larger tax increase that is undefined in the document. Specifically, the budget identifies that, even with reforms to Medicare and other entitlements and tough choices on the discretionary side, we will, quote, "need additional revenue to maintain our commitments to seniors."

Now, I have two questions for you, which I will read through and then you can respond.

First, if you agree with that part of the budget, then, in addition to the tax increases in the budget, what tax increase, either in terms of dollars over the next 20 years or so or as a share of GDP, does the administration believe will be necessary to get what it identifies as needed additional revenue to maintain our commitments to seniors?

And second, do you think that the entitlements will have to be financed, at least in part, through a value-added tax or a carbon tax or some other non-income-based tax added to our existing tax system?

Secretary LEW. Senator Hatch, I think the budget lays out very clearly our tax policies for the next 10 years. For a number of years now, the President has laid out principles that should govern how we look at Social Security reform, and I would be happy to follow-up and work with you on that going forward.

Senator HATCH. Well, we would appreciate that. My time is up.

The CHAIRMAN. Senator Burr is next, and then Senator Stabenow.

Senator BURR. Thank you, Mr. Chairman, and let me also welcome you to the chair.

The CHAIRMAN. Thank you.

Senator BURR. Mr. Secretary, welcome.

Mr. Secretary, after Lois Lerner disclosed last summer that the IRS had been targeting conservative organizations for more than a year, both you and the President stated that you were, and I quote, "outraged" by that behavior.

Do you stand by that comment today?

Secretary LEW. Senator, I have stood by my comments that the actions taken reflected bad judgment and that they were unacceptable, that they could not happen again. We put in place an acting Director at the IRS who did a fine job to bring things into order. We have a new Commissioner of IRS who is equally first-rate. And we are committed to running the best IRS that we can possibly run.

I am equally convinced that there was not any kind of malicious action there. It was bad judgment, and that bad judgment is unacceptable.

Senator BURR. Well, I ask you because the contrition you expressed then seems at odds with the current attitude. Both you and the President have gone so far as to refer to the IRS persecution of those who disagree with you as "a phony scandal," to quote. I would suggest you are even going further than that and attempting to codify that bad behavior in the law.

How can we interpret this new rule as anything other than an attempt to achieve the same stifling of 501(c)(4)s that Lois Lerner was, in fact, doing?

Secretary LEW. Well, Senator, I continue to believe that the attempts to turn this into a scandal do not reflect the nature of the bad judgment that was involved, and I think that the——

Senator BURR. Well, Mr. Secretary, 100 percent of the 501(c)(4)s that had "Tea Party" in their name were referred for extra scrutiny. The word "progressive" did not appear on the Be On the Look-Out list for extra scrutiny. And, of the 298 political cases, only six had "progressive" in their name.

Secretary LEW. Senator, I——

Senator BURR. What do you conclude from that?

Secretary LEW. Senator, I think bad judgment was equal opportunity. It addressed concerns of the right and the left. It was not good judgment, and it was unacceptable. But it was not politically motivated.

Senator BURR. Two hundred and ninety-eight to six.

Secretary LEW. You asked about the regulations. I want to point out the proposed changes in the regulations. After the situation was evaluated by the Inspector General at Treasury, there was a report that laid out actions to be taken.

I made a commitment to keep all those recommendations, to follow through on all those recommendations. One of them was to clarify the rules, where the confusion in the policy was what was at the root of the bad judgment that caused the problem.

In the proposed rule that we put out, it was actually a request for broad comment. It did not provide as detailed a policy as many people have said. And we have gotten, as you know, over 150,000 comments, and we are going through them, as we said we would.

Senator BURR. Did you have any conversations prior to the 10th of last May when Lois Lerner made her revelations concerning issuing a new rule restricting the political activities of tax-exempt groups——

Secretary LEW. Well, the IG report that came out—I do not remember the date of the IG report—it was right after that that we said we would follow through on all the recommendations of the IG report. I would have to check the date.

Senator BURR. Mr. Secretary, last June, I sent a letter to the IRS encouraging them to respect the controlling OMB guidance and suspend fiscal year 2013 performance awards to IRS employees.

As a former Director of OMB, I know you must feel that following OMB's guidance is important. That is why I am sure you share my concern that the new Commissioner has decided to reverse that decision and to pay out a portion of the bonuses.

Given that calamitous behavior of the Tax-Exempt Division and, I think, the damage that it has done to public trust in the agency's ability to perform its core functions, do you believe it was appropriate for those employees to receive a bonus?

Secretary LEW. Senator, I have to start by saying that the overwhelming vast majority of employees at IRS are hardworking public servants who do a fine job and deserve respect and thanks, and that is something that I think is an important thing for all of us to remember.

Secondly, there was a suspension of the bonus policy during the sequestration period, and there was a challenge under some of the collective bargaining agreements. I would defer to the Commissioner of IRS on how he has worked out the policy subsequent to that.

Senator BURR. Did you pay bonuses last year at Treasury?

Secretary LEW. I do not believe so. I would have to double-check.

Senator BURR. Do you intend to pay them this year?

Secretary LEW. I am not sure that that decision has come to me yet.

Senator BURR. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Burr.

Senator Stabenow?

Senator STABENOW. Well, thank you very much, Mr. Chairman. And first, I want to welcome you to your position. It is wonderful seeing you in that position, and I look forward to the basketball games between the two of you.

Mr. Secretary, welcome, as always.

And to the Senator from Virginia, we are happy to have you down at the end of the table. So we appreciate you being on the committee.

A couple of things, in addition to my questions. I just want to start by saying that, given everything that has happened at the IRS, I am really pleased that you finally have the President's person on the job, since the IRS, just for the record, was operating under President Bush's IRS Commissioner through all of this.

And realizing that there are legitimate questions and we all certainly want things to go well, I am glad that in the last couple of months, we have finally been able to confirm the President's team, and I am confident, going forward, that this will be addressed in a fair way.

Secretary LEW. And we are grateful to the committee for handling that.

Senator STABENOW. Secondly, I think we are always going to have this debate about how to move the economy and, just for the record, also, legitimate differences. But I am for whatever works. I am sure you would agree. I came in under President Clinton in 1997, into the House. And we balanced the budget within 6 months.

I took full responsibility for that, Mr. Chairman. [Laughter.] But what was interesting is that what worked was asking those doing very, very well in our country, the wealthiest Americans, to contribute a little bit more to help balance the budget, making strategic cuts where we could on things that did not work, and making strategic investments in education and innovation, and we balanced the budget.

Then we tried a different approach next with the Bush administration that reflected high deficit-spending on wars. We could debate the wars, but they were not paid for. At the same time, rather than paying for them, we gave tax cuts—a revenue loss—to those who were the wealthiest Americans, and then, unfortunately, we ended up cutting investments to middle-class families, opportunities for education, and so on. Deregulation went forward on Wall Street, and we lost 8 million jobs.

So now we come to the Obama administration, again, back to trying to balance this, and I think it is pretty significant that we have seen the deficit more than cut in half and that you are saying we are on a path to create 2 percent of GDP in terms of the deficit. Jobs are coming back, not as fast as we would like them to, but they are coming back, and we are trying to rebalance by focusing on education, innovation, those things that will grow the middle class, because we know that we will never get out of debt with 10 million people out of work.

So, just for the record, I feel like, Mr. Chairman, we have approaches that have worked and approaches that have not worked, and I think we ought to focus on what works.

My question, Mr. Secretary: I chair the Agriculture Committee, overseeing the Commodity Futures Trading Commission. This is an agency, as you know, that is incredibly important as we strengthen our economy and create opportunities for investments, and the CFTC oversees markets that impact everything from the price of groceries to the cost of fuel, interest rates, home mortgages, and so on.

When we look at the CFTC's increased responsibilities in the last number of years versus their budget, they barely have more staff than they did 20 years ago, and, as you know, their oversight has grown tremendously. The futures market has grown 5-fold, increasing by roughly 10 times the size of the futures market's new responsibilities.

They brought in $2 billion in fines last year alone, but received only about $215 million to operate. And I am very concerned about the ability of this agency to be effective in supporting our economy. So I wonder if you might just speak about the proposals by the administration and how the CFTC funding matches up with other funding mechanisms for other regulators.

Secretary LEW. Thank you, Senator Stabenow.

I must begin by thanking you for your comments about the 1990s. I had the honor of being Budget Director during the 3 years when we ran a surplus and could not agree more than we had a set of policies that worked. And we today have a set of policies that work, and we know how to do this.

As far as the CFTC goes, very briefly, it has been a major issue that we have joined really since Dodd-Frank was enacted: that we need to have enough people at the CFTC both to implement the rules and have cops on the beat to enforce them.

We got just enough money in the appropriations bill this time to start ramping up to the point that we need to to implement the rules, but we need to have a sustained level of funding, predictable and with the increases to reflect the extra work that is required to implement the new rules.

We have suggested that it would be a good idea to explore the kind of self-funding mechanism that the bank regulators have so that our financial regulators do not have to worry about year-to-year ups and downs in funding, but they can make sure that their enforcement programs are there every year to protect American consumers.

Senator STABENOW. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. If Senator Schumer is willing, Senator Isakson could go and then Senator Schumer. Is that acceptable?

Senator Isakson?

Senator ISAKSON. Thank you very much.

I thank the Senator from New York.

Mr. Chairman, welcome. Congratulations on your chairmanship. From my work with you over the last 9 years in the Senate, I am sure it will be an enlightening period of time under your leadership, and I look forward to serving with you.

Secretary Lew, I call your attention to the bottom of page 3 and the top of page 4 in your remarks, where I quote the following: "The President has called for streamlining and accelerating the permitting process for infrastructure initiatives, and the budget includes funding for a new interagency infrastructure permitting improvement center to help with these efforts," end quote.

Is that correct?

Secretary LEW. I do not have the pagination in front of me, but that is our policy, yes.

Senator ISAKSON. I will share it with you. It is exactly what I read.

Secretary LEW. I trust it is correct.

Senator ISAKSON. This is a little bit of a parochial question, certainly in my own self-interest and that of Senator Chambliss, but it belies everything your statement says, and I want to give you this information. You may not know it, and I would appreciate your following up on it.

For 15 years, the Port of Savannah has been authorized for expansion. We have gone through 15 years of environmental studies, NOAA requirements, requirements by the Corps of Engineers, oxygenation requirements. The State has raised $248 million to match Federal money to expand that port.

I traveled with Vice President Biden to Panama, and with the Mayor of Philadelphia and the Mayor of Baltimore just recently, because of the Vice President's intent to expand infrastructure projects for the same reasons you state in your statement.

On the 28th of February, just a few days ago, after everything had been done, 902 waivers were in both the House and Senate water bill. The President and the Vice President—I do not want to quote the President, and I cannot quote the President, but the Vice President, and I quote, said "we are going to get his project in Savannah done come hell or high water."

Everybody in the Corps was prepared to sign the program partnership agreement. NOAA had signed off; EPA had signed off. The money is in the bank at the State. Everything was done.

Then the Director of OMB called the Corps of Engineers and told them specifically not to sign the partnership agreement.

Two weeks before we passed the Omnibus Appropriations Act—and I was one of the nine Republicans who voted for it—we met with the Director of OMB, and the Director of OMB sent personnel from her office to meet with staff of mine and staff of Senator

Chambliss to craft the language for the appropriations bill to ensure that she would have the authority, the right wording and the right authority, to move money in the budget for fiscal year 2015 from “intended” to “construction.”

All of a sudden, Friday of last week, the phone started ringing, and the directions went to the Corps of Engineers, “Do not sign the project partnership agreement.” I personally got calls from OMB saying there is no precedent to do what we are doing, just 3 or 4 weeks after we met with OMB staff to craft the language they asked us to get in the appropriations bill.

So I cannot understand how the administration can say that it wants to accelerate projects, when we get a last-minute hold on a 15-year authorization in which every “i” has been dotted and every “t” has been crossed.

Do you have an answer for that?

Secretary LEW. Well, Senator Isakson, as Treasury Secretary, I am not deeply involved in the individual project decisions. So I cannot address the questions about the Port of Savannah. I will refer the question to our OMB Director. But I would say——

Senator ISAKSON. I have already talked to the OMB. I would appreciate your looking into it personally.

Secretary LEW. I will take the question back, but, obviously, it is not a Department of Treasury issue. So I am going to have to go to OMB with the question.

I would say that, going back, we have made a lot of progress at streamlining the approval process for important projects.

In my home State of New York, Senator Schumer’s State of New York, the Tappan Zee Bridge was re-permitted for construction in 18 months, something that nobody believed was possible.

So this is very important. It is something we are committed to, and I will take back your question.

Senator ISAKSON. I would appreciate it very much.

Mr. Chairman, can I ask you a question?

The CHAIRMAN. Of course.

Senator ISAKSON. I am correct that both the majority and minority side are still investigating the IRS situation with Ms. Lerner. Is that not correct?

The CHAIRMAN. We are working together on the investigation that began under Chairman Baucus, and we intend to continue to work on it and do it in a thoroughly bipartisan way.

Senator ISAKSON. The reason I mention that is, for your edification and your benefit, the last month, I have taken every Friday to do town hall meetings in Georgia. The number-one thing that I am asked about is the IRS targeting of certain groups for audits—the number-one thing.

It cannot be dismissed as an error in judgment until we get all the facts and find out if that is, in fact, what it was. So I would encourage you at Treasury, being responsible for IRS, to let them know they are the number-one topic of conversation. And when April 15th comes, they are going to be the number-one topic, for a lot of reasons we are all familiar with.

But we need to get to the bottom of that. And Senator Burr is precisely correct: it is the public’s number-one concern.

Secretary LEW. Senator, we tried to be cooperative. We will continue to be cooperative with this committee's and the House committee's investigation, and the IRS Commissioner, John Koskinen, has made a similar commitment. And we understand you need to complete your investigations.

I can just offer our judgment based on what we know.

Senator ISAKSON. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Isakson.

Senator Schumer?

Senator SCHUMER. Thank you, Secretary Lew, and thank you for the wonderful job you are doing. We are very glad you are there. I am glad, as a New Yorker, but more importantly, as an American. And I want to applaud your commitment in this budget to really focus on the middle class like a laser.

The deficit is a problem, no question about it. But we have made good progress on the deficit, and I would posit that the number-one problem facing America is the decline of middle-class incomes.

It affects our economy in so many ways. It affects our politics, it affects our whole way of being as Americans. And doing the kinds of things that you have done in the budget, both in terms of taxes—such as the American Opportunity Tax Credit, the provision that I helped author and worked with you to extend, making it permanent, is great, as well as the Child Tax Credit—and on the spending side, which I know is not your department, but doing investments in infrastructure and in education and in research, those are the ways to get the middle class moving again, and those at least have my highest priority.

I have a couple of questions here on specifics.

The first is on the ASPIRE Act.* I know the chairman mentioned it in his opening remarks. And it is so important, because one of the greatest barriers to financial stability for many young Americans is the lack of savings and assets.

Nineteen percent of New York households, 31 percent of households nationwide, have no savings account. That is sort of unheard of, but that is what is happening. I remember when I was in grade school, we put a quarter into the King's Highway Savings Bank every week, got a bank book, and it showed——

Secretary LEW. The Ridgewood Savings Bank.

Senator SCHUMER. There you go. Another fine New York institution.

Anyway, that is not done anymore, and children from families face significant barriers to attending college and owning a home.

So for several Congresses, I have introduced—Congressman Gingrich was a sponsor, Senator Santorum, so it has real bipartisan support—the ASPIRE Act, which would establish a universal child savings account with Federal seed funding and matching contributions.

I, first, am appreciative of the chairman highlighting this issue as one of the issues that he wants to move this year, which I really appreciate, and he mentioned it in his opening remarks. But I hope we can count on your support and the administration's support for

---

*The America Saving for Personal Investment, Retirement, and Education Act of 2013.

both technical guidance as we move forward with this proposal, but also support of the basic concept: creating a lifetime savings fund for every child when they are issued a Social Security number, teaching people to save, encouraging people to save.

One of the great problems in America is we do not save enough the way we used to.

Would you please comment?

Secretary LEW. Senator Schumer, we totally agree that encouraging savings is a critically important objective. That is one of the reasons we have made the myRA proposal such a prominent feature, because it does not sound like much, but starting a retirement account with $25 and adding $5 a pay period, it starts the habit of saving for retirement.

Senator SCHUMER. Yes.

Secretary LEW. Which is really the same idea that you are talking about.

Senator SCHUMER. Right.

Secretary LEW. The ASPIRE accounts are something we are happy to look at and work with you on technically.

Senator SCHUMER. That is at the other end.

Secretary LEW. It is at the beginning——

Senator SCHUMER. Young people as opposed to golden-agers.

Secretary LEW. And we are happy to work with you on the proposal. Obviously, it is a question of, with limited resources, how do we optimize the decisions we make, and we are happy to work with you on this.

Senator SCHUMER. Great. Well, thank you, and I look forward to—I am going to bother you until you end up supporting it. So it is now or later, take your pick. [Laughter.]

The next issue is the AOTC. I was glad to see you made it permanent.

One of the great problems the middle class faces is paying for college. It has become so much more expensive, and somebody at one of the little forums we had said that when he went to college, if he worked 40 hours a week on the minimum wage, he could earn tuition in a year. And now it takes something like 30 years working at the minimum wage to pay for tuition, so it shows you both ends changing.

It is a shame that America is declining in the percentage of people who graduate from college. We used to be number one. We always worried about our K through 12 system, but we did not worry about our higher ed system. And still, the number-one worry about our higher ed system is expense.

So I think it is very important, and I did not understand—I really like Paul Ryan. I think he is a fine, honorable man, and I liked working with him on many issues, but he attacked this provision in his War on Poverty report. I do not understand why our colleagues on the other side—this is a tax break to help middle-class families pay for college.

And my question is, does it not seem to you to be the kind of thing—it used to garner bipartisan support. It was authored by Senator Snowe and myself when she was here on this committee. Does it not seem to you the kind of thing that should get both parties? That is the kind of thing we could come together on.

Secretary LEW. Senator Schumer, I certainly would hope that that is the case. I applaud the work that you and Senator Snowe did on this. It is something we very much embrace.

When you look at our system of higher education, we still have the best higher education institutions in the world. When you look at the pathways toward opportunity, there is a dividing line for those who get a higher education and those who do not.

If we really want to make sure that we equip the next generation with the skills they need to grow the economy and to make sure that everyone who is willing to work hard has a chance, we have to open the doors to education, and we look forward to working on a bipartisan basis to extend the AOTC and make it permanent.

Senator SCHUMER. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman. I, first of all, want to congratulate you and look forward to your progressive leadership of the committee. And I am also looking forward, having moved up the rostrum here, to no longer smashing my knees with that of my staff from the other end. [Laughter.]

So let me, Mr. Secretary, talk about—I know you are here about the budget, and, of course, budgets are also about values, from my perspective. It reflects what we believe as a country.

But as we talk about the budget, I also look at the draft of the House Ways and Means Committee chairman's tax reform plan that has a complete elimination of the State and local tax deduction. That is a proposal that would impose a significant and, from my perspective, unfair tax increase on millions of families in my home State of New Jersey and across a number of high-cost States in the country.

Unfortunately for the reality of this bill's prospects, experiences from the 1986 effort show that, as most tax experts know, any serious tax reform effort cannot be built on such a shaky foundation.

So my question, to get a sense from you, is, in order for tax reform to become a reality, do you think tax writers should take into account the regional impact of any tax change?

Secretary LEW. Senator Menendez, I guess I should start by saying I think that Chairman Camp deserves a lot of credit for putting a detailed plan out there. There are a lot of things in it that reflect thinking that many of us have had. There are a lot of things in it that many of us disagree with. But I think it is important for there to be a full discussion of tax reform.

I think on the question of regional impact, we always have to worry about whether or not the tax policy or the spending policy we put into effect is fair and affects the country in a way where the outcomes are something that we would want as a policy.

I think on the specific issue of State and local deduction, we have, obviously, approached it in a different way from the administration. We have treated it in the same way as other deductions, where we think there is an argument to limit the availability of deductions for the very high-income, but not to remove it as the basic mechanism, to permit the deduction of State and local taxes.

State and local finances are very important to the stability of our economy, and I think that the complete elimination of the State and local deduction would be something that would be a real challenge for many jurisdictions, and regionally it is not just the Northeast. It is certainly well beyond the Northeast.

So I think it is something we would have to look very hard at, anything we did that went as far as that proposal.

Senator MENENDEZ. There is a difference between high wealth individuals who may have acceptable limitations and regular middle-class families that this would be an economic body blow to.

Secretary LEW. Right.

Senator MENENDEZ. So I appreciate your thoughtfulness on that.

I want to turn to something that I have been speaking to you about since your nomination hearing, and I know we recently had a conversation on this, and that is reform of the Foreign Investment in Real Property Tax Act.

I just want to bring to your attention, again, that the tax on REIT shares owned by foreign pension funds was due to an administrative action, not a legislative one. So it seems to me that Treasury has authority to take some type of positive action here. As you may know, up until Notice 2007–55, a foreign pension fund had the ability to invest in a domestic REIT and have their shares treated similarly to a domestic pension fund.

This is an area where the President has stated clearly that he wants to exempt foreign pension funds from this tax as a way to help restructure domestic commercial real estate debt and start building and creating jobs all over the country. And I have also heard from the President about his forceful statements that he wants to use executive authority on issues he deems are priority. This is one of those issues that was listed last year.

So I hope you agree it makes sense for the administration, particularly Treasury in this case, to take some sort of action on FIRPTA reform, and I promised you that we were going to send some documentation. I want to call your attention to that—I mean, it will come to you specifically, but there are a number of distinguished tax experts who wrote to Treasury on October 8th regarding their interpretation that Treasury has the authority to modify that notice to exempt foreign pension funds.

And I am disappointed to find out that, despite the importance to both the administration and Congress—this is a bipartisan issue, by the way, our legislation—to deal with this legislatively, although we think it can be done administratively as a bipartisan effort, it remains unanswered.

So I hope you will personally have an opportunity to ask for the letter, look at it, read it, and come to a conclusion with those who work with you at Treasury to get to a point where we might actually be able to pursue something that the President himself wants to see.

Secretary LEW. Senator Menendez, I will follow up and get a response to that letter. We are in total agreement that there should be a change of policy here. We have proposed legislation to do it. We would like to work with the committee to get that done.

Our view has been that we did not have the authority, but I am happy to go back and take another look at it again. It is something—we have so many infrastructure needs in this country. Our goal is to have an attractive place for foreign direct investment in the United States.

This is a policy area that is a problem, and we will follow up and work with you to explore the question of what authority we have.

Obviously, the most straightforward way to deal with it would be to change the law and make it clear, and I hope we have an opportunity to work together on that.

Senator MENENDEZ. Well, thank you.

Mr. Chairman, I appreciate the Secretary raising the IMF issue, as we are dealing with it in the Foreign Relations Committee, but I think it is beyond Ukraine. It is a question of whether we want to be in a position in the world to be able to influence the economic issues that affect us here at home, but that stabilize opportunities abroad.

Secretary LEW. And I would like to thank Senator Menendez, as chairman of the Foreign Relations Committee, for the leadership he has shown in putting together a package for the Ukraine and for funding the IMF, and, frankly, for the bipartisan support that that is getting. We very much appreciate it.

The CHAIRMAN. I appreciate Senator Menendez's points as well, and look forward to working with him.

Colleagues, we have three members here. In order of appearance, Senator Warner, Senator Bennet, and Senator Roberts. We can have each member get their 5 minutes in before the vote. We have Senator Cardin, and we will be able to get Senator Cardin in as well.

So let us just begin, if we could, with Senator Warner.

Senator WARNER. Thank you, Mr. Chairman. And I want to join my colleagues in commending you on your chairmanship. And I did not know the dais went down this far. [Laughter.]

But I heard and appreciate your comments and Senator Hatch's comments that this is going to be an inclusive committee, and, even if you are at the kids' table, your voice will be heard. So I am grateful for that.

I want to echo what Senator Menendez said about FIRPTA. As we think about getting foreign direct investment in job creation, this one should be a no-brainer. And whether we can do it administratively or legislatively—I am on Senator Menendez's bill—I strongly support it.

I want to move to a part of the President's budget that others have touched upon, Senator Isakson and Senator Menendez, on infrastructure. I want to commend the President for thinking about this in a more aggressive manner and for the $150 billion he has put in, whether that is through a proposal that I am working on—that Senator Bennet is taking the lead on, but that I am his supporter and ally on—in terms of repatriation, or other proposals.

I would simply point out to my colleagues that we are now seeing, just as we want to get foreign direct investment in the United States, the real estate, we are now, as you are well-aware, in a position where there is lots of private American capital that does not, cannot, invest in American infrastructure right now because we do not have an infrastructure financing authority.

And the President, in his budget, proposed this approach, and I would point out that this is an approach where we have taken some of the ideas that were in the Infrastructure Bank that the President proposed earlier, made it slightly, candidly, more conservative, where we have taken out energy generation, we have guaranteed investment-grade investments, we have made sure that private dollar, first dollar loss applies. And the BRIDGE Act, which is infrastructure financing authority, now has five Republican cosponsors, five Democratic cosponsors, and a number of other members who are quite interested. It initially capitalized at $10 billion, but only scores at $7 billion.

And I would just say, for my colleagues, when interest rates are at a record low, not to take advantage of trying to get that private capital into our infrastructure projects would be a great, great loss. The Transportation Infrastructure Finance and Innovation Act does a very good job. But we just received a TIFIA grant on our rail project at Dulles, and it took a year to process.

So the idea of having a central point for project finance and infrastructure financing in the U.S. Government, I think, is terribly important. It does not replace the need for a permanent funding source, but financing is a key component.

The reasons are quite simple. One, you need the place to get the long-term capital, patient capital, a place to invest in. Two, with the government backstop, you can save 200 basis points, which, on a multi-hundred-billion-dollar project, can be $30 million, $40 million, $50 million off the project cost. And third, while I commend the folks at TIFIA, you need to concentrate our expertise around road, rail, water, energy transmission, ports—something that is terribly important for Senator Isakson and me in Virginia—in one spot if we are going to have the expertise on the private-sector side to go against Wall Street.

This is more commercial, but also I would make the point that I think particularly for smaller States, this is an asset that, for smaller projects that we have modified from previous proposals, would lower the minimum amount and actually increase the amount that goes to rural communities. They are not going to have the expertise at the local level to do this without some ability to draw upon some national expertise.

So I just would like you to—and I do not want to overstate it. It is not a silver bullet. You have to have the permanent funding source, as well, the leverage to private capital, but this notion of an infrastructure financing authority or how we get private capital into our infrastructure needs, if you would like to comment on that.

Secretary LEW. Senator, we are in total agreement. We do not think it is a choice. We need to have our conventional funding mechanisms, and that is why the highway bill reauthorization and a funding mechanism to have Federal infrastructure funding firmly secure are so important.

We also need innovative funding mechanisms, like the Infrastructure Bank, and we need to look at things like——

Senator WARNER. Better if we call it a financing authority.

Secretary LEW [continuing]. Financing authority, and things like the legislation to change FIRPTA so we can get foreign direct investment.

I just came back from the G–20 meetings, which were concentrated on growth. And within growth, the question that we spent a lot of time talking about across the world was how to make private investment in infrastructure something that could happen more easily and more effectively.

And the things that the whole world talks about are, how do we get things permitted—that is why our one-stop coordination is so important—and how do we eliminate some of the friction in the system, which is why the financing authority is so important.

But there is no scenario that takes government out completely. It is necessary for certain risk-sharing. It is necessary to keep certain essential projects that do not have a revenue stream going.

So I think it is kind of “all of the above,” and we are determined to really make progress on it. And I must say, my view of the last 3½ decades has been that there really is bipartisan support for infrastructure. It is not something that is a party-line issue.

So we should be able to make progress on it.

Senator WARNER. Mr. Chairman, I just want to point out that our legislation starts with 10 original cosponsors: five Republicans, five Democrats. And I would also point out that I believe we are the only industrial nation in the world that does not have an authority or some ability to leverage private capital investment in infrastructure.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Colleagues, we are going to call some audibles here. We are just going to keep this going, because so many Senators are interested in it. In order of appearance, next is Senator Portman, 5 minutes.

Senator PORTMAN. Thank you, Mr. Chairman. Welcome to you. Also, welcome to Mr. Warner, joining us down here at the kiddy table at the end of the dais.

And, Secretary Lew, thanks for coming before us again. You know my disappointment with this budget, and it is very simple. We do not address the big issue, which is mandatory spending.

We were just told by the Congressional Budget Office witness, sitting in a chair just like that one, only a couple of weeks ago, that the mandatory side of the budget, which is the part we do not appropriate every year, is now two-thirds of the budget, and it is going to grow to over three-quarters of the budget in the next 10 years. And specifically, he said that health care entitlements are going to increase by about 115 percent, more than double.

And we know these trust funds are in trouble already, and, looking at the future, Social Security Disability is depleted in 2017. The other two trust funds, the old-age trust fund in Social Security and the Medicare Trust Fund, both will be depleted, and therefore bankrupt, within the lifetime of most people retiring today. So I am very concerned that we are not addressing it. I think the President had an opportunity to do so. In fact, he even backtracked from what he had in his last budget in terms of looking at these important, but unsustainable programs.

So my general question to you, which I do not want you to answer now because I want to get into taxes, is, what are we going to do about this issue? And, if we do not address it, we will continue to squeeze the discretionary side of the budget, including infrastructure—and my colleague just talked about that—defense, and everything else and put more and more pressure on our economy.

On the economic issue, revenue, you have over $1 trillion in new taxes in this budget after the $600 billion-plus and the new revenues in Obamacare and so on. And my concern, of course, is that economic growth is already incredibly weak, and that growth trumps tax increases by far in terms of how you get the right kind of revenue into the budget.

In its new baseline, CBO has said we are looking at a 2.5-percent growth. They have downgraded. They have actually said that is $1 trillion less in tax revenue over the next decade from their last report 9 months ago.

And, by the way, every single one of their projections has been wrong. Their repeated decreases in projected economic growth do not translate into more than $2.2 trillion in reduced tax revenue through 2024. And keep in mind we are not talking about the bad economy the President inherited, because you might answer that way. These were additional downward economic projections that occurred after the President took office—after he took office.

So, we have to get the jobs back and get the growth back. And I would just say the President spent years fighting for a $600-billion tax increase. In effect, America surrendered $2.2 trillion in revenue from continued sluggish growth during that period, if you look at it as economists would.

So $1.2 trillion in new taxes you have proposed here. Professor Romer, who is President Obama's former chairman of the Council of Economic Advisers, has said that an exogenous tax increase of 1 percent of GDP lowers real GDP by roughly 3 percent. So, Mr. Secretary, I guess, does the White House believe that it can raise $1 trillion in new taxes for Obamacare, $620 billion in the fiscal cliff, $1.2 billion here, without significantly slowing economic growth?

Secretary LEW. Senator, I think that if you look at the experience of the last several years, we are on a path of economic growth. It, obviously, took a long time to dig out of the recession from 2008–2009, but we are seeing better growth in the United States than in a lot of other economies, and we have put in place a number of important things. We, obviously, got our economy moving right away with the Recovery Act. We put in place financial reforms. But we also enacted the Affordable Care Act. So a lot of the policies you are talking about are in place, and we are growing.

In this new budget, what we have proposed is an investment program that we think is what is necessary to build the economy in the future. We need infrastructure, we need skills training.

Senator PORTMAN. Let me just say, again, Secretary Lew, if I could, my question was about the impact of taxes on the economy.

Let me give you an example, just to be sure you know what I am talking about. You have the Buffett rule in here again this year, and you say we need to increase taxes on what is really investment capital, and the latest Joint Tax Committee analysis of this says that it essentially creates a 30-percent minimum tax on income over a million bucks, raises $71 billion over 10 years, and payroll taxes count toward the minimum, phased in.

Most of the taxes, they say, are going to hit capital gains and dividend income—so that is basically what we are talking about here—which help fuel investment, which brings economic growth.

Let me ask you this, just as an example. Is it possible that such a steep tax increase for these kinds of investment income could reduce economic growth by even 1/40th of 1 percent; in other words, from 2.445 percent, which is projected, to 2.420 percent, 1/40th of 1 percent? Is that possible that those kind of taxes on investment income could do that?

Secretary LEW. Senator, I am happy to go back and look at different estimates. On the back of an envelope, it is hard for me to——

Senator PORTMAN. Well, the reason I ask you that is because, if so, then the entire $71 billion that you are raising through that tax is negated by slower economic growth.

Secretary LEW. I think if you look at——

Senator PORTMAN. And that is the issue, as you know.

The CHAIRMAN. I just want to make sure that the other Senators get a chance.

Senator PORTMAN. I am sorry. I was not watching my time, Mr. Chairman.

Let me just make this general point, if I could. I am, obviously, disappointed we did not deal with the mandatory side, and I know we are going to have to as a body, on a bipartisan basis, and you and I have talked a lot about this. There are ways that we can do it.

I am pleased that there is some means-testing still in the budget. I know that has been controversial even, but you backed off on some other things. But we have to be careful on this tax code that we do reform that is pro-growth and that we do not put more taxes on this economy at a time when it is much weaker than any of us——

The CHAIRMAN. We have to go to Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Secretary Lew, welcome. The President's budget includes an important expansion of the Earned Income Tax Credit for workers without children. Thank you for that. That is reflective of the legislation that Senator Wyden and 30 of our colleagues introduced. It will matter for workers without children. It will make it permanent, that is particularly important, as is the cost-of-living adjustment for the Child Tax Credit. Thank you for that.

This should be a bipartisan effort and a bipartisan issue. It started under President Ford. President Reagan said, I believe, if I could paraphrase, it was the best anti-poverty program that the Federal Government had. It was championed by Milton Friedman and the American Enterprise Institute. It is something we ought to be able to pass.

Some have said, in response to your minimum wage proposal from the President, that $10.10 an hour with an increased tipped minimum wage and with the cost-of-living adjustment in it, that we should do the Earned Income Tax Credit instead. Let me just ask one sort of central question about this.

Last week, I did a hearing on this committee, in the Subcommittee on Social Security, Pensions, and Family Policy, about people's retirement security, and it is clear there is a huge number of Americans, moderate- and low-income Americans, who have really only one leg of the 3-legged stool. They do not have—they certainly do not have a defined pension benefit. If they have a 401(k), there are just a few dollars, without much security, and they have very little or no savings.

So the issue, in many ways, for retirement security is, what are we doing about wages in this country? We know that worker productivity has almost doubled in the last 35 years. We know profits are high. We also know wages have been stagnant for most Americans, and we know the minimum wage has 20 percent, 30 percent less buying power than it did 2 or 3 or 4 decades ago.

Taking all of that together, talk to me about the importance of both a minimum wage increase and an Earned Income Tax Credit expansion in two ways. One, what does it mean to economic growth; and second, what does it mean long-term for those workers who are retiring 10 and 20 years from now after being in the lowest quartile or the two lowest quartiles of income earners?

Secretary LEW. Senator Brown, I think that my answer to your question is, in a sense, the answer I would have given to Senator Portman if we had had more time.

So I am going to kind of combine a couple of ideas in answering. We need to focus on growth in this country, and we have had no lack of income at the high end over these years, when we have seen a leveling off and shrinking of income in the middle and entry level of the workforce.

I do not think there is anyone who doubts that when you raise the minimum wage, every dollar people earn is spent. It does not answer the question about saving for retirement, but it certainly does answer the question about getting that money back into the economy and stimulating economic activity.

The EITC has been the most powerful engine to get people out of poverty and get them to work. Young people who are trying to work their way through college at low income ought to have the benefit of an EITC. Again, they are going to spend the money that they have disposable.

Our challenge in terms of retirement savings is to get people started saving and to do it in a way where it is a habit that develops early and builds as people's disposable income grows. That is why, even though it is a small number, the myRA is so important. Almost anyone can put away $5 a pay period. When you can put away $100, all the better. But you have to get started, and too many people wait too long.

I think that we have to be kind of honest with ourselves about the tradeoffs within the system. If we are going to have a fiscal policy that is fair and balanced, if we are going to meet our deficit targets, we are going to have to focus on the areas that are really critical to growth. And we think that the tax proposals in this budget put burdens where they can be borne—and in a way that is consistent with economic growth—and invest in the things we need to do as a country to make sure the engine of economic growth picks up speed, and infrastructure and skills training are part of that.

Though that was not what you asked about, it is on a continuum. So I actually think one has to look at these proposals in the whole and look back not just to 2008–2009, but over the last several decades. What are we going to do to change the direction of middle-class income in this country? And I think our budget does that.

Senator BROWN. Thanks. I would add, for my last 20 seconds, a higher minimum wage, as you said—if you raise it to $10.10, it does not mean they are going to put $25 a week into savings. But it does mean a couple of things. It means that others get raises a little higher than that. They may be able to save a little bit under myRA. It also means their Social Security benefit will go up a little bit, because the lowest-wage workers, obviously, have the lowest Social Security benefits too.

Secretary LEW. And look, at a very fundamental level, anyone who works full-time in this country ought to take home a paycheck that is at least at the poverty level.

The CHAIRMAN. The clock is running in our favor. The vote has not started.

Senator Cardin then Senator Bennet.

Senator CARDIN. Thank you, Mr. Chairman.

First, I want to welcome Senator Warner to our committee. It is great to have him here, and I know that he will be a great addition to the committee. So welcome.

Mr. Chairman, it is nice to have you as our chairman, and I congratulate you on your elevation, and we look forward to working together as a team for our country.

I particularly appreciate your initial questions to Secretary Lew in regard to the Ukraine and tools that are available. It is a very dangerous situation, not just for Ukraine, but globally.

I had a hearing yesterday on the East Asia and Pacific Subcommittee, and we were talking about the security issues in the South China Sea and China's reaction to what is happening in the Ukraine and what options they may use if there is not a robust response to what Russia has done in Ukraine.

I had a hearing just this morning, which is the reason I was late, with the Helsinki Commission on the Western Balkans, and, clearly, what is happening in the Ukraine affects the attitude of countries to respect borders around the world. So every tool we have at our disposal needs to be utilized to make it clear that Russia cannot violate its international commitments in regard to Ukraine's legitimate borders.

Let me also comment just very briefly on the budget. Mr. Secretary, I know you had a very difficult choice. The budget numbers are compromise numbers. They are not what we all would like to see, and we all would like—and the administration has been very clear about this—a long-term budget agreement that, yes, deals with tax reform and revenue, so we have some predictability in our tax code to help businesses, and continues the progress made in bringing down health care costs, which will bring down entitlement spending.

And that is what we need, to get that predictability in our budget. And that is the thing I hear most from the private sector on at least job growth: predictability is key to making decisions. And the administration has worked very hard and been very bold about putting forward suggestions in that regard, and I applaud you for that, because it does lead to job growth, as Senator Warner has been talking about, and Senator Brown and others.

Yes, we need to do a better job at job growth. We have to have a budget that allows us to invest adequate money in education and research and infrastructure. That is how we create jobs. But let me, in the few minutes I have, raise a question where we have some agreement and disagreement, and that is retirement savings. We have talked about this before.

In the best of times, we did not save enough as a Nation, and we did not put enough away for retirement. In tough times, it is even more difficult. And Senator Brown is absolutely right in regard to the minimum wage and in regard to the EITC. These are valuable tools that give stronger ability to workers to be able to put money away for their retirement, and myRA, I think, is a good first step. I think that is a good idea.

I remember when I was in school, we put a little bit away every week for U.S. savings bonds. I think it makes sense to get people as early as possible putting money away.

But we have shown what works and what does not work. And things that work, like the Saver's Credit, let us build on that. Automatic enrollment, that works. But we also know that low-wage workers are not inclined to put money away just because there is a tax advantage. They need money on the table, and that is where the Saver's Credit comes in, but that is also where employer-sponsored plans come in.

My concern is that you, once again, have put a cap on tax benefits to limit what you can put away in preferred retirement options, which could have unintended consequences of terminating more plans, allowing less people to be covered by retirement savings.

So, Mr. Secretary, I want to work with you, because I think there are ways that we can, obviously, work together. There is broad interest on both sides of the aisle to have more robust opportunities for people to put money away for retirement and savings. And I know that you are open to that, but I wanted to give you a chance to comment.

Secretary LEW. Senator, we are in total agreement about the need to create more savings opportunities to get people started, to get them on a path toward having a strong amount of personal savings to look forward to in their retirement.

The proposal we have on limiting the availability of tax benefits for savings is very narrow. We do not say that there is any limitation on the amount that one can save. We just say that once there is $3.1 million in an account, additional contributions are not eligible for preferred tax treatment.

So for most Americans, $3.1 million in retirement savings is more than they can even dream of. If we can get everyone to the point where they are hitting that limit, we will have succeeded in our goal.

Senator CARDIN. I think you are also limiting the 28-percent deductions on some, and I think there are some additional——

Secretary LEW. The 28-percent limitation applies to a very broad range, and that is really just saying that people in the highest income bracket should get the same value for their tax deductions and credits as people who earn $250,000 a year. It does not take away a tax deduction. It just caps it at the amount that is benefiting people who are kind of at the beginning of the high end.

Senator CARDIN. We will continue the discussion.

Secretary LEW. We will continue the discussion.

The CHAIRMAN. Thank you.

The very patient Michael Bennet.

Senator BENNET. At long last.

Mr. Chairman, first, I would like to welcome my friend, Senator Warner from Virginia, to the kids' table. It is nice to be sitting at the big kids' table, but that will happen in time.

Senator WARNER. I am feeling younger and younger in this committee.

Senator BENNET. Thank you.

And, Mr. Chairman, congratulations to you. We are all delighted that you are chairing the committee, and my hope for you and for all of us is that this committee can become the model of bipartisanship that this Senate and this Congress needs.

I met before I came here this morning with my county commissioners in Colorado, and it is the most diverse array of people you could imagine. Every political party was represented, urban and rural areas were represented, people with very strong convictions and disagreements who very easily came together on the six priorities they have for the State of Colorado. And the discussion we had suggested that the next 15 things on the list, if there were room for them, we could all agree on.

And I think one of those things, Mr. Secretary—welcome back, by the way—really is infrastructure. You have heard that throughout the committee's questions today. Mark Warner has a bill; I have a bill called the Partnership to Build America Act. It has seven Republicans, five Democrats, and an independent on it. That is pretty good. And I know of the chairman's interest in it.

But I would ask, first, that you take a look at that bill, and, if there are ways in which we can improve it, I would love to hear about it. I do not know whether you have followed it at all, but I would just encourage us to imagine that we can actually do something on infrastructure in this committee. And I do not know if there is anything else you would like say about it.

I guess I have one last thing, and then I will shut up. I had the occasion recently to visit Union Station in Denver, where we have built a passenger rail station, a heavy rail station, a light rail station, a bus station. I was working for the Mayor of Denver when all this started.

It has a bunch of local money, and $1 billion in Federal money. You cannot find another example of what we have built in Colorado unless you go abroad. And I am really proud of what people did there because, when you stand there, what you say to yourself is, "This is too big an asset for what we have right now." But what you realize is that, 50 years from now, somebody is going to stand there and say, "You know what? It was really good that somebody 50 years ago thought about us."

I think that is what our parents and grandparents thought when they built the infrastructure that we are not now maintaining, much less building the infrastructure we really need in the 21st century for our kids.

So there is a little bit of a question in there, but I am going to turn it back over to you, Mr. Secretary.

Secretary LEW. Well, Senator, I could not agree more on the need and the gratitude that we have to past generations, and that we should hope future generations have to us.

The infrastructure that was built in this country in the 1930s, the infrastructure that was built in this country in the 1950s and 1960s, is what has built the economic foundation for growth in the United States. That is not going to last forever, and we have to be on the job, and we have to make sure that we leave behind infrastructure that can mean a 21st century and beyond of sustained growth and leadership in the United States.

We have looked at the legislation that you have put in, and I think there are a lot of points of overlap between that approach and ours. We have, obviously, proposed taking the business tax reform debate and moving it aside, doing business tax reform and infrastructure together while we pursue broader comprehensive tax reform.

I think that the obstacles to broader comprehensive tax reform will bring us back to some of the divisive issues on fiscal policy. On the business side, there is a lot more basis for consensus, and I hope we can make progress.

Senator BENNET. I guess I would suggest, on that point, and I hear you and understand it, I do not think we need to get tangled up on all that.

We obviously do need to do comprehensive tax reform, but God knows when that is going to happen. And this is a modest, in some sense, amount of money, $50 billion we are talking about, to capitalize. We do not have to reform the whole tax code to get it back.

But in any event, let us keep working on it.

Secretary LEW. We are happy to work with you. Let us do something now.

Senator BENNET. Speaking of taxes, when I look at the code, I often think what is embedded here is really a fight between the future and the past, and you have a bunch of incumbent interests that are protecting those incumbent interests, and what it threatens is the innovation in our economy, and that is important to me because of all the questions we heard today about median family income continuing to fall.

I do not think we solve that problem without educating our people and without having the most innovative ecosystem on the planet, because it is the jobs that are created next week and the businesses that are created next week that matter.

The budget contains several tax proposals, I think, that are consistent with that. It strengthens the research and development tax credit and makes it permanent. It also permanently increases the amount of startup expenses that small businesses may deduct.

I wonder if you would take your last seconds here to tell us how else this budget is intended to support, or the tax provisions in particular, support innovation in this country.

Secretary LEW. I think you have put your finger on the primary drivers. Obviously, what has made our economy the cutting-edge economy is our innovation and our ability to translate technical and scientific breakthroughs into commercial endeavors.

We should have a tax code that encourages that on a predictable basis, where it is not changing constantly. We have tried to make some structural changes in how we would provide the tax credit for research and experimentation to make it meet the needs of businesses today and not looking back 20 years.

I think we always have to look forward. We cannot have a tax code that was designed to deal with the challenges of either 1960 or 1980. We need a tax code that deals with the challenges of the 21st century, and we have tried to put proposals together that do that, and I look forward to working with this committee to get that accomplished.

Senator BENNET. Thank you. Thank you for your testimony.

Thank you, Mr. Chairman. I was talking about my county commissioners earlier, and I would say that, speaking of predictability, not a single one of them said that they had ever passed a continuing resolution as a way of resolving their budget issues.

With that, I will yield the floor.

Senator HATCH [presiding]. Thank you, Senator.

We will turn to Senator Roberts now.

Senator ROBERTS. Well, thank you, Senator. I had some glowing remarks about the chairman, and, of course, we are talking to an empty chair here. [Laughter.]

I did not mean that to reflect poorly upon the chairman. But at any rate, he is originally from Wichita, KS, and they are now discovering his chairmanship. They are very proud, and they are going to besiege the chairman with the milk of human kindness and humble requests, maybe a little frankincense and myrrh and a little bonus depreciation for the aircraft industry, if that works out.

But I have a lot of pride that a good friend and a colleague has now become chairman of this committee. People ask me how I get along with Ron Wyden, and I say, everybody gets along with him. You might not agree with him, but everybody gets along with him. That is rare in these times.

Mr. Secretary, one of the issues—like Senator Burr has referred to, and Senator Isakson—I am always asked about on my visits home is whether anybody will ever be held accountable for the scandals at the IRS.

Let me just say that I have introduced legislation, along with Senator Flake—let me get to that here. The bill would stop the IRS from intimidating or targeting groups for their beliefs. Forty other Senators have cosponsored this bill. Last week, the House passed very similar legislation.

I hope this is on the fast track, and it would simply halt further action on the IRS's proposed regulations until ongoing investigations are completed by the Justice Department, the House Ways and Means Committee, and this committee, the Finance Committee. I do not think it is controversial. Just let the full light of day shine on these practices before allowing the IRS to move to new restrictions on any political activity.

So the bill freezes further IRS action for 1 year and would make it clear that the IRS can only enforce the regulations that were in place before all this mess began.

Mr. Secretary, do you think it is appropriate to propose more regulations before the relevant committees, including this committee, have completed the investigation of the IRS actions?

Secretary LEW. Senator, I think that your characterization of no one being held accountable is something that does not reflect what we have done. We brought in a new IRS Commissioner. He replaced all of the intermediate levels of leadership in the chain to the incident that we have said was unacceptable and had to be something that was fully investigated and never done again.

Policies were put in place to change the practices, and, as I think we all know, the Inspector General report had a recommendation—all the things that I described were recommended, but it had an additional recommendation that the rules need to be clarified, because part of the problem is unclear rules.

We have put out for comment a preliminary approach which, I might add, does not even provide all the detail, because we said in order to develop the detail, we needed comment from all parties.

Senator ROBERTS. I know it does not have all the details. I am concerned about that. Let me just——

Secretary LEW. Well, that reflects——

Senator ROBERTS. I know your clarification argument with regard to all this.

Let me ask another question. In developing these regulations, why did the IRS limit the new rules to (c)(4)s and not apply them to other regulated not-for-profit organizations, such as unions?

Secretary LEW. Well, the proposed rules went out and asked for comments on a broader range of areas. The final rules have not been written.

I think one of the reasons for going out was to get comment, and we have gotten it from right and left. There are over 150,000 comments. It is going to take a while to go through the comments. I am not sure that any rule has gotten more comments, and we are going to go through them as quickly as——

Senator ROBERTS. Why do we not just wait until the investigations are over, and then you could take a look at that? I think only one person was fired. Everybody else retired without any sanctions, and that was voluntarily.

Let me just ask you the basic question here, because I talked to Mr. Fix-It, which is how I refer to the new man there. He indicated that he was just going to try to fix things at the IRS and that he did not have anything to do with the investigation, other than trying to get things behind everybody.

But is the Internal Revenue Service equipped to regulate political activity? Should we not reduce or eliminate the agency's role in this area and keep regulations and politics where it belongs, that is, with the Federal Election Commission?

I do not know why on earth we had to go down this road.

Secretary LEW. Senator, the rules in this area have evolved over a long period of time. The clarification proposed is intended to start a process of clarifying it so that there will not be any kind of ambiguity, and we look forward to working with Congress going forward as we review the extensive amount of interest that is reflected in the comments.

Senator ROBERTS. I am 24 seconds over time. I do not see anybody else. I would say to the acting chairman, I just have one other request, that the article by Bradley Smith back on February 26th in the *Wall Street Journal* be put in the record at this point.

Senator HATCH. Without objection.

[The article appears in the appendix on p. 97.]

Senator ROBERTS. It really gets to the heart of the matter. Everybody asks, how did this happen, how did this start?

On February 16, 2012, seven members of the majority wrote to the IRS asking for an investigation of conservative organizations. I am not saying that is where it started to begin with, but that surely gave it a push, and I think that is pretty obvious, and I really regret that that happened.

My time is up, although you know, I would tell the acting chairman, if that is the appropriate term, that Senator Wyden, when I was chairman of the Intelligence Committee and we were trying to confirm General Hayden as the CIA director, asked for 20 minutes—we had 20 minutes at that time, not 5, not that I am saying we should subject you to 20 minutes, sir. But at any rate, then he asked for another 20 and another 20. Now, that is an hour.

So I am probably over here about 1 minute and 40. Maybe I could have an account or something. I could sort of bank on that or something.

Senator HATCH. I think what I am going to do is ask one last question, if I can.

Senator ROBERTS. I appreciate that.

Thank you, Mr. Secretary, for coming.

Secretary LEW. Thank you, Senator.

Senator ROBERTS. I appreciate it.

Senator HATCH. We are kind of ping-ponging. I went over to the first vote, and Senator Wyden will be back, but hopefully this will not be much longer.

In one of the darkest moments in modern political history, President Nixon sought to use the IRS to target his political enemies, and, thankfully, for the sake of our Nation and our democracy, the IRS Commissioner at the time stood up to the President and the White House and refused to allow the IRS to be used for political purposes.

And just as the IRS Commissioner decades ago had a clear role in rejecting or approving President Nixon's recommendations to target Americans based on their political views, the IRS Commissioner of today, John Koskinen, has a clear role in rejecting or approving the current proposed IRS regulations that, if finalized, will make it more difficult for Americans to speak out against bad public policies.

Treasury regulations make clear that the IRS Commissioner can block proposed regulations prior to those regulations moving up the chain to the Treasury Department to become final. In other words, if Commissioner Koskinen is opposed to the IRS regulations and truly committed to restoring the credibility and the reputation of the IRS, as he claims, he can block the regulations from moving forward.

Now, Secretary Lew, if you approve of those regulations, then I must say you are wrong, but can you at least confirm that—and

I am not saying you do—but can you at least confirm that the IRS Commissioner has the authority to choose to not approve making the IRS targeting regulations final and that he may exercise that authority free of influence or pressure from Treasury and/or the White House?

Secretary LEW. Senator Hatch, I think you and I agree 100 percent that the IRS should be totally apart from politics, and I think we all learned in the 1970s of the danger of crossing that line.

I also know that the investigations that we have done in terms of information available to us—and I hope this is confirmed by the investigations that you conduct—is that there was no political activity behind the very bad judgment that was exercised in the case of the 501(c)(4) reviews.

I think the development of regulations between the IRS and Treasury is a well-established practice, where there is a policy discussion that goes on and Treasury plays a lead role in developing tax policy, but IRS plays a critical role in the implementation of it, and one has to inform the other.

So I can guarantee you that the process here will be full and fair and open. The 150,000-plus comments are going to take a while to go through, but everything will be reviewed. That is what should happen on an important policy matter.

Senator HATCH. Sure. Sure. But I think what I am asking is, do you agree with my view that Mr. Koskinen can stop this, if he wants to, just like the IRS Commissioner during the Nixon administration?

Secretary LEW. Yes. In the role of approving policy as opposed to enforcement actions, enforcement actions are totally in the domain of the IRS Commissioner, as is appropriate. Policy is signed off on jointly by the IRS Commissioner and the Assistant Secretary for Tax Policy, and both have a role to play there.

Senator HATCH. Now, let me get this straight. We have had this situation arise where it looks like the IRS is being misused and that some people have acted improperly at the IRS. We are in the middle of an extensive investigation on that, a bipartisan investigation, by this committee.

All I am asking is that, if Mr. Koskinen decides to resolve this matter, he has the authority to do so. That is all I am——

Secretary LEW. Well, I tried to answer the question. If I was not clear——

Senator HATCH. You are going back and forth and all around. Answer it "yes" or "no." Does he have the authority to say, we are going to stop this?

Secretary LEW. He does sign off on policy regulations, as does the Assistant Secretary for Tax Policy. So both have signoffs. It takes both.

Senator HATCH. In other words, if he decides that they have gone too far and that this is improper, he still has to get your approval on the regulations.

Secretary LEW. When we publish rules, both the IRS Commissioner and the Assistant Secretary for Tax Policy sign off on them. So what I am saying is, those are the two approvals that go in. And I am not going to characterize for what reasons he would or would not exercise that judgment. That is, obviously, something that is his judgment to make. But he does sign off as IRS Commissioner. All IRS Commissioners sign off on regulations.

Senator HATCH. Well, let me just ask it a different way. Yes or no: can the IRS Commissioner choose to stop the rule absent your or the White House's pressure?

Secretary LEW. Well, I am trying to respond to your question, Senator, and it——

Senator HATCH. Well, I think the answer is clear. He ought to be able to.

Secretary LEW. He does have the authority to either sign off or delegate to his deputy the right to sign off. He also has the right not to sign off.

Senator HATCH. No. But if he does decide to——

Secretary LEW. I am just not going to speculate on what motivation goes behind the decision——

Senator HATCH. Well, you cannot decide what he is going to do.

Secretary LEW. Yes.

Senator HATCH. But the thing I am trying to establish is, he has the right to stop this type of stuff.

Secretary LEW. He either decides to sign off or not, yes,

Senator HATCH. Right. All right. I think that is all I need.

Could I ask one other question?

The CHAIRMAN. Yes, you can. As it happens, I am getting ready to ask another one as well. So, please.

Senator HATCH. Let me just ask one more question.

Secretary Lew, I have been watching with deep concern Russia's use of economic and trade measures against the new Ukrainian government. Now, this is part of a larger pattern, it seems to me, of Russian economic coercion, certainly against its neighbors, for nothing but political reasons.

In a letter I sent yesterday, I raised my longstanding concerns with Russia's actions and its continuing refusal to meet its international economic obligations. In that letter, I urged the administration to use all tools at its disposal to demonstrate to Russia the importance of complying with its international obligations and offered to work with the administration to put more tools at its disposal, if necessary.

Now, Mr. Secretary, do you have any views about the administration's efforts to improve Russia's compliance with its international obligations, which existing policy tools are not being fully utilized, and what further tools can be used to bring pressure to bear on Russia and to bolster our friends and allies in the region?

Secretary LEW. Senator, as I tried to make clear at the beginning of this hearing, it is a very important matter for us to be clear that Russia's actions are unacceptable and that there have to be consequences, but there also has to be a path for Russia to take to step back, and we are going to respond in a way that is responsive and proportional.

And we have already taken actions with regard to the G–8 meetings, which are very important to Russia. We have taken action with regard to a trade delegation that was supposed to be negotiating the binational investment treaty, which has been called back. We have taken action by keeping a presidential delegation from attending the Paralympics—again, very important. Russia put a huge amount into the Olympics and the Paralympics, and not participating is a clear sign.

Our policy is clear that they have to politically and economically feel the isolation that comes from acting in a way that is inconsistent with international law. The President has made clear that he has asked for other options. We are developing those options. I am going to leave it to the President to decide what options to exercise. But we are, obviously, looking at what other steps would be appropriate.

Senator HATCH. Mr. Secretary, the parts of the budget that have been made public so far do not seem to have much, if anything, to say about promoting growth through trade, including the Trans-Pacific Partnership, or TPP, and the Transatlantic Trade and Investment Partnership, or TTIP.

Now, I noted that in the page-and-a-half section of the budget titled, quote, "Cuts, Consolidations, and Savings," the President calls for a grant of authority to him to submit proposals to organize the executive branch via a fast-track procedure. However, I am not aware of any call by the President in the budget for fast-track authority to negotiate our trade deals, called Trade Promotion Authority, or TPA.

Now, Mr. Secretary, given the potential for trade deals to grow the United States economy and create domestic jobs, is TPA simply not a priority for this administration?

Secretary LEW. Senator, I think the President made clear in the State of the Union address that Trade Promotion Authority and the two agreements, the Pacific agreement and the Atlantic agreement, are both important priorities, and we want to work with this committee on a bipartisan basis as the chairman takes a look at how to move TPA forward.

Most importantly, we want to move forward on both TPP and TTIP so that we can bring the kind of high-quality agreement that will help promote U.S. economic growth, world economic growth, back to the Congress.

It is an area where I hope we can have bipartisan cooperation.

Senator HATCH. I hope so too.

Secretary LEW. We agree.

Senator HATCH. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Hatch.

Secretary Lew, on this matter of the 501(c)(4)s—and I was out of the room, and thank you, Senator Hatch, for your graciousness so I could make the votes. But we have had a number of colleagues raise this issue, and, of course, I am sort of parachuting into this matter, because, as you know, Chairman Baucus and Senator Hatch and the Finance Committee staff, on a bipartisan basis, have been working on this.

They have interviewed 28 IRS employees and received approximately 500,000 pages of documents. It is my hope and expectation that this report will be ready for release next month or in early April.

Senator Hatch and I have agreed, and I thank Senator Hatch for his thoughtfulness, that we are going to meet every week, and it is my intent to work with him in a thoroughly bipartisan way on it. And it just seems to me that it is not appropriate for this committee or for the Senate to take action until this bipartisan investigation is completed, and, obviously, we are going to have a big debate when it is over.

For example, for the long term, I feel very strongly about the legislation. It is the only bipartisan campaign finance bill now on the table here in the Senate, the bill I have with Senator Lisa Murkowski. And Senator Murkowski puts it very eloquently. She says it is time to apply the "even Steven" rule: the same thing that you do for the NRA is what you do for the Sierra Club.

And so, for the longer term, I think there are a host of opportunities for Democrats and Republicans to get together and get on top of this issue. But for the immediate situation, with respect to the debate that you have heard this morning—and I have not heard all of it—with respect to the 501(c)(4) issue, I just do not believe it is appropriate for this committee or for the United States Senate to take action until the bipartisan investigation, which, in my view, Senator Hatch and Chairman Baucus began in a very thoughtful way, is completed.

So you do not have to comment on that.

Secretary LEW. I would just like to thank you for acknowledging the enormous amount of document production that has gone on. We have tried to be cooperative and to provide the committee what it needs, and we are looking forward to the committee completing its work so we can all see the results and then move forward.

The CHAIRMAN. Let me talk a little bit with you about tax reform. I think we have a couple more minutes before the vote, and you have been very thoughtful to talk to me about some of the approaches for the future.

As you know, I have about 9 years' worth of sweat equity into all of this and really began it with Rahm Emanuel when we could not get a Republican sponsor. Then Senator Gregg sat on a sofa with me every week for almost 2 years to get what still is the first bipartisan Federal income tax reform bill since the 1986 reforms, and then, fortunately, Senator Dan Coats, our colleague from Indiana, was willing to step in when Senator Gregg retired.

And as you and I have talked about, there are certainly differences between the parties at this point. Revenues would be one in particular. But I think there are also some areas for common ground that we ought to stake out early, and that is what I really want to talk to you about for just a couple minutes, and then I want to recognize Senator Thune for his questions.

By the way, I want to thank Senator Thune for another bipartisan effort you are going to hear a lot about, and that is our effort in the digital goods area, where, in areas like cloud computing, America has a strong economic advantage, and I thank Senator Thune for being willing to work in a bipartisan way on it.

Secretary Lew, what brought 1986 together was Democrats said, we have really seen all of these special interest tax breaks clutter up the code. There have been thousands and thousands of them. And Republicans said, okay, we are concerned that the tax code is incredibly inefficient. It is not doing what is necessary for growth. And in effect, both sides said they could support the other. In other words, right at the get-go, there was a major opportunity for common ground.

I think we have found another one. Given the fact that consumers drive about 70 percent of the economic activity in the country, we ought to do something to help the middle class.

Now, Senator Gregg and Senator Coats and myself and Senator Begich have been able to come up with a paid-for middle-class tax cut, paid for by, in effect, eliminating a host of the other special interest breaks and tripling the standard deduction.

Give me your thoughts, if you might, for a minute before we recognize Senator Thune. What are other areas where there is opportunity for common ground? In other words, we know that there is a difference of opinion on revenues. Do you have any thoughts on some other areas that we might stake out early on, given the fact that this tax code is a dysfunctional mess? I call it a rotten carcass of an economic system. It clearly does not work. What are the other possibilities for some common ground early on as we tackle this in a bipartisan way?

Secretary LEW. Well, Mr. Chairman, I know that you have worked for years trying to put together bipartisan approaches here, and we have talked about some of the technical issues in there and what it takes to have bills that truly are revenue-neutral.

I think that, on the individual side right now, we have seen for several years the challenge of getting beyond the fiscal debate, and I think the notion of doing revenue-neutral individual tax reform is something that would be very challenging without doing a broader fiscal agreement, because it is not likely that, in a generation, you do major tax reform and then you come back and you address the tax code again.

So that led the President to the view in July that, while he wants to pursue comprehensive tax reform and hopes that we are in an environment where we can have a fiscal frame that would permit us to make progress there, on the business side, there is much more of a coming together of views. There is kind of a convergence of general approaches, where, if we were able to succeed, we would do something very good for the economy by having the business tax rate, the statutory tax rate, come down.

Our average tax rate is already lower because of all the loopholes that are bringing many companies special benefits, but our statutory rate is one of the highest in the world. That is an extra burden for companies when they want to have their headquarters in the United States. It is an issue in terms of base erosion and our international conversation about making sure that we do not have stateless income.

And I think it has the added benefit that there are one-time savings where you really have two choices. You can either use that money to reduce the deficit, which is a laudable objective, so we do not discredit that as an objective, or you could use it for one-time expenses. What you cannot do is lower rates as if the one-time saving is gone forever, because then you would, in the next period of time, be losing revenue.

That is why the President proposed pairing business tax reform with an infrastructure initiative. I think there is the basis there where you have seen proposals on both sides that have elements of agreement, and I think that it is something that, the more we talk about across party lines and with each other, the more we have an opportunity to get something important done.

The CHAIRMAN. Very good.

Senator Thune?

Senator THUNE. Thank you, Mr. Chairman.

Secretary Lew, nice to have you here. Welcome back.

I also want to welcome our new chairman and really look forward to working with him. As Chairman Wyden mentioned, we have worked together on a number of issues: digital goods, digital trade; most recently, a letter that we spearheaded, signed by 33 Senators, in support of maintaining the charitable deduction in tax reform, because we believe it is very important in encouraging charitable contributions.

I noticed again that the budget this year did have the 28-percent limitation on itemized deductions that many of us think is going to negatively impact charitable giving. And I am just wondering about the rationale for doing that. Should we not do everything we can to increase charitable giving in order to reach those that government cannot or has not been able to assist?

Secretary LEW. Senator, I think we totally agree that we ought to provide incentives for charitable giving, and the limitation actually does not take away the incentive for charitable giving. What it does is, it says that the value of a deduction should be capped at 28 percent, which is roughly where a $250,000-a-year income puts the value of your tax deductions right now.

I would point out that we have seen tax rates higher and lower. We have not seen the small changes on the margin lead to a decline in charitable giving.

Most people give because they want to give, and there is a tax benefit that goes with it. So I do not think we have seen historically that when tax rates went down, we saw a decline in charitable giving. So I actually do not believe our proposal would have the adverse effect that some have worried about.

We have also expressed an interest in working with Congress on this, because we do share the goal of making sure that there is a strong encouragement to charitable giving. There is so much important work in this country that goes on, not through government or through commercial activity, but through the not-for-profit sector.

So I think we are in total agreement on the importance of it. We perhaps do not have exactly the same view of what the impact of the limit is. I actually think the history of experience with different tax rates supports our analysis.

Senator THUNE. And I have seen a lot of analysis that suggests—I do not think people give because of the tax deduction, but I think it does affect the amount they give. I think that it does have impacts, and I have seen a good amount of analysis that suggests that capping it would, in fact, reduce the amount that people are giving.

I think people are still going to give to those causes, but I just do not think it is going to be on the same levels.

Secretary LEW. And the only point I would make is, we did not see the amount of giving go down when rates came down. So it just argues that it is not quite as much, not as variable.

But we are happy to continue this conversation, because we really do have the same goal.

Senator THUNE. I wanted to ask too—I know you have probably answered many questions on this already, but I get questions from my constituents and I think people across the country about the whole issue of the bonuses that went out to the IRS employees and whether or not it is appropriate that bonuses be paid out at an organization that has so brazenly betrayed the public trust. And even if you do not agree—and I do not think you probably do—that the targeting of conservative groups was politically motivated, it is hard to deny that there was a gross incompetence there and negligence with regard to how the agency processed the applications of these social welfare organizations.

So, do you think that these employees associated with that decision, whether it was politically motivated or not, to target these Tea Party groups, deserve bonuses?

Secretary LEW. Senator, I think it is really important not to describe such a large agency as the IRS as if everyone was involved in one activity. We have made clear that what happened in the (c)(4) experience was unacceptable. We believe it was bad judgment. You will reach your own conclusion when you complete your investigation. We have seen no sign of political interference in any of the reviews we have done.

I think that the policy on compensation for the IRS broadly has to reflect the fact that we have an enormous number of people who are tireless, hardworking public servants who do a fine job under very difficult circumstances, and we are not seeing the level of funding for the IRS to make it possible for them to do everything that we really need them to do.

In that world, making sure that we have proper compensation and fair compensation is an important thing, and I would just note that there was a pause in those payments. There were some collective bargaining issues that arose. And in resolution of it, there is a new policy in place.

Senator THUNE. Well, I would just say, I mean, I know there is a law suit and the union issue that you referenced, the collective bargaining thing, but there were an awful lot of bonuses paid out to executives who were not a part of that lawsuit, too.

And I just think it is awfully hard to justify to the American people that, in an agency whose credibility has been so badly damaged, that somehow you could pay out bonuses. I mean, I think it just flies in the face of everything that is logical to the American people.

To have the American people have to see what has happened with this whole episode, which has reflected, I think, very badly on the IRS, and then find out that they are being rewarded with bonuses, I mean, this is——

Secretary LEW. Senator, I guess I would point to some other things happening at the IRS that we, I think, on a bipartisan basis, applaud over this same period of time.

We have implemented the Foreign Account Tax Compliance Act, which was a law that passed with bipartisan support, to make sure that we would have transparency across country lines so that illegal tax evasion could be stopped. The work done by our IRS on this has become the world standard. I go to international meetings, and what I hear other finance ministers saying is, we want FATCA for all.

So we have people who have done fine work during this period, and I just think we have to recognize that it is a large agency doing a lot of things.

Senator THUNE. And if that is true, and I do not—I mean, I am sure there is a big mission, big agency, but we know for sure there are certain folks in certain offices who were associated with these actions that have, I think, reflected so unfavorably and so negatively upon the agency.

And I guess the last comment I will make is perhaps a follow-up question. Is there a way that you can selectively figure out, though, how not to reward the people who are doing these sorts of things? Reward the people who are doing the good things that you just alluded to, but, please, do not reward the people who are responsible for this behavior.

Secretary LEW. Senator, obviously, the IRS Commissioner would be better-equipped to address that than myself. But I would note that the senior managers who were anywhere in the chain of command who exercised bad judgment in running the program are no longer there, and I think that reflects the seriousness with which we took the bad judgment and the consequences of it, and the fact that we had an acting Commissioner who took quick and decisive action.

So we very much share the view that anyone who was responsible for doing things that they should not have done does have to be held accountable.

Senator THUNE. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

The CHAIRMAN. Thank you, Senator Thune.

I have a couple of business matters to deal with, and then we can wrap up.

On the question of hearing from you with respect to the Ukraine, Secretary Lew, all we are interested in is getting a sense from the Department what kind of guidelines and principles we ought to be using in evaluating the host of proposals that have been advanced by Senators in terms of holding Russia accountable for the incursion into the Ukraine.

Obviously, matters like timeliness, their effectiveness, are what we want to hear from you on. If you could get that to Senator Hatch, that would be great.

Also, I expect that Senators may want to submit some questions to you in writing. We will hold the record open until Friday on that.

Also, just because I know members and staff have some questions with respect to the business meeting that had been noticed for this morning, we, obviously, do not have a quorum at this time. We do have some organizational issues to work through, and it is my intent to consult with Senator Hatch and find an appropriate time to convene the business meeting off the floor.

Secretary Lew, we thank you. We thank you for your patience. It has been a long morning, and we did not expect all of these votes.

And on a personal level, I want you to know how much I look forward to working closely with you.

Secretary LEW. Thank you very much, Mr. Chairman, and I look forward to the same.

The CHAIRMAN. The Finance Committee is adjourned.

[Whereupon, at 12:40 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

STATEMENT OF HON. ORRIN G. HATCH, RANKING MEMBER U.S. SENATE COMMITTEE ON FINANCE HEARING OF MARCH 5, 2014 PRESIDENT'S FISCAL YEAR 2015 BUDGET

WASHINGTON - U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following remarks during a Senate Finance Committee hearing examining the President's budget proposal for Fiscal Year (FY) 2015 with Treasury Secretary Jack Lew:

To begin, I'd like to note some problems with the process by which this proposed budget has been unveiled.

First of all, we received this budget just yesterday, a full month past the statutory deadline.

And, what budget information we did receive yesterday is incomplete.

For example, when you look at the appendix of the budget, there is often reference to a section called "Analytical Perspectives," but those perspectives are nowhere to be found.

I assume that the rest of the budget information is forthcoming. Still, we can only wonder why it is being released a few pieces at a time.

The administration appears to be approaching this hearing in the same way, as we did not receive Secretary Lew's written testimony until late last night, which was less than helpful.

When we get past the process issues and into the substance of the President's budget, we see that the administration appears to be short on new ideas. Indeed, this budget consists largely of proposals from President Obama's past budgets, which is surprising given that none of them have received a single affirmative vote in Congress.

These proposals represent a continuation of three familiar themes.

First, we see the administration's continued insistence that we can achieve prosperity by adopting more tax-and-spend policies that grow the federal government.

Second, there are the proposals centered on the apparent belief that even more income redistribution will somehow lead to economic growth and job creation.

And, finally, we see another attempt to define "tax reform" as a process of raising taxes in order to fuel more federal spending while closing whatever the administration deems to be a "loophole" in the tax code.

Based, in part, on rosy economic assumptions, the administration believes that its proposals will reduce our high debt-to-GDP ratio. But, to get there – and to help fulfill its tax-and-spend objectives – the budget envisions well over $1 trillion of additional taxes in the face of a persistently sluggish economy.

That bears repeating: President Obama's latest budget contains more than a trillion dollars in proposed tax hikes.

The administration claims – as it has for years now – that these additional revenues are needed to restore fiscal responsibility and reduce the deficit as part of a quote-unquote balanced approach.

However, we need to look at the facts.

Let's consider the deficit reduction that has occurred since the high-deficit watermark achieved in Fiscal Year 2009. From the deficit of over $1.4 trillion in that year, the deficit fell to a still-high $680 billion in Fiscal Year 2013. Of the $736 billion of deficit reduction, $670 billion came from increased revenue and only $66 billion came from reduced outlays.

So, in terms of budget realizations, rather than promises for the future, less than nine percent of the deficit reduction between 2009 and 2013 came from reductions in spending. The vast majority came from increased revenue.

Yet, remarkably, in the face of that history, the administration's insatiable desire for higher taxes leads it to propose more tax hikes along with even more spending.

Put simply, the tax hikes envisioned in the President's budget are not what our struggling economy needs.

Unfortunately, while having pledged to focus like a laser on jobs, this administration decided over the past five years to focus on expanding government with a failed stimulus, the Affordable Care Act, and initiatives like the Dodd-Frank Act that is growing the big banks and shrinking community banks.

None of those efforts laid a foundation for economic growth. And, sadly, the budget offered this week does not present a vision for such growth in the future.

Instead, this budget proposal appears to be a political document, designed to shore up support from the President's left-leaning base in an election year. This, needless to say, is disappointing given all the real challenges our nation continues to face.

As you can see, Mr. Chairman, we have a lot to discuss today when it comes to the proposals in this budget. And, there are other issues at the Treasury Department that also warrant our attention today.

For example, I find it incredible that, even with all the challenges our nation is facing, the Treasury Department has decided to place the singling out of 501(c)(4) organizations for scrutiny near the top of its administrative agenda.

As with the budget, it appears that politics are driving the decision making when it comes to promulgating regulations through Treasury. In my view, it would be useful for the administration to focus more on growth in the economy and jobs than on how the President's party will fare in the next election. With those concerns in mind, I look forward to today's hearing. Thank you, Mr. Chairman.

###

WRITTEN TESTIMONY OF SECRETARY JACOB J. LEW BEFORE THE SENATE FINANCE COMMITTEE ON THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2015
MARCH 5, 2014

Chairman Wyden, Ranking Member Hatch, and Members of the Committee, thank you for the opportunity to appear before you today to discuss the President's Fiscal Year 2015 Budget.

The President's Budget invests in the United States economy to promote economic growth in the short-term and to strengthen the foundations for sustained prosperity in the long-term. The Budget builds on recent bipartisan achievements to make fiscal consolidation more balanced and incorporates initiatives to foster innovation, rebuild infrastructure, promote national security, and ensure economic, health, and retirement security for all Americans.

Introduction

When the President took office five years ago, the fiscal outlook for the federal government was bleak. The fiscal deficit was large—at nearly 10 percent of GDP—before any of his policies were enacted. Moreover, the economy was in the throes of the worst recession the nation had seen in generations. Since that time, both the sustained economic recovery and the policies put in place have resulted in a sharp decline in the deficit, putting us on a sustainable fiscal path.

From fiscal year 2009 to 2013, the deficit as a share of GDP fell by more than half to 4.1 percent. This 5.7 percentage point decline in the deficit is rapid by historical standards—over the past several decades, only the period of demobilization following the end of WWII has seen a faster pace of fiscal consolidation. For fiscal year 2014, the projection is for another reduction in the deficit, to 3.7 percent of GDP. A growing economy and our policy choices have dramatically improved our fiscal trajectory. Unfortunately some of the deficit reduction, particularly arbitrary spending cuts imposed by the sequester, have been a notable drag on the economy. More generally, the contentious political environment in Washington, governing from crisis to crisis, has held back the recovery that would have otherwise created more jobs for working Americans. Over the past couple of months, we have seen real progress in returning to regular order in conducting fiscal policy, and so I am hopeful that the bipartisan progress we have seen can continue. But such progress necessarily takes compromise to stimulate growth and curb the deficit. The President's FY 2015 Budget continues this trend. Under the FY 2015 Budget, the deficit will decline to less than 2 percent of GDP by 2024. Debt held by the public as a share of the economy will stabilize in FY 2015 and decline steadily thereafter until the end of the forecast horizon to 69 percent of GDP in 2024.

Over the past 4½ years, the United States economy has made clear and substantial progress recovering from the worst recession the nation has seen since the Great Depression. Although far more work remains to be done, the economy is poised to accelerate this year, continuing the recovery and putting millions more Americans back to work. While the economy has grown at an average rate of 2.3 percent since the recession, last year it grew 2.5 percent. Since February 2010, when the economy began producing jobs again, we have added 8.5 million new private-sector jobs, including 2.3 million over the past year. The housing market, which was the locus of much of the distress in the economy, is now rebounding, as rising house prices benefit millions of homeowners and activity in the sector shows signs of a building recovery.

Since the last time I testified on the President's budget, the economy has improved; but we cannot yet be satisfied with where we are. The unemployment rate fell to 6.6 percent in January, its lowest level since October 2008, but there are still millions of Americans in search of work as well as part-time workers in search of full-time opportunities. Moreover, the benefits of the growth we have seen are not being shared by all Americans. Median income for American families has been stagnant for years, while income at the very top has seen substantial growth.

Our recovery from the worst economic recession since the Great Depression continues to strengthen, but more needs to be done to accelerate growth and ensure the benefits of economic growth are not overly concentrated. The President's Budget presents a considered plan to build on the momentum of the recovering economy, to invest in long-term, sustainable growth for all Americans, but to remain dedicated to the need for fiscal responsibility. The recovery in the U.S. economy has helped to drive the world economy. At the G20 meetings, there was agreement that more needs to be done to stimulate growth around the world. With the building strength in our economy, we can maintain our leadership in the global community.

While the FY 2015 Budget adheres to the 2015 budget caps, it also includes a $56 billion Opportunity, Growth, and Security Initiative that will allow for additional discretionary investments to help expand economic growth and opportunity. This initiative follows the Bipartisan Budget Act (BBA) model of providing equal dollar sequestration relief for defense and non-defense outlays and is fully offset by a combination of revenue and non-health mandatory spending reforms. The initiative highlights the type of balance that the President has long been calling for by funding critical domestic initiatives. This Budget proposes to restore discretionary spending to a path that would support economic growth, opportunity, and security. In particular, while the BBA replaced half the discretionary sequestration cuts for 2014, it replaced just one-fifth of the scheduled cuts in discretionary funding for 2015. As a result, taking into account projected growth in programs such as veterans' medical care and other factors, the BBA non-defense discretionary funding levels for 2015 are several billion below the levels the Congress provided in 2014. They are also below 2007 funding levels adjusted for inflation, even though the need for pro-growth investments in infrastructure, education, and innovation has only increased due to the Great Recession and its aftermath.

The proposals in the President's Budget aim for balance to achieve long-run fiscal responsibility while promoting economic recovery and growth by eliminating waste, investing in the future, and reforming certain mandatory programs. The Budget calls for business tax reform that will make our companies more competitive but that will be revenue neutral in the long run. It introduces a plan to repair our existing infrastructure and expand it to support our economy for the next generation. The Budget increases the resources we are putting toward national security both at home and abroad because economic prosperity and fiscal responsibility cannot come at the expense of our safety. The Budget also proposes initiatives to improve early childhood education and skills training because investing in our nation's human capital will provide the best long-run return for the economy.

Taking appropriate steps today will make our fiscal challenges easier tomorrow. A stronger economy today will ease those fiscal challenges and improve the lives of working Americans. A credible plan, built on the recent bipartisan cooperation that we have witnessed, is the best way to secure long-run growth.

Investing in Jobs and Opportunity

The strength of our country remains our ability to innovate, the greatest workers in the world, and our strong businesses. The United States competes in a global economy, and to continue to provide jobs and opportunity for Americans, we need to invest in American innovation, strengthen our manufacturing base, and keep our nation at the forefront of technology.

The President has called for the creation of a national network of manufacturing innovation institutes across the country. This network will bring together the private sector, universities, and the government to cooperate to develop world-leading technologies that will support domestic manufacturing. In 2011, the President launched SelectUSA, creating the first Federal effort to attract foreign business investment in the United States, and the Budget expands that effort.

The Budget calls for investing in a wide array of research and development (R&D), from advanced manufacturing and clean energy technology, to health care and agriculture. To support private-sector applied R&D, the Budget reforms and makes permanent the Research and Experimentation tax credit.

In order to secure America's energy future and to protect the planet for future generations, the Budget helps increase American low-carbon energy production while improving energy efficiency. Over the President's first term, the United States cut oil imports by more than 3.6 million barrels per day. To accelerate the progress toward energy independence, the Budget establishes an Energy Security Trust to help fund efforts to shift cars and trucks away from oil. The budget also combats climate change. It does this by investing in clean energy technology, promoting cleaner fossil fuels, supporting the development of carbon pollution standard for power plants and efficiency standards for appliances and buildings, expanding the Better Buildings Challenge and, encouraging international efforts to reduce greenhouse gas pollution.

Building a 21st Century Infrastructure

Long-term economic success depends on the infrastructure that supports our economy. That is why the Budget includes a proposal that uses one-time transition revenue resulting from business tax reform to fund a four-year, $300 billion surface transportation initiative that will improve our roads, bridges, and railways and will also create jobs across the country. And because funding is one of the most significant obstacles to getting infrastructure initiatives started, the Budget offers innovative ways to finance them. It continues to call for an independent National Infrastructure Bank with the ability to bring together private and public capital in support of a broad range of infrastructure projects, including transportation, energy, and water. At the same time, the Budget creates an America Fast Forward Bonds program to attract new sources of capital for infrastructure investment. Finally, the President has called for streamlining and accelerating the permitting process for infrastructure initiatives, and the Budget includes funding for a new Interagency Infrastructure Permitting Improvement Center to help with these efforts.

Supporting Education and Providing Skills

The single greatest resource that our economy has is our people, and it is critical that Americans have the skills and knowledge to compete in the global economy. Research has shown that investing in early childhood education pays great dividends for years to come. The Budget includes the Preschool for All initiative, which was first proposed by the President last year. This initiative involves partnering with States so that all low- and moderate-income four year olds have access to high-quality preschool and creating incentives for the States to expand these programs to reach additional children from middle-class families and establish full-day kindergarten policies. The Budget also provides $150 million for a new program to redesign high schools so students get relevant educations that meet the demands of current and future employers.

As important as it is for us to modernize and expand programs for young people, it is equally important that we modernize and expand job-training programs for current workers and job seekers. One way the Budget does this is by helping to increase registered apprenticeships, so that workers can "earn and learn" in cutting edge fields. Because long-term unemployment remains a pressing economic and social issue, the Budget provides resources for new public-private partnerships to help get the long-term unemployed back into paying jobs.

Promoting Economic Opportunity and Mobility

As I noted earlier, the economic recovery from the Great Recession has gained traction, but more work remains to be done, particularly to ensure that current and future opportunities are enjoyed by all Americans. Although the unemployment rate has fallen 3.4 percentage points since its peak in 2009, the long-term unemployment rate remains stubbornly high. At the end of last year, Emergency Unemployment Compensation for these Americans lapsed. Congress should renew this vital support for Americans in need, both because of the human suffering that it would reduce, but also because it would add strength to the economy. To increase opportunity for Americans, the Budget supports the Promise Zone initiative, which establishes partnerships with the Federal government, State governments, and businesses to create jobs, expand educational opportunities, and increase access to affordable housing.

In his State of the Union address earlier this year, the President called on Congress to raise the federal minimum wage to $10.10 per hour and to index it to inflation. No American who works full time should have to live in poverty, and the proposed new minimum wage would pull an estimated 1.6 million Americans out of poverty and add spending to the economy. The Earned Income Tax Credit (EITC) also provides support to low-income working Americans. The Budget expands the EITC available to workers without children and non-custodial parents, including by making the EITC more available to younger workers to encourage more young Americans to join the workforce at the critical beginning stages of their working lives. Improving the security of Americans in retirement is also an important policy goal. To that end, the Administration is moving forward with the myRA "starter" retirement account, and the

Budget proposes to establish automatic enrollment IRAs to provide even broader access to retirement savings vehicles for Americans who do not currently have access to a workplace savings plan.

Ensuring Our Nation's Safety and Security

Sustained economic growth is only possible to achieve if our country is safe and secure, and the President's Budget bolsters national security both domestically and abroad. The Budget invests in the President's Now is the Time initiative to reduce gun violence, supports additional background checks for firearms dealers, and continues to support the Comprehensive School Safety Program and other programs that make our schools safer. Protecting our national security around the globe is equally important, and the Budget reflects a focused effort to address our highest defense priorities—bringing the war in Afghanistan to a responsible end, working to disrupt and disable terrorist networks, and assuring that our military is ready to respond to new threats such as cyber-attacks or attacks on the nation's critical infrastructure. Given the critical role our military plays, this budget provides significant resources to support veterans' medical care, help military families, assist soldiers transitioning to civilian life, reduce veterans' homelessness, and improve the disability claims processing system.

Health Care Reform

With continued implementation of the Affordable Care Act (ACA) and the opening of the Health Insurance Marketplace, millions of people have enrolled in either private insurance or received coverage through Medicaid and the Children's Health Insurance Program. The Budget fully funds the ongoing implementation of the ACA to make sure that coverage is affordable, to drive down long-term health care costs, and to improve the quality of health care for Americans.

At the same time, the President is committed to meaningful reforms to entitlement programs. The Budget includes [$402] billion in savings on health care spending. The Budget includes proposals to increase care quality and efficiency and to reduce fraud in our Federal health care programs. The Budget also includes structural changes to Medicare that encourage beneficiaries to seek high-value healthcare services. The Budget proposes a reduction in the Federal subsidy of Medicare costs for those who need the subsidy the least. For new beneficiaries beginning in 2018, the Budget proposes a modified deductible for Medicare Part B and a modest copayment for some home health services. The Budget also has several proposals to contain the costs of medications, including encouraging the use of generic medications when clinically appropriate and closing the prescription drug coverage gap faster than current law. The Budget also seeks to align Medicare and Medicaid drug payment policies, addresses excess payments to hospitals and physicians, and increases access to generic drugs and biologics.

The Budget seeks to preserve the existing partnership between States and the Federal Government, while making Medicaid more efficient and sustainable. The Budget would limit Federal reimbursement for a State's Medicaid spending on certain durable medical equipment services to the equivalent Medicare payments in that State and includes targeted policies to lower drug costs in Medicaid. The Budget strengthens Medicaid and CHIP by providing tools to States, Territories, and the Federal Government to fight fraud, waste, and abuse, and make it easier for eligible children to get and maintain coverage. The Budget also includes other program improvements aimed at improving efficiency and effectiveness as States expand Medicaid.

Lastly, the Budget proposes a budget neutral pilot initiative under the Program for All-Inclusive Care for the Elderly (PACE) to test whether PACE programs can effectively serve a younger population without increasing costs. The Budget also supports a streamlined, single beneficiary appeals process for managed care plans that integrate Medicare and Medicaid payment and services. Finally, the Budget authorizes a permanent program to provide retroactive drug coverage for certain low-income Medicare beneficiaries through a single plan.

Reforming the Tax Code

The tax code should encourage public confidence and provide a simple level foundation for economic growth. However, over time, it has become unnecessarily complicated and a burden on the economy. Comprehensive tax reform holds the promise of improving economic growth by reducing complexity for individuals and small businesses, by curbing inefficient tax subsidies that distort individual and business decision-making, and by reducing the deficit. While the Administration's position is that tax reform should raise revenue, unfortunately, there is not agreement in Congress on whether tax reform should raise revenue or be revenue neutral. The President's Budget, however, builds on the bipartisan support for business tax reform. In February 2012, the President provided a framework for how business tax reform could be achieved. The Budget uses that framework to simplify and strengthen tax incentives for research and clean energy, to begin closing loopholes and eliminating special-interest subsidies, and to begin reforming the international tax system. The proposals would prevent U.S. companies from shifting profits overseas and prevent foreign companies in the U.S. from avoiding taxes that they owe. These proposals are part of a comprehensive—and long-run revenue neutral—business tax reform plan that would also cut the marginal tax rates for businesses.

As I noted above, the Budget also expands the earned income tax credit (EITC) for childless workers. The EITC has been a particularly effective tool at reducing poverty in this country, it has been supported by both parties, and creates crucial incentives to boost employment. The President proposes to strengthen the EITC, especially for young people that are just entering the labor force. Beyond these measures, the President is committed to working with the Congress to reform the tax code further to make it fairer, to promote economic growth and job creation, and to improve competitiveness.

Comprehensive, Pro-growth Immigration Reform

The President believes that we need to fix our broken immigration system by continuing to strengthen border security, by cracking down on employers who hire undocumented workers, by fixing our broken legal immigration system, and by providing a pathway to citizenship for hardworking men and women who are already here and contribute to our nation every day.

Immigration reform will encourage economic growth and help achieve better fiscal policy. The President has laid out principles for immigration reform but wants to work with Congress to craft specific legislation. But, the Congressional Budget Office estimates that the immigration bill that passed with bipartisan support in the Senate last year – and which is largely consistent with the President's vision – would reduce the deficit by about $160 billion in the first decade and by almost $850 billion over 20 years. Similarly, the Social Security Actuaries have found that the Senate bill would reduce the Social Security shortfall by $300 billion over the first 10 years. The Administration supports the Senate approach, and calls on the House of Representatives to act on comprehensive immigration reform this year.

Conclusion

In summary, the U.S. economy has made clear progress in the recovery from the Great Recession, but we cannot be satisfied with where we are. The labor market is clearly improving, but millions are still looking for work. This budget is a comprehensive and balanced approach to the realities we face. It supports the ongoing recovery and invests in long-term growth, while also building on the progress that has already been made to ensure a sustainable path for the debt and deficit.

The Budget is a credible, common sense plan that makes hard choices. It focuses on economic fundamentals that will help drive growth, create jobs, and expand opportunity for all Americans, unlocking a brighter future for future generations. I believe, as does the President, that the recent bipartisan cooperation on Capitol Hill demonstrates that we can find common ground to move our country forward. I look forward to working with Congress to get this done.

Questions for the Record
"The President's Fiscal Year 2015 Budget"
Questions for the Honorable Jacob J. Lew
Hearing Date: March 5, 2014

Questions from Chairman Ron Wyden

Question 1:

The FY 2015 budget notes a return on investment of $6 for every one spent on enforcement and compliance. Yet despite this clear benefit of increased investment, Congress has been cutting the IRS's budget over the past few years. Please provide detailed information about the ways that the IRS is having to cut back on enforcement and compliance initiatives because of the budget reductions, how the IRS decides which efforts to curtail, and what programs will have to be trimmed if the IRS does not receive the requested $12B for FY 2015?

Answer:
In the increasingly tight budget environment, the IRS continues its commitment to carrying out its responsibilities, providing quality service to taxpayers, and preserving the public's faith in the tax system. The IRS is continually re-prioritizing activities to make sure that taxpayer-facing services do not see more of a decline than is absolutely necessary given the budget situation.

The IRS continues to seek cost-savings and efficiencies to help carry out its work with constrained resources, but cost-cutting alone cannot balance out funding shortfalls. As a result, we are seeing stress on the tax system. Since Fiscal Year (FY) 2010, total IRS funding has been cut by almost $900 million, approximately seven percent. Budget cuts place a strain on the IRS's ability to carry out enforcement efforts to support the nation's tax laws. Within the budget constraints, the IRS has an obligation to carry out the responsibilities given to it by Congress over the last several years to implement major tax-related legislation, particularly the Affordable Care Act (ACA) and the Foreign Account Tax Compliance Act (FATCA), as well as priorities such as preventing identity theft. Despite the restricted budget resources, the IRS is making substantial progress in combatting identity theft through a comprehensive and aggressive strategy that focuses on preventing refund fraud, investigating these crimes, and assisting taxpayers victimized by identity thieves.

The IRS has made major progress since FY 2010 in finding hundreds of millions of dollars in cost-savings and efficiencies. However, even with these savings, the F Y 2014 IRS budget approved by Congress continues a funding shortfall for the agency that has major implications for taxpayers and the tax system, both for this year's tax season and beyond.

This year, millions of taxpayers will see longer wait times to get basic questions answered and resolve tax issues. Further, as a result of fewer staff and reduced enforcement activities, the IRS estimates it will not be able to collect billions of dollars in enforcement revenues.

The IRS is committed to carrying out its core responsibilities and working to preserve the public's faith in the essential fairness and integrity of the tax system, yet these budgetary constraints will pose serious challenges to its efforts to enforce the tax laws and provide excellent customer service.

The ongoing tight budget environment will also have a significant impact on enforcement activities. The IRS estimates that in FY 2014 audits conducted by the IRS will decline by an estimated 100,000, the number of collection activities will decline by an estimated 190,000, and the IRS Appeals staff will process 8,000 fewer cases, leaving taxpayers with more uncertainty and less ability to resolve issues they may have with their tax liabilities.

Questions from Ranking Member Orrin G. Hatch

Question 1:

The nonpartisan Congressional Budget Office (CBO) says that over the next 10 years, spending on Social Security, Medicare, Medicaid, CHIP, and Exchange Subsidies will total over $21.6 trillion. Moreover, that spending will grow at an average rate of 4.4 percent, compared to growth in the size of the economy, which is projected to average 2.8 percent. Of course, that means that growth in the entitlement spending is unsustainable.

a. **In light of the CBO projection of over $21.6 trillion of spending in the entitlements, by how much does the President's budget propose to reduce such spending?**
b. **By how much does the budget propose to reduce average growth in the entitlement spending over the 10-year budget horizon?**

Answer:
The President's FY 2015 Budget proposes ten-year spending of $30.95 trillion on Social Security, Medicare, Medicaid, and Other Mandatory funding, which is $77 billion less than its baseline of $31.03 trillion for those categories. The Budget proposes specific reforms to Medicare, Medicaid, and other Federal health programs that would reduce deficits by $402 billion. Social Security funding levels are nearly unchanged from its baseline, and Other Mandatory spending increases by $360 billion. Collectively, this would lower average mandatory spending growth by about 0.2 percentage points, from 5.47% to 5.24%. This would build on the historically low growth rates Medicare has seen in recnet years. For example, Medicare costs grew just 0.7 percent per capita in 2012, compared to 7.4% in the previous ten years.

Question 2:

Please provide a listing, for each fiscal year (FY) since FY 2009 of "Financial Agents" that have provided services to the Treasury Department, including the names of the financial agents as well as the amounts paid to each of those financial agents.

Answer:
Treasury has statutory authority to designate national banks and other financial institutions as depositaries and financial agents of the government (12 U.S.C. 90). When designated as financial agents by Treasury, such financial institutions may perform "all such reasonable duties" as Treasury may require. Treasury has used financial agents to provide a wide range of services, including collecting tax and non-tax revenue payments, holding deposits of public money, providing debit cards for the receipt of federal benefit payments, and developing related software and information technology services. A list of financial agents is provided in attachment 1.

<u>Question 3:</u>

When a President's budget is released, I am not used to seeing some parts that appear to have been missing at the time of your testimony on the President's fiscal year 2015 budget proposal, such as the "Analytical Perspectives" and "Historical Tables." Some of the budget discussion in the material that I did receive makes reference to details provided in the Analytical Perspectives volume, but that volume is nowhere in sight. Given that the release of the budget is late, relative to statutory requirements, why did the administration release an incomplete budget, depriving members of this Committee the full information that it deserves to adequately discuss the administration's proposals?

<u>Answer:</u>
The Administration has made all of the President's FY 2015 Budget materials available online[1]. Please visit the Office of Management and Budget's website at www.budget.gov.

<u>Question 4:</u>

Last year the Social Security Trustees, which includes you, reported that the Social Security Disability Insurance Trust Fund will be exhausted in 2016. As a Trustee, you urged that lawmakers act in a timely way to "phase in necessary changes and give workers and beneficiaries time to adjust to them."

a. **In the face of the impending exhaustion of the Disability Insurance Trust Fund, what does the budget propose, if anything, to address the exhaustion of that Fund or to address the impending exhaustion of the Social Security retirement Trust Fund a bit further down the road?**
b. **By what dollar amounts, over the 10-year budget horizon, do any proposals to address the impending exhaustion of the Disability Insurance Trust Fund in the budget increase revenues flowing into the trust fund or expenditures out of the Trust Fund.**

<u>Answer:</u>
To avoid reserve depletion of the Disability Insurance (DI) Trust Fund, the Administration believes Congress must take action, as it has in the past, to reallocate the payroll tax rate between the Old Age and Survivors Insurance (OASI) and DI trust funds. This would prevent a deep and abrupt cut in benefits for vulnerable people with disabilities.

The Administration also urges Congress to take action to strengthen the DI program. For instance, the President's FY 2015 Budget proposes to establish a dependable source of mandatory funding starting in 2016 for Continuing Disability Reviews (CDRs), which ensure that only those eligible for benefits continue to receive them. For the DI program, this proposal would generate more than $13 billion in savings over ten years. After accounting for the costs of

[1] http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/budget.pdf

additional program integrity reviews, the proposal would generate government-wide savings of an estimated $35 billion over 10 years and reduce the current backlog of 1.3 million overdue CDRs.

In addition, the Budget proposes to reduce an individual's DI benefit in any month in which that person also receives a State or Federal unemployment benefit, generating $2.6 billion in DI savings over ten years. Overall, the proposal would generate $3.2 billion in savings over ten years across the DI and UI programs.

At the same time, we are proposing proactive measures to help ensure that individuals with disabilities succeed in the workforce through early intervention demonstrations.

Question 5:

Your written testimony presented to the Senate Committee on Finance identifies that improving the security of Americans in retirement is an important policy goal. Toward that end, the administration has decided, without input from Congress, to devote taxpayer funds to set up my-RA "starter" retirement accounts. Last July, I introduced legislation to encourage employers to establish a Starter 401(k) plan for the same reason: to improve the financial security of Americans in retirement.

a. **Will Treasury and the administration work with me to see if there is a bipartisan path forward to enacting the Starter 401(k) plan into law?**
b. **If so, can you identify a timetable to begin such work?**
c. **If not, why not?**

Answer:
We appreciate your continuing efforts to find ways to improve the financial security of Americans in retirement and are particularly interested in the aspect of the Starter 401(k) bill that would provide for automatic enrollment. As you know, automatic enrollment has been encouraged and facilitated by Treasury in guidance and by other means. In addition, automatic enrollment is a key element of the Administration's Budget proposal for automatic IRAs. While we welcome ideas for boosting retirement security, we also need to consider carefully all consequences that might flow from any specific proposal. For example, we will need to evaluate the impact on lower- and moderate-income employees of a safe harbor design that (by contrast to the SIMPLE plan for small business) raises permitted tax-favored contribution limits without providing for either nondiscrimination standards or employer contributions that would increase retirement savings for lower- and moderate-income employees. Also, we need to evaluate the possible costs of additional safe harbor designs that increase complexity. Finally, we need to consider the interplay of this kind of safe harbor nondiscrimination design with the SIMPLE, the 401(k), and the Administration's automatic IRA proposal. We view that proposal, which involves employers that do not sponsor retirement plans opening up their payroll systems for voluntary contributions to employee IRAs (with an automatic enrollment default), as a critical step for increasing participation in the retirement system by tens of millions of working

Americans. Because, an automatic IRA structure would encourage employers to "step up" to employer-sponsored plans, with the advantages of higher tax-favored contribution limits and the option to make employer contributions, we would like to consider a proposal such as the Starter 401(k) plan in the context of an overall strategy for boosting retirement savings that includes automatic IRAs.

We look forward to continuing to work with Congress to develop legislation that would help more Americans achieve a dignified retirement.

Question 6:

The budget deficit has fallen from the recent peak of more than $1.4 trillion in fiscal year 2009 to $680 billion in fiscal year 2013. Based on Treasury data, it can be seen that less than nine percent of that decline was due to reduced outlays, and more than 91 percent was due to increased revenue. Of course, those are realizations, and not promises of future budgetary prudence that can be undone by the current and future Congresses. As we have recently seen, some recent promises aimed at deficit and debt reduction have been undone in subsequent legislation signed into law by the President. Despite the numbers identifying that, in terms of realizations (i.e., what has happened, rather than promises), the vast majority of deficit reduction has come from higher revenues, the administration disproportionately identifies spending cuts as being a fiscal drag, but only seems to refer to tax hikes as "needed revenue." Yet, even former Fed Chair Bernanke and current Fed Chair Yellen have been careful to make clear that tax hikes from the administration are a fiscal drag. In light of the outsized role played by revenue hikes in generating the deficit reductions that we have recently observed, do you agree that tax hikes that have been part of the Affordable Care Act and those that came in under the so-called fiscal cliff deal act as drags on the sluggishly growing economy?

Answer:
I certainly agree that the President has cut the budget deficit in half since taking office. Among the most important contributors to the improvement in the budget—and the increase in tax receipts—is the reversal in economic growth from the freefall when the President took office to today's 48 months of consecutive employment growth and 8.7 million added jobs. Those increases in income and employment have helped spur a rebound in tax payments.

Although tax revenues last year as a share of GDP remained well below the historical average, the bipartisan vote to restore the late 1990s tax rates for high-income taxpayers and the modest surcharges in the ACA have helped improve the budget situation and helped make the system fairer. There is little evidence that those provisions have had any effect on economic activity. The high-income tax provisions of the Affordable Care Act are the Medicare tax increases of 0.9 percent on earned income over $200,000 (individual) and $250,000 (joint returns) and 3.8 percent assessment on unearned income for higher income taxpayers. These provisions are unlikely to generate much fiscal drag on the U.S. economy because they are targeted at high-income taxpayers who have a lower marginal propensity to consume than lower-income taxpayers.

Question 7:

Your testimony presented to the Senate Committee on Finance says that the budget calls for business tax reform that will be—quote—"revenue neutral in the long-run." I will note that the administration's focus on business tax reform alone, under the guise of "competitiveness," is disappointing. Competitiveness of flow-throughs that go through the personal income tax system should be regarded as important as well. With respect to revenues from the administration's proposed corporate tax scheme:

a. **Is the so-called "business tax reform" revenue neutral, or does it raise revenue in the 10-year budget scoring horizon?**
b. **If the business tax reform is not revenue neutral in the 10-year horizon, then precisely how many years does it take to get to the—quote—"long-run," where revenue neutrality is promised?**

Answer:
The President believes that business tax reform should lower tax rates, support investment and job creation – and not add to deficits over the long run. All of the business tax reform plans that have been proposed, including the President's Framework for Business Tax Reform, generate some temporary revenue up front, for example, by repealing the LIFO inventory method, from dealing with the $1-$2 trillion of U.S. companies' foreign earnings that have never been taxed or by slowing depreciation deductions. The problem with spending that one-time revenue on permanent rate cuts is that the temporary revenue will end, and then the rate cuts will add hundreds of billions of dollars to deficits in future decades. As a result, the appropriate horizon for determining revenue neutrality extends beyond the traditional 10-year budget window—and over that horizon, the President's business tax reform is revenue neutral.

It is not possible to say precisely how many years it takes to get to "long-run" revenue neutrality. However, there are a few general concepts that can be used to gauge long-run revenue neutrality. For example, one might focus on revenues over the second 10-year period following enactment, or one might focus on calculations of the revenues once all of the tax changes are fully phased-in. While results can vary across approaches, and any approach requires making many assumptions, the underlying rationale for the calculation is the same. All approaches help guard against misleadingly using timing and temporary, one-time tax changes to fund large tax rate cuts (or other permanent tax reductions) that obviously are not sustainable in the long run. That is why the President has proposed to devote a portion of the temporary revenue to one-time investments in infrastructure, historically a bipartisan priority.

Question 8:

Page 33 of the President's fiscal year 2015 budget document discusses the future unsustainable deficits and debt and alludes to a large tax increase that is undefined. Specifically, the budget identifies that even with reforms to Medicare and other entitlements and tough choices on the discretionary side, we will—quote— "need additional revenue to maintain our commitments to seniors..."

a. **If you agree with that part of the budget, then in addition to the tax increases in the budget, what tax increase, either in terms of dollars over the next 20 or so or as a share of GDP, does the administration believe will be necessary to get what it identifies as needed additional revenue to maintain our commitments to seniors?**
b. **Do you think that entitlements will have to be financed, at least in part, through a value-added tax or a carbon tax or some other non-income-based tax added to our existing tax system?**

Answer:
The Administration does not have a long-term revenue target, nor has it proposed a value-added tax or a carbon tax.

Question 9:

At the hearing on the President's fiscal year 2015 budget, in discussing the recent instances at the Internal Revenue Service (IRS) involving targeting of conservative groups for special scrutiny, you stated that: "I also know that the investigations that we have done...is that there was no political activity behind the very bad judgment that was exercised in the case of the 501(c)(4) reviews." You also stated that "...we have seen no sign of political interference in any of the reviews we've done." Please describe the scope of the Treasury Department's investigations and reviews; who led the investigations; and, who was interviewed. Please, also, identify whether there are any transcripts of any interviews conducted by the Treasury Department; the number of documents collected for the Treasury Department investigations; and, whether the Treasury Department has shared written results of its investigations with the President and/or the Commissioner of the IRS. Finally, please share the results of your investigations with Congress and the American public by providing those results to me.

Answer:
I am aware of two reports issued by Treasury in regard to these matters. On May 14, 2013, TIGTA issued a report entitled "Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review." That report can be found at http://www.treasury.gov/tigta/auditreports/2013reports/201310053fr.html. On June 24, 2013, Internal Revenue Service Principal Deputy Commissioner Danny Werfel issued a report entitled Charting a Path Forward at the IRS: Initial Assessment and Plan of Action. That report can be found at

http://www.irs.gov/PUP/newsroom/Initial%20Assessment%20and%20Plan%20of%20Action.pdf. Monthly updates on progress made are posted at http://www.irs.gov/uac/Newsroom/IRS-Charts-a-Path-Forward-with-Immediate-Actions.

There are a number of other ongoing investigations relating to the IRS's treatment of applicants for tax-exempt status, including by this Committee and other Congressional Committees.

Question 10:

In response to a question I asked at the hearing, you acknowledged that IRS Commissioner John Koskinen has the authority to stop the proposed 501(c)(4) regulations from becoming final by the simple act of not signing off on the final regulation clearance package. Will you commit that neither you nor anyone else in the Treasury Department or the administration will directly or indirectly pressure the IRS Commissioner to sign off on the final regulation?

Answer:
Regulations under the Internal Revenue Code are issued pursuant to standard rulemaking procedures and through a collaborative process between the IRS and the Treasury Department. As a practical matter, regulations issued under the Internal Revenue Code are issued jointly by Treasury and IRS. We intend to follow standard procedures with respect to these regulations.

Question 11:

Associated with your nomination hearing for your position as Treasury Secretary, you wrote that: "In regard to the IRS, I understand that pursuant to OMB guidance implementing E.O. 12866, and longstanding agreement between OMB and Treasury, only IRS legislative rules that constitute 'significant regulatory actions' are subject to E.). 12866 review." When I asked you to please send any document which contains or reflects such "longstanding agreement," you responded with: "...I understand that this longstanding agreement originated during the Reagan Administration. I further understand that the initial agreement is memorialized in a Memorandum of Understanding between Treasury and the Office of Management and Budget, which was signed by Peter Wallison and Christopher DeMuth on April 29, 1983. I understand that Treasury is prepared to make the MOU available for your review." However, I do not wish merely to have the MOU available for visual review. I wish for you to provide the Committee with a photocopy of the MOU. Please do so.

Answer:
Treasury continues to be prepared to make the Memorandum of Understanding that memorializes this long-standing practice available for your review.

<u>Question 12:</u>

With respect to the reinsurance tax proposal in the budget:

a. **Do direct insurers not have non-tax business reasons for pooling of assets with respect to payments to foreign affiliates of reinsurance premiums?**
b. **To the extent that the answer is yes to a. above, won't this proposal curb such legitimate transactions?**
c. **Why is the proposal narrowly focused on reinsurance premiums of foreign affiliates?**
d. **Are there not opportunities for deferral/earnings-striping with foreign-parented multinational corporations in many settings outside of the reinsurance context?**
e. **If there is a general problem with earnings stripping of US subsidiaries of foreign parented groups, should that not be addressed comprehensively, rather than with separate proposals with distinct regimes for earnings stripping in the reinsurance context and for earnings stripping via interest, as under the current 163(j) rules and the proposed restriction of deductions for excessive interest of members of financial reporting groups?**
f. **If there really is the problem that the administration cites with respect to the proposal, is deduction disallowance the best way to go after such a problem (after all, in the Subpart F setting, US parent corporations are not denied a deduction for payments made to foreign subsidiaries but, rather, are taxed on the passive earnings of such foreign subsidiaries.**

<u>Answer:</u>
Risk spreading through reinsurance is a common and legitimate business practice. The Administration's proposal addresses a situation in which current U.S. tax law's treatment of certain related party reinsurance arrangements allows foreign insurers a competitive advantage over U.S. insurers. The U.S. market is extremely important for the global insurance industry. We do not expect that placing foreign insurers on a more level playing field with U.S. insurers (as under this proposal) will stop foreign insurers from seeking U.S. business. The proposal is not punitive, and allows any foreign affiliated reinsurer an election to treat its reinsurance premium income and associated investment income as being subject to U.S. taxation on the same basis as domestic companies.

The reinsurance proposal targets a unique U.S. base erosion concern arising in the insurance industry. Creating greater tax parity between foreign and domestic reinsurance companies involves ignoring cross-border reinsurance transactions with affiliated companies. This approach is not punitive, since it not only disallows tax deductions allowed to U.S.-based companies for payments made to their untaxed foreign affiliated reinsurers, but also exempts from the U.S. company's U.S. taxable income payments received from those same foreign affiliates through ceding commissions or loss recovery payments. Administration proposals also address other U.S. base erosion concerns, principally involving interest and royalty payments to foreign affiliates, but those provisions relate more directly to the capitalization of a U.S. subsidiary, and present a different set of tax policy considerations than those identified for reinsurance. The Administration does not, in principal, object to a comprehensive solution to address different U.S. base erosion issues, but believes that the current Budget proposals squarely address certain identified policy issues while limiting the opportunity for unintended consequences.

If a U.S. company makes a reinsurance payment to a controlled foreign affiliate, that payment is subpart F income of the controlled foreign corporation that is generally included in the income of its U.S. parent. However, the Administration's reinsurance proposal addresses payments made from U.S. subsidiaries of foreign corporations to their foreign affiliated reinsurers. The current law options to prevent U.S. base erosion in these circumstances are limited. Domestic law and tax treaties generally do not view an offshore reinsurance business as a U.S. trade or business that is subject to U.S. tax. Expanding the scope of U.S. taxing jurisdiction to foreign reinsurers raises a number of policy and administrative issues. The Administration's proposal addresses the U.S. affiliate's taxation, and is therefore both administrable and compliant with our treaty obligations.

Question 13:

With respect to the administration's proposal, found in the "Green Book," for restricting deductions for excessive interest of members of financial reporting groups:

a. **Elsewhere in the Green Book, the administration proposes restricting the ability of taxpayers to have "stateless income." But if "stateless income" is a problem, then why would the administration propose creating its opposite problem – namely, "stateless deductions"? Or does it believe that is not a problem?**
b. **The Administration believes interest expense incurred by a US entity, where the US entity is over-leveraged compared with its foreign affiliates, should be apportioned to the foreign affiliates and the related deductions disallowed. But what if the foreign affiliates are over-leveraged compared with the US affiliate(s)? Should interest expense be apportioned to the US affiliate, so that a US entity could actually claim more interest-expense deduction than its actual amount of interest expense? That is, why should the proposal only be a "one-way street," why not a "two-way street"? See Michael J. Graetz, A Multilateral Solution for the Income Tax Treatment of Interest Expenses, 62 Bull. for Int'l Tax 486 (2008); Martin A. Sullivan, Tax Advice for the Second Obama Administration: A Proposal for the Tax Treatment of Interest in a Territorial System, 40 Pepp. L. Rev. 1345 (2013).**

Answer:
The fungibility of money makes it easy to adjust the mix of debt and equity in a controlled entity, making the use of debt one of the simplest techniques available to multinational groups for stripping earnings out of the United States into low-tax jurisdictions. Consistent with this concern, one of the action items in the OECD/G20 project on base erosion and profit shifting (BEPS) is to limit base erosion via interest deductions and related financial payments. Current U.S. law is very permissive in allowing foreign groups to use interest deductions to offset up to

50 percent of the group's earnings. Other countries, such as Germany, have tightened their rules in recent years to limit interest deductions to 30 percent of earnings. Our new proposal would take a different approach, by limiting interest deductions based on a U.S. subgroup's proportionate share of the financial reporting group's net interest expense.

Importantly, two features in the proposal would minimize the possibility that interest expense would be permanently disallowed and therefore give rise to "stateless deductions." First, actual interest incurred by a U.S. affiliate that would be disallowed in a given tax year could be carried forward indefinitely by the U.S. affiliate and potentially claimed as a deduction in subsequent years. Second, any excess limitation (meaning the amount by which the group's net interest expense that is apportioned to the U.S. affiliate exceeds the actual net interest expense interest incurred by the U.S. affiliate) can be carried forward for three years by the U.S affiliate. Thus, as a result of these two carry forward rules, the proposal acts as a deferral provision. More fundamentally, when U.S. subgroups of foreign-parented multinationals are over-leveraged relative to the rest of the group, the excess leverage is almost always achieved using related-party debt. Such a group could avoid the deferral of deductions by simply abstaining from loading up its U.S. subsidiary with related-party debt.

Under the proposal, if a U.S. affiliate is over-leveraged compared to the group and therefore has excess interest expense in a tax year, such excess is not reallocated to one or more foreign affiliates that are under-leveraged but, instead, remains with the U.S. affiliate to be carried forward indefinitely. Consistent with this methodology, if the U.S. affiliate is under-leveraged compared to the group and therefore has excess limitation in a tax year, the U.S. affiliate is not reallocated a portion of the interest expense paid by one or more foreign affiliates that are over-leveraged (though the U.S. affiliate's excess limitation is carried forward for three years). So, under the proposal, the U.S. affiliate is not permitted to deduct more interest expense than it actually incurs. We would be happy to work with you on proposals to advance our shared policy objectives.

Question 14:

With respect to the proposal of the budget to limit the ability of domestic entities to expatriate: If a corporation pays more tax because its managers and controllers are in the US, then would this encourage corporations to move their managers and controllers out of the US?

Answer:
Inversion transactions raise significant policy concerns because they present significant potential for substantial erosion of the U.S. tax base. With increasing frequency, domestic entities are engaging in inversion transactions. These domestic entities often emphasize that the U.S. tax liability of the multinational group is expected to be substantially reduced as a result of the transaction with only minimal changes to its operations. In some cases, these domestic entities continue to be managed and controlled in the United States.

The Budget proposal would tighten the inversion rules in order to curtail the ability of domestic entities to reduce their U.S. taxes by claiming to be a foreign corporation when they continue to substantially conduct business as usual and to be managed and controlled in the United States.

We take very seriously concerns that tightening U.S. tax rules, including the inversion rules, may have an impact on decisions to operate or invest in the United States. However, we need to balance such concerns with the need to ensure that our tax system is perceived as fair and that the U.S. tax base is preserved. Allowing a domestic entity to reduce its U.S. taxes by changing its place of incorporation to a foreign country yet continuing business as usual here in the United States raises serious fairness concerns that we believe outweigh the concern that such entities would relocate their management and control functions in order to avoid U.S. tax.

Question 15:

With respect to the proposal of the budget to reduce the value of certain tax expenditures: The budget continues the President's previous proposals to limit the value of itemized deductions at 28 percent for higher income individuals. The proposal in the last few years has been expanded to limit income exclusions related to tax-exempt state and local bond interest, employer-sponsored health insurance, employee deferrals to 401(k) plans, contributions to IRAs, contributions to health savings accounts and Archer MSAs, and deductions related to health insurance costs of self-employed individuals, income attributable to domestic production activities, certain trade and business expenses of employees, moving expenses, interest on education loans and certain higher education expenses. This limitation would reduce the value to 28 percent of the specified exclusions and deductions that would otherwise reduce taxable income in the 33-percent, 35-percent, or 39.6-percent tax brackets.

a. **Note that in 2014 the 33 percent tax bracket starts at $186,350 of taxable income for singles and $226,850 of taxable income for married couples filing jointly; thus, applying the 28% limitation to this tax-bracket represents a significant reversal from the President's campaign pledge that those making under $200,000 (if single) or $250,000 (if married) would not have a tax increase. How do you respond to that?**
b. **In September 2011, the Administration proposed the American Jobs Act of 2011. That contained a proposed "28 Percent Limitation on Certain Deductions and Exclusions," similar to the Budget's proposal to "Reduce the Value of Certain Tax Expenditures." I note that the 2011 proposal, however, would include, as a tax expenditure to be limited to a 28 percent benefit, "any foreign earned income excluded under section 911." Why has the Administration dropped "any foreign earned income excluded under section 911" from its "Reduce the Value of Certain Tax Expenditures"? Does section 911(f) already limit the benefit of section 911, for the most part anyway, to less than 28 percent?**

Answer:
Single taxpayers with taxable income of $186,350 will almost certainly have gross income in excess of $200,000. Even if a single taxpayer claims only the standard deduction (which is highly unlikely for taxpayers subject to the 28-percent limit), that taxpayer would have at least $196,500 in gross income to have taxable income in the 33-percent bracket. Similarly, married taxpayers would have to have gross income of $247,150, and would very likely have higher income, in order to have taxable income of $226,850. Tying the benefit to the 33-percent tax bracket modestly simplifies the provision and helps ensure that no taxpayer receives more than 28 cents in benefit for every dollar deducted or excluded.

As you note, section 911 benefits are already limited to a specific dollar amount. Therefore we concluded that dropping the foreign earned income exclusion from the set of tax expenditures that are limited under this proposal would simplify the rule without materially changing its effect.

Question 16:

With respect to the proposal in the budget regarding "tax incentives for locating jobs and business activity in the United States" and to "remove tax deductions for shipping jobs overseas."

a. **Is there a special provision of the tax code solely for the point of providing a tax deduction for "shipping jobs overseas?" If so, please tell me where to find such a Code section and how it specifically provides a deduction solely for such an activity.**
b. **If Congress removed what the budget alleges are "tax deductions for shipping jobs overseas," would this create a negative tax expenditure?**
c. **How much does the administrations estimate the government would raise on a static basis from removing what it says are "tax deductions for shipping jobs overseas?"**
d. **How much does the administration estimate the government would lose on a static basis from providing "tax incentives for locating jobs and business activity in the US?"**

Answer:
Under current law, there are limited tax incentives for U.S. employers to bring offshore jobs and investments into the United States. In addition, under current law, costs incurred to outsource U.S. jobs generally are deductible for U.S. income tax purposes. Those deductible costs are enumerated in various sections of the Code (including under Section 162 as ordinary and necessary business expenses); the proposal refers specifically to expenses associated with the relocation of the trade or business and does not include capital expenditures or costs for severance pay and other assistance to displaced workers.

The denial of tax deductions for shipping jobs overseas would join other policies like the denial of deductions for lobbying expenses or for excessive executive pay as policies that are technically characterized as negative tax expenditures.

The combined effect of these Budget proposals is a net tax cut of more than $200 million for American businesses.

Question 17:

With respect to potential refunds of ACA reinsurance fee payments: Section 6405 of the Internal Revenue Code requires the Joint Committee on Taxation review before the Treasury issues certain refunds of certain taxes, if the amount in question exceeds $2 million. Section 1341 of the Patient Protection and Affordable Care Act established the Transitional Reinsurance Program and required all health insurance issuers and third-party administrators on behalf of self-insured group health plans to make contributions under the Program. For 2014, self-insured group health plans that do not use a third-party administrator were also required to make contributions under the Program. Last week, the Treasury department published final regulations exempting self-insured group health plans that do not use a third-party administration from making such payments in 2015 and 2015. Would Internal Revenue Code section 6405 apply to a refund of an Affordable Care Act reinsurance fee payment made by a self-insured group health plan in 2014, if requested and were for an amount in excess of $2 million?

Answer:
As you note, the rules in Internal Revenue Code section 6405 apply to certain tax provisions. The Transitional Reinsurance Program is not a tax provision. The regulations you reference were published not by the Treasury Department but by the Department of Health and Human Service (HHS). As a result, the Transitional Reinsurance Program is not subject to section 6405.

Question 18:

The Government Accountability Office (GAO) made the decision that Treasury violated the voluntary services prohibition of the Antideficiency Act (B-324214). When will Treasury report its violation of the Antideficiency Act to the Congress, as required by law?

Answer:
GAO Decision B-324314 was issued on January 27, 2014. Treasury takes the Antideficiency Act very seriously and reported the violation to Congress on April 18, 2014 in compliance with the law and OMB Circular A-11.

Questions from Senator Maria Cantwell

Mr. Secretary, as you know the citizens of most states can rely on the fact that when tax time comes around they will have the option to deduct their state income taxes on their federal income tax return. I say "most states" because my constituents in Washington do not enjoy the same certainty for their tax deduction. My constituents, and the citizens of the seven other states without general state income taxes, are subject to the whims of the annual "tax extenders" exercise.

Since 2004 when we successfully restored the state sales tax deduction, we have seen the deduction come and go. Now it is currently gone and the 24 percent of Americans and 84 percent of Washingtonians who claim the state and local sales tax deduction are being held captive once again. In 2011, the most recent year for which official data is available, taxpayers deducted less than $17 and half billion in state and local sales taxes, a small fraction compared to the more than $267 billion in state and local income taxes deducted on federal returns.

Each Congress, the very first bill I introduce is to make the state and local sales tax deduction permanent, to provide certainty to the more than 927,000 citizens of my state who rely on the deduction for tax fairness. Yet the credit is now expired and we are waiting to see if this provision will be extended.

Question 1:

As the President has chosen again not to extend the state and local sales tax deduction in his budget, what is the justification for treating my constituents differently by maintaining the permanent deduction for state and local income taxes and not extending the deduction for state and local sales taxes?

Answer:
The Administration thinks the most appropriate way to deal with the uncertainty associated with this and other expiring provisions is to undertake comprehensive tax reform and ensure that whatever specific tax preferences are retained are made permanent in the reformed tax system. In keeping with this approach, in its FY 2015 Budget, the Administration generally does not propose to temporarily extend the expiring provisions. In certain cases, as with the R&E credit and the Work Opportunity Tax Credit, the budget considers extending them within a broader business reform proposal that would make them permanent. The Administration is willing to work with Congress to consider the costs and benefits of extending the provision permitting the deductibility of State and local sales taxes and to determine if there are modifications to this provision that would increase its efficiency and effectiveness.

Question 2:

Do you think it is fair to ask the taxpayers of Washington and the other non-income tax states to ask them to wait every year for this tax provision to be extended?

Answer:
The practice of temporarily extending certain tax provisions creates uncertainty and impairs the ability for individuals and businesses to plan for and rely on those provisions. We agree that that is neither fair nor good policy. That is why the Administration is committed to efforts to reform our tax system, to address these temporary provisions in a comprehensive manner, and to make permanent the provisions that are part of the reformed tax system.

Question 3:

Why do you think it is okay to provide the predictability to taxpayers living in states with an income tax and not provide that same certainty to those living in states with a sales tax?

Answer:
See the response to Question 2, above.

Questions from Senator Benjamin Cardin

Question 1:

While I am concerned by some of the recent revenue proposals released in the President's budget that touch on retirement, I am encouraged by the Administration's ongoing efforts to promote long-term retirement savings, especially for low-income workers. The "qualified longevity annuity contract" or "QLAC" is one example of how people with modest means can protect against outliving their lifetime savings by purchasing a QLAC with a portion of their retirement savings. I recently raised the issue of QLAC regulations with your colleague, J. Mark Iwry, in connection with a hearing in the Committee on Finance Subcommittee on Social Security, Pensions, and Family Policy last month. Can you tell me when you plan of promulgating final regulations? Are you considering certain provisions or annuity designs that will offer more flexibility and increase consumer interest in QLACs, such as the ability to provide a refund of premium option, or additional, valuable investment options that guarantee lifetime income, such as including fixed-indexed annuities as eligible investments?

Answer:
Treasury and the IRS are actively working on a final regulation package with respect to QLACs. Treasury and the IRS received extensive comments in response to our proposed regulations with respect to QLACs, and our staffs are working to review these comments.

Questions from Senator Robert P. Casey

Question 1:

One of the stated aims of the President's Budget is to create jobs. My top priority continues to be job creation, so I was pleased to see several tax provisions from the bipartisan job creation legislation I introduced last year along with Senator Collins included. Specifically, the proposal includes two provisions from our bill: a permanent extension indexed to inflation of the current levels of Section 179 expensing and an increase in the tax deduction for business start-up expenses.

What impact do you think these increased expensing limits and incentives for new businesses would have on job creation?

Answer:
Both of these proposals are intended to spur entrepreneurial and small business activity and investment. They do this by reducing tax costs directly and, indirectly, by simplifying the bookkeeping required by the tax system. A precise estimate on the number of jobs created would be difficult to obtain with any degree of accuracy.

Question 2:

There has been a lot of debate in the press recently about the President's ambitious trade agenda, namely the extension of Trade Promotion Authority as well as the major trade agreements currently being negotiated with the European Union and Pacific Rim countries. Currency manipulation is central to this trade debate. It is an unfair and illegal practice that costs millions of American jobs. In January 2014, The Economist magazine found that 9 of the 11 countries with which we are negotiating the TPP had currencies that were undervalued versus the dollar. Sixty Senators are on record urging the Administration to include provisions on currency manipulation in the TPP agreement. As you know, the Treasury Department has a central role to play in protecting our industries from this unfair practice.

What are you doing to protect our industries from this kind of activity, and to make sure the TPP does not leave our economy more vulnerable to currency manipulation?

Answer:
Exchange rate issues are at the center of Treasury's international economic engagement and are a critical part of our efforts to promote strong, sustainable, and balanced global growth. We are working actively both bilaterally, including in the Strategic and Economic Dialogue, and multilaterally, including in the G-7, G-20, International Monetary Fund (IMF), and the World Trade Organization, to address persistent exchange rate misalignments.

We have made progress. For example, the G-7 countries, including Japan, publicly affirmed that their fiscal and monetary policies have been and will remain oriented towards meeting our respective domestic objectives using domestic instruments. We also have secured commitments that all G-20 members, including China, will move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility in order to reflect underlying economic fundamentals, will avoid persistent exchange rate misalignments, will refrain from competitive devaluation, and will not target exchange rates for competitive purposes. Additionally, as a result of our efforts the IMF now publishes an annual External Sector Report that includes estimates of exchange rate misalignment for both advanced and emerging market currencies.

More progress is needed, however, and Treasury will continue to pursue aggressively increased exchange rate transparency and greater flexibility, both multilaterally and bilaterally. Treasury also will continue to consult with members of Congress, domestic stakeholders, and others on possible approaches that achieve our objectives, recognizing the views of our trading partners.

Question 3:

I appreciate the Administration's attention to financing issues that are affecting the Inland Waterways Trust Fund (IWTF). I note that the President's budget includes a provision that would create an annual vessel fee to address the issues facing the Trust. I have worked on these issues in depth with the Port of Pittsburgh and a number of industry players from across the country. We have brought this group together behind a different approach, which is an industry backed 9 cents per gallon increase of the IWTF user fee.

Can you speak to the strengths of your approach? Do you have industry backing?

Answer:
The existing fuel excise tax does not raise enough revenue to pay the full amount of the authorized expenditures from the IWTF. The Administration's FY 2015 Budget includes a proposal to establish an annual per vessel fee to supplement the fuel excise tax to cover the shortfall. Both the Congressional Budget Office and the President's Commission on Fiscal Responsibility have presented similar proposals.

The Administration's proposal would generate an estimated $1.1 billion in additional revenue over the next 10 years from the commercial users of these waterways. This amount reflects estimates of future capital investment for navigation on these waterways over the next decade, including an estimate adopted by the Inland Waterways Users Board (Users Board). The Users Board proposal for a fuel excise tax increase of up to 9 cents per gallon, to 29 cents, would not raise enough revenue to fund the desired investments. Taxpayers would be required to pay the difference.

In addition, the Administration believes that the proposed two-tiered fee system would increase economic efficiency by requiring the specific users who benefit from the capital investments to internalize the costs. The burden of the fuel tax falls equally on all users through purchases of fuel. The per-vessel fee also would help ensure that costs are fairly apportioned across all users. In addition, the Administration's proposal would close an existing loophole by requiring vessels that travel on roughly 1,000 miles of the inland waterways, which do not now pay the fuel tax, to pay their fair share of costs.

Questions from Senator Michael Crapo

Question 1:

I am increasingly concerned about the impact the international effort to designate non-bank global systemically important financial institutions (G-SIFIs) will have on US regulation and competitiveness. As you know, the FSB, IOSCO and other international regulators recently established a threshold for G-SIFI designation of asset managers that captures those with more than $100 billion of assets. I understand that this $100 billion dollar threshold exclusively captures U.S.-based funds – no foreign funds would be impacted.

Please explain how you got comfortable endorsing an international threshold for designating non-bank global SIFIs when domestic regulators have not yet established criteria for designating non-bank SIFIs in the U.S.

Answer:
The Dodd-Frank Act sets forth a standard for designations of nonbank financial companies by the Financial Stability Oversight Council (Council) and lists factors that the Council must consider in making such designations. After soliciting several rounds of public comment, the Council also issued a rule and interpretive guidance further clarifying the Council's evaluation of nonbank financial companies for potential designation. Under the Dodd-Frank Act, the Council can designate a nonbank financial company if the company's material financial distress, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the company, could pose a threat to U.S. financial stability. Under the Council's guidance, any nonbank financial company with total consolidated assets of at least $50 billion that exceeds any of five other specified quantitative thresholds will be subject to further evaluation.

In January 2014, the FSB and IOSCO published Assessment Methodologies for Identifying Non-bank Non-insurer Global Systemically Important Financial Institutions for public consultation. In their methodologies issued for public comment, FSB-IOSCO proposed a sector-specific methodology for investment schemes in which investment funds that exceed $100 billion in assets under management will be within scope for national authorities to collect additional data and to conduct analysis. In the case of hedge funds, an additional threshold is proposed at a value between $400 billion to $600 billion in Gross Notional Exposure (GNE). These proposed thresholds do not imply that every entity that exceeds the threshold will be designated; instead, it is a filter used to limit the pool of firms to a more practical and manageable number on which to conduct further analysis. FSB-IOSCO also requested public comment on whether a focus on individual investment funds is appropriate and proposed three alternative approaches. FSB-IOSCO will accept public comments through April 7. FSB-IOSCO, including member agencies, will conduct a thorough review of the public comments and take the comments into consideration when revising the methodologies for subsequent publication.

Treasury is taking a constructive leadership role in shaping the international designation process for G-SIFIs through its representation on the FSB. Both the FSB and national authorities, in consultation with the relevant standard setters, determine which nonbanks are designated as G-SIFIs. Through the G-20, FSB, and standard-setting bodies, we are working with our international counterparts to promote consistency in the international and domestic processes. Since the proposed FSB-IOSCO designation methodologies rely on each national authority to conduct the analysis for its firms and determine whether or not to designate them, the process is designed in a way to align the international and domestic approaches. We aim to set a high regulatory standard and to create a level playing field that will allow U.S. financial companies to compete fairly around the world as well as safeguard the U.S. financial system from threats posed by large, complex financial companies.

Questions from Senator Deborah Stabenow

Question 1:

The president's budget is focused on doing more to rebuild our economy and to create new jobs. A recent report (published by the Economic Policy Institute) estimates that between 2.3 million and 5.8 million jobs could be created in the United States over the next three years simply by ending currency manipulation by many of our trading partners. And doing so could be done without any budget costs.

As negotiations continue on the Trans-Pacific Partnership, I will continue to emphasize to Ambassador Froman the need for the inclusion of enforceable trade provisions in any final agreement. However, I have yet to see any real progress in this regard. It has been conveyed to me on several occasions that addressing foreign currency manipulation falls under your authority at the Treasury Department.

a. **Do you agree that foreign currency manipulation gives our trading partners an unfair advantage in the global economy?**
b. **What role is the Treasury Department playing to ensure that our trading partners can be held to the high standards we are seeking in the TPP?**
c. **Are you coordinating your efforts with Ambassador Froman to address currency issues within the context of our ongoing trade negotiations?**

Answer:
I will not comment on the specifics of the EPI report, but I can assure you that currency issues are at the center of Treasury's international agenda.

To achieve this, our strategy has been, and remains, to leverage our engagement in the most important multilateral fora—including the G-7, G-20, the International Monetary Fund (IMF), and the World Trade Organization — as well as bilaterally, including in particular with China through the Strategic and Economic Dialogue (S&ED). We have worked through these various channels to secure strong commitments—both public and private—and, importantly, concrete and continued implementation of these commitments.

For example, through our leadership, the G-7 countries, including Japan, for the first time publicly affirmed that their fiscal and monetary policies have been and will remain oriented towards meeting our respective domestic objectives using domestic instruments. We also have secured commitments that all G-20 members, including China, will move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility in order to reflect underlying economic fundamentals, will avoid persistent exchange rate misalignments, will refrain from competitive devaluation, and will not target exchange rates for competitive purposes. And as a result of our efforts, the IMF now publishes an External Sector Report that includes estimates of exchange rate misalignment for the major economies.

More progress is needed, however. We will continue to aggressively pursue increased exchange rate transparency and greater flexibility, both multilaterally and bilaterally. Treasury also will continue to consult with members of Congress, domestic stakeholders, and others on possible approaches that achieve our objectives, recognizing the views of our trading partners.

Question 2:

I commend the Administration for not including the Social Security chained CPI proposal in this year's budget. We have serious fiscal challenges but reducing the Social Security benefits that workers have earned is not the way to address them. And it is certainly not where we should start.

Pensions are another critical part of our system of retirement security. I believe the Administration shares my belief that defined benefit pension plans have been -- and continue to be – crucially important for middle-class families.

I am concerned, however, that we are making it harder and more expensive for companies to continue offering pensions. In the MAP-21 highway bill, we raised the premiums that employers must pay to the Pension Benefit Guaranty Corporation by $9 billion. Last December, we raised premiums by an additional $8 billion to help reduce the sequester.

These are important goals that I share, but I am concerned that if we raise premiums yet again after we have already doubled or even tripled them, employers will finally decide to stop offering pensions. And that will set back our efforts to strengthen retirement security.

The Administration's budget allows PBGC to raise premiums by an additional $20 billion. Are you concerned that further premium increases will steer more employers away from offering pensions?

Answer:
We share your concern regarding the effect of PBGC premium increases on employers that offer pensions. We also share your belief that defined benefit pension plans have been – and continue to be – crucially important for middle-class families. The PBGC acts as a backstop to insure pension payments, so that these critically important payments can continue, subject to limits imposed by law, for former employees of companies that have failed. Unfortunately, the PBGC's single employer and multiemployer programs are underfunded. At the end of 2013, PBGC's combined liabilities exceeded its assets by more than $36 billion. PBGC is projected to be unable to meet its long-term obligations under current law.

Even though Congress has raised premiums twice since 2012, the PBGC premium rates remain much lower than what a private financial institution would charge for insuring the same risk. Recognizing your concern that rate increases not steer healthy employers away from offering pensions, we believe that any further premium increases must be carefully crafted to avoid worsening PBGC's financial condition and harming workers' retirement security by driving healthy plans that pose little risk of presenting a claim to PBGC out of the system. Balancing the importance of pension payments and the PBGC insurance of risk with the effect of any future premium increases on employers that offer pensions, the budget proposes to give the PBGC Board the authority to adjust premiums in both the single employer and multiemployer programs and directs PBGC to take into account the risks that different sponsors pose.

We look forward to continuing to work with you are other members of Congress to develop a comprehensive solution to this issue and, more generally, to protect and strengthen the defined benefit pension plan system.

Question 3:

As you mention in your testimony, home prices have been heading in the right direction. Yet 6.4 million homeowners across the country – 13 percent of all homeowners – are still underwater on their mortgages. 18 percent of homeowners in Michigan are underwater – 250,000 families.

With the law as it stands now, if a family gets help from a lender who agrees to forgive some of their underwater mortgage, the IRS will count that as income – money they have already lost on their home. That family will get a huge bill next April 15.

Even the possibility of a large tax bill could steer homeowners away from opportunities for mortgage relief that would otherwise allow them to stay in their homes or at least escape the burden of an underwater mortgage. I am deeply concerned that the expiration of the Mortgage Forgiveness Tax Relief Act at the end of 2013 is preventing distressed homeowners from getting the help they need.

Therefore, I was very pleased to see that the President's budget proposes to extend the Mortgage Forgiveness Tax Relief Act an additional three years – through 2016.

Could you elaborate on the importance of this budget proposal for the millions of families who are directly affected, and for our housing markets and economy?

Answer:
As you have indicated, despite the growing recovery of residential real estate markets, many homeowners are still experiencing difficulty making timely payments on their mortgage loans, resulting in a substantial volume of foreclosures. Moreover, it is often in the best interests of both the homeowner and the holder of the mortgage loan to avoid foreclosure in one of several ways. For example, in what is called a "short sale," the homeowner may sell the home for less than the amount owed on the mortgage loan, and (despite the shortfall) the holder of the loan accepts the sales proceeds in full satisfaction of the loan. Alternatively, the homeowner may transfer title to the house to the lender in return for cancellation of the mortgage. Or, the

homeowner and the holder may agree for the loan to be modified so that the homeowner can again become timely in making payments.

In addition to the many modifications being made without Government assistance, there are large numbers of mortgage loan modifications under the Treasury Department's program Making Home Affordable, including the Home Affordable Modification Program® (HAMP®). Also, many lenders have reached settlements with Federal and State authorities that include terms committing lenders to engage in certain borrower-favorable conduct. Writing down mortgage loan principal in many instances counts toward meeting this requirement. Tax law treats many of these modifications as involving cancellation of some portion of the debt, which results in taxable income.

Facilitating home mortgage modifications remains important for the continued recovery of the residential real estate market. The importance is demonstrated by the fact that HAMP® has been extended through the end of 2015. In most cases, exclusion of the discharge under the Mortgage Forgiveness Tax Relief Act has prevented anticipated tax consequences from complicating and possibly deterring these modifications. Because of the continued importance of facilitating home mortgage modifications, the income exclusion of these discharges should be reinstated.

Question 4:

The President's budget proposes to eliminate the "last-in-first-out" (LIFO), which many businesses use to account for their inventories.

LIFO is a well-established method that many businesses rely on. It is particularly important especially manufacturers, wholesalers, and retailers. Repealing LIFO effectively imposes a heavy tax on these businesses as their "LIFO reserves" are recaptured. Even if this tax is spread over a number of years, many small and mid-sized companies will struggle to raise the cash needed to pay it – and could be forced to sacrifice or delay investments, expansions, or new hires. Many companies have emphasized to me that a phase-out period is not enough to offset the financial blow from taxing LIFO reserves.

Is the Administration concerned about the retroactive impact of repealing LIFO on businesses, in particular small businesses?

Answer:

The LIFO accounting method offers deferral, not exemption, of income; non-LIFO taxpayers have been required for many years to recognize income that a LIFO taxpayer could defer. Under the Administration's proposal, a LIFO taxpayer is treated like any other taxpayer that is required to change its method of accounting – it must recognize the difference in income between an existing method of accounting and a new method of accounting. However, the Administration's proposal recognizes that an immediate income inclusion of the LIFO reserve could impose a substantial increase in tax liability on some former LIFO taxpayers. Therefore, the

Administration's proposal significantly extends (to 10 years) the period over which taxpayers are required include their LIFO reserves in income. Inclusion of the LIFO reserve in income after repeal restores parity between LIFO and non-LIFO taxpayers. To repeal LIFO without requiring the inclusion of past deferrals would be viewed as imposing an unfair distribution of tax burdens on non-LIFO taxpayers.

Questions from Senator Patrick Toomey

Community banks, pension funds and other investors have all reached out to me to express their concern – and even outrage – about the unprecedented "sweep" that takes all of the GSEs' profits and gives them to the government.

Mr. Secretary, you have emphasized repeatedly the importance of returning private sector capital to the housing finance market. However, the government's actions with respect to the GSEs' profits raise serious concerns, including whether these actions lawfully respect the rights and interests of all Americans. As we can both agree, our nation is the most attractive place in the world to invest partly because of our commitment to the rule of law.

While I strongly support GSE reform that protects taxpayers, such efforts should also be mindful of investors in addition to other considerations. Taxpayers should be fully compensated, but once they are, investors, such as the York County pension fund in Pennsylvania, should not be denied their fair share of any remaining value.

Question 1:

What comfort can you give to private sector investors considering investing in the future of the housing finance system when they believe that the government arbitrarily changed the rules of the game mid-stream with the Third Amendment?

Answer:
The terms of Treasury's financial support for the GSEs is set forth in the Senior Preferred Stock Purchase Agreements (the "PSPAs") that Treasury entered into with each GSE, through FHFA. Under the PSPAs, Treasury committed to advance funds to each GSE for each calendar quarter in which the GSE's liabilities exceeded its assets, in accordance with GAAP, so as to maintain the solvency (i.e., positive net worth) of that enterprise.

Treasury has increased the amount of funds it has committed to the GSEs through the PSPAs on two occasions. As of the end of 2012, the cap on Treasury's funding commitment was $234 billion for Fannie Mae and $212 billion for Freddie Mac. As of August 8, 2012, Fannie Mae had drawn $116.15 billion and Freddie Mac had drawn $71.34 billion from Treasury. On August 17, 2012, Treasury and FHFA agreed to modify the terms of the PSPAs. This amendment changed the structure of dividend payments to Treasury, guaranteeing that the GSEs would never have to take a draw from Treasury to pay a dividend. Beginning with the first quarter of 2013, Treasury replaced the previous dividend formula with a requirement that the GSEs pay, as a dividend, the amount by which their net worth for the quarter exceeds a capital buffer of $3 billion. The capital buffer gradually declines over time by $600 million per year, and is entirely eliminated in 2018. If the GSE's net worth for a given quarter is lower than the specified buffer, that GSE would not owe a dividend to Treasury.

Question 2:

Based on the terms of the conservatorship, Treasury's stake in Fannie and Freddie is 79.9 percent. Has Treasury done any analysis of the value of its 80 percent equity stake in the absence of a Third Amendment? Did it value its stake prior to adopting the Third Amendment?

Answer:
The terms of Treasury's financial support for the GSEs is set forth in the Senior Preferred Stock Purchase Agreement that Treasury entered into with each GSE. The value associated with Treasury's interest in each GSE is reported annually in Treasury's Agency Financial Report.

Question 3:

Do you believe that Treasury owns a 100 percent economic interest in the GSEs? If that is Treasury's view, why have Fannie and Freddie not been consolidated on the Federal balance sheet?

Answer:
The terms of Treasury's financial support for the GSEs is set forth in the Senior Preferred Stock Purchase Agreement that Treasury entered into with each GSE, through FHFA. Treasury equity investments in the GSEs are recorded as budgetary outlays, and the dividends on those investments are recorded as offsetting receipts; thus Treasury's investments are reflected in the Federal budget. However, in accordance with federal accounting standards, the government does not consolidate the assets and liabilities of the GSEs onto the Federal budget..

Questions from Senator John Thune

Question 1:

The Administration's budget continues to call for "revenue-neutral business tax reform" which – as you know – would not lower tax rates for the millions of small businesses in this country that pay taxes at the individual rates. Your proposal aims to cut the corporate tax rate to 28 percent, while leaving the top rate that these business pay at roughly 40 percent. Given that Ways and Means Committee Chairman Camp has now released a tax reform plan that demonstrates that it is possible to cut individual income tax rates in a distributionally-neutral manner, is now the appropriate time for the Administration to engage with Congress on a plan to comprehensively reform our broken tax code for both individuals and businesses? Does it remain the Administration's view that individual taxes can only be reformed if the overall tax burden on individuals is increased?

Answer:
The Administration is committed to working with the Congress and other stakeholders to enact a tax system that is fair, simple, and efficient, and also raises the revenue we need. The President believes that the only way we can put debt on a declining path as a share of GDP while maintaining our commitments to seniors and the vulnerable and making needed investments is for revenues to be part of a balanced solution. As experts from across the political spectrum have noted, we do too much "spending through the tax code"—in other words, spending hundreds of billions on inefficient tax breaks. Judicious choices can enable us to broaden the tax base, lower tax rates, and raise the revenues necessary to address our medium- and long-term fiscal challenges.

Question 2:

In response to my question regarding IRS bonuses paid to employees, including executives not party to any lawsuit, you noted that the IRS is a large agency and that many IRS employees are "tireless, hardworking public servants." I would not disagree that the IRS, like every large organization, has hardworking employees deserving of our respect and appreciation. However, this observation does not change the fact that IRS employees involved in the review of applications for tax-exempt status used inappropriate criteria to selectively target certain groups – the overwhelming majority of which were politically conservative – for additional scrutiny, in the process imposing additional costs, undue emotional distress and delays in getting applications approved.

To the best of your knowledge, has the IRS put in place any structure or process since agreeing to award bonuses for Fiscal Year 2013 (FY13) that would ensure that any IRS employee involved in any way in the inappropriate targeting of social welfare groups is not eligible to receive a bonus for FY13? If the IRS has not put in place such a process, do you

believe it is necessary to ensure that IRS employees responsible for actions that you and President Obama have described as "outrageous" are not rewarded for this behavior?

Answer:
I agree with you that the IRS, like every large organization, has hardworking employees deserving of our respect and appreciation. IRS performance awards will be paid to bargaining unit employees as required by contractual obligation—they will only be given to eligible employees who have qualified for them through their work performance. Our position is that individuals who are found to have engaged in significant misconduct should not be eligible for performance awards during the relevant time period.

Question 3:

The Administration's FY15 Budget builds into its baseline an extension of expansions of the American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) currently scheduled to expire at the end of 2017. These provisions enacted in the 2009 stimulus legislation generally enhance the amount of refundability of these credits and are estimated in the budget to increase spending by approximately $110 billion and reduce revenues by approximately $43 billion from Fiscal Years 2018 through 2024.

Some have speculated that the reason for including these extensions in the modified baseline is purely political. Setting aside any political considerations by the Administration, I am curious as to the tax policy rationale for choosing to assume the extension of certain expiring provisions in the baseline while not including other expiring provisions. As you know, a number of other tax provisions scheduled to expire, or that have recently expired, have been in the tax code much longer than the AOTC, EITC and CTC expansions. For example, the tax credit for research and experimentation (R&E credit) was originally enacted in 1980 and has been extended 14 times. The Administration proposes to make it permanent and it is widely expected to be extended for the foreseeable future, yet you chose not to include it in the budget baseline. Similarly, you chose not to include a host of other business and individual "tax extenders" that have been extended multiple times and have, in most cases, been in law much longer than the 3 provisions you chose to include.

How did the Administration make the decision regarding which expiring provisions to include in the budget baseline? What is the specific tax policy rationale on which you relied? Is the administration open to a discussion regarding including other expiring provisions in the baseline used for purposes of tax reform or other legislative efforts?

Answer:
The President's Budget assumes that all of the traditional tax "extenders" would either be paid for or expire. For example, the Budget extends and pays for the Research and Experimentation Tax Credit and the Production Tax Credit, while allowing more than a dozen other measures to sunset as scheduled.

For many years, both political parties, every bipartisan deficit commission, and virtually every budget watchdog group have agreed on the need to use a more realistic "current-policy" baseline to evaluate the budget outlook and deficit reduction proposals. These baselines almost uniformly assumed extension of middle-class individual income tax cuts, including the American Opportunity Tax Credit and the EITC and Child Tax Credit improvements enacted in the Recovery Act. These provisions are not traditional tax extenders. Rather, they are tax cuts for middle-class and working families that should have been grouped with the other expiring middle-class tax cuts at the end of 2012, rather than extended only through 2017.

A number of independent groups, including the Committee for a Responsible Federal Budget and the Center on Budget and Policy Priorities, have similarly distinguished between the AOTC and the EITC and CTC expansions and the traditional tax extenders in their post-ATRA current policy baselines, as did the Senate's FY 2014 Budget Resolution.

Question 4:

As I'm sure you know, the Joint Committee on Taxation prepared a dynamic economic analysis of the comprehensive tax reform bill that Chairman Camp recently released. This analysis found that Chairman Camp's plan would boost economic growth relative to current law, resulting in as much as $700 billion in new revenue. An analysis based on JCT's report finds that the bill could create up to 1.8 million new jobs and $3.4 trillion in additional economic growth.

Do you agree with JCT's conclusion that lowering tax rates across the board positively impacts economic growth? If so, do you believe this is the case with respect to both individual and corporate taxation? Do you believe that tax reform should be modeled to account for the impact of changes to economic growth, or should it only be considered from a static revenue standpoint?

Answer:
We think dynamic scoring is far too uncertain and dependent on assumptions to be incorporated into the official sets of revenue estimates that are relied upon by Congress. For example, a number of CBO's analyses of the effects of tax changes on the economy have found that these effects could range from negative to positive, depending on models, assumptions, and on how the tax changes were ultimately paid for.

Conventional revenue estimates hold constant the size of the macro-economy and major economic aggregates, e.g., GDP, labor compensation, and total investment. In this sense, the revenue estimates are static, in that they do not allow taxes to change economic behavior in ways that change the overall size of the economy. However, conventional revenue estimates allow a wide range of tax induced behavior to occur within the context of an economy of a constant size. In this sense, they are dynamic. In short, it is not correct to say that conventional revenue estimates are simply static, in the sense that they allow no behavior; rather, they are macro-static but micro-dynamic.

Considering the effect of tax changes on the macro-economy certainly is an important component in evaluating tax reform proposals. The revenue feedback from macroeconomic changes would be part of such analysis. However, such feedback should not replace conventional revenue estimates because the macro-dynamic effects from tax changes, and their feedback on tax revenue, are too uncertain in size and even in direction to definitively guide policy choices.

While revenue neutral income tax reform that reduces marginal tax rates and broadens the tax base could modestly improve the macro-economy—and so modestly increase tax revenue from a dynamic feedback effect—it is simply not believable that there would be large macro-economic effects from revenue neutral income tax reform.

Question 5:

As co-chair of the Congressional Internet Caucus, I have been involved in efforts to make sure that innovative American companies remain at the forefront of technology and competitiveness, especially as it relates to digital commerce. Senator Wyden and I recently introduced legislation, "The Digital Trade Act of 2013" that aims to ensure that U.S. firms are not discriminated against when they compete in foreign markets. As you may know, digital trade is currently a large competitive advantage for the United States, sustaining jobs and economic growth. According to the U.S. International Trade Commission (ITC), exports of digitally enabled services were $356 billion in 2011, up from $282 billion four years earlier. These exports exceed imports every year and contribute to shrinking the long-standing U.S. trade deficit.

As such, I am very concerned by proposals that could have the effect of putting U.S. companies at the forefront of digital trade at a competitive disadvantage with respect to their foreign competitors. The questions below relate to the new proposal in the Administration's FY15 Budget to create a new category of subpart F income for transactions involving digital goods or services.

a. **Why do you believe the existing Subpart F rules limiting deferral of Foreign Base Company Sales and Services Income to CFC's that satisfy significant business activity requirements are not sufficient to limit base erosion?**
b. **Technology development is one of the U.S.' most significant competitive advantages and enables U.S. multinationals to compete in global markets. Why has the administration chosen to discriminate against U.S. technology companies by denying deferral tax benefits on their digital products and services while allowing deferral benefits for tangible product companies?**
c. **I understand that the digital economy is one of the OECD's Action items and that Treasury generally has resisted efforts by other countries to treat profits from**

digital goods and services any differently than profits from non-digital goods and services. Yet this proposal would clearly make that distinction and treat digital income more harshly than non-digital income by taxing it on a worldwide basis at the full US tax rate. How does this proposal relate to the OECD BEPS project generally, and how is it consistent with Treasury's position with respect to the OECD BEPS action plan for the digital economy?

d. **The proposal would repeal deferral for US multinationals that are on the cutting edge of the global digital economy, subjecting their worldwide income from digital goods and services to US tax on a current basis. Yet their foreign competitors would not be hit by this tax. Do you share my concern that this disparate treatment could undermine the competitiveness of US digital goods and service providers and jeopardize America's position of leadership in the global digital economy?**

e. **The proposal is one of 16 international tax proposals included a "reserve for long-run revenue-neutral business tax reform" that Treasury says would raise over $270 billion over 10 years. Given the President's previous proposal to impose an international minimum tax, does the President view digital economy income as income that would be subject to a worldwide tax base at the full US tax rate, or at a "minimum" tax rate like other non-digital business income?**

Answer:

The proposal is not intended to treat U.S. companies that provide digital goods and services worse than other companies but rather to update our rules to put the income tax treatment of digital companies on par with non-digital companies.

Many U.S. tax rules were written long before the rise of internet commerce and rely on distinctions that have less significance in a digital economy. While Subpart F and the foreign base company sales and services income rules were intended to protect the U.S. tax base by preventing U.S. multinationals from shifting highly mobile income to controlled foreign corporations (CFCs) using related-party transactions, the framework for these rules was crafted at a time when cross-border transactions typically involved trade in physical goods and providing labor-intensive services. Because the existing rules are form-driven, they are less effective in the context of a global economy that increasingly involves trade in digital goods and services. For example, a company may be able to avoid U.S. tax under current rules by licensing software to an offshore affiliate in a low-tax jurisdiction, which in turn sells the resulting software product to consumers, as opposed to selling from the U.S. directly to consumers.

The proposal to create a new category of subpart F income for digital goods and services is intended to prevent tax base stripping that is possible under current rules and to eliminate opportunities for deferral that are currently available with respect to digital income but not for income from tangible products. Subject to the same exceptions applicable under the existing foreign base company sales and services income rules, digital goods and services income earned by a CFC would be subject to tax at the full U.S. rate if the CFC did not make a substantial contribution to the development of the property or services that gave rise to the income.

Treasury supports the work of the OECD/G20 Base Erosion and Profit Shifting (BEPS) project to develop measures to combat base erosion that results in income that is not taxed in any jurisdiction. We agree and have strongly advocated that it is important that the same principles of taxation apply to digital and non-digital goods and services. Accordingly, we developed the budget proposal to apply to digital goods and services principles currently applicable to non-digital goods and services. The budget proposal is consistent with the goal of eliminating opportunities to create stateless or otherwise untaxed income and, importantly, does so by exercising U.S. taxing jurisdiction with respect to its resident companies rather than reallocating taxing rights with respect to those companies to market countries, as some other countries have sought. We believe U.S. companies selling digital goods and services would continue to compete effectively under the proposal, especially as opportunities for both U.S. and foreign companies to create untaxed income disappear.

Question 6:

Does the administration support greater liquid natural gas exports to our NATO allies and countries like Ukraine who have an overdependence on Russia for their natural gas supplies?

Answer:
The U.S. is committed to putting gas onto the global market in a way that is consistent with U.S. public interest. We know that increased global supplies help our European allies and other strategic partners, and these sorts of international benefits are factored into the Administration's decision-making process.

The Department of Energy has regulatory authority over Liquefied Natural Gas (LNG) exports, and the Federal Energy Regulatory Commission (FERC) has regulatory authority over the construction of LNG export facilities. To date, the Energy Department has conditionally approved seven LNG permits for 9.3 billion cubic feet per day that can be exported both to countries with which we have Free Trade Agreements and to those where we do not, such as in Europe.

These are significant volumes. To put it in perspective, the amounts conditionally approved to date, i.e., which the Department of Energy has said it will approve assuming the satisfactory completion of environmental review processes and compliance with any and all preventative and mitigative measures imposed by federal or state agencies, including FERC, are more than the total amount of LNG that Europe currently imports and equal to over half the gas European counties currently import from Russia.

The first project to export this gas is not expected to come online until late 2015. The eventual customers of exported U.S. LNG would be based on commercial decisions and market factors.

DOE will continue to make public interest determinations on a case-by-case basis, where appropriate, considering economic, energy security, environmental, and geopolitical impacts, among other factors. FERC has approved one LNG export facility, is in the process of reviewing at least six other applications to construct LNG export facilities, and expects more companies to apply for approval to build such facilities in the near future.

Question 7:

With coordinated efforts from the International Community, we have been able to successfully block countries like Iran out of international financial markets and freeze many of their assets as well as those of Iranian officials. In practical terms, how feasible would it be to apply this same approach to Russian elites and Russian financial institutions?

Answer:
The U.S. Department of the Treasury administers a wide array of sanctions programs against a number of foreign countries, including Iran, Syria, Sudan, and North Korea. The scale and scope of our sanctions programs differ widely because of a number of factors, including the nature of the national emergency giving rise to sanctions, the potential for our sanctions to change the behavior of the target country, and our ability to garner the necessary support of the international community to maximize the effect of our domestic actions.

The United States has been in close contact with our European and global partners on Ukraine-related sanctions to develop and enforce an effective sanctions program that aims to impose costs on the Russian government for its actions in Ukraine and to deter further provocative acts. We have already begun pursuing the various ways to exert pressure, including three Executive Orders provide broad and flexible tools to improve sanctions, including on those involved in destabilizing conduct, Russian government officials and insiders, and, if needed, broad sectors of the Russian economy. Although there is no all-encompassing or standardized approach to applying sanctions pressure in the context of an international crisis, we will draw from our past experiences with Iran and other sanctions programs to inform our strategy on Ukraine-related sanctions.

Question 8:

I noticed your comments earlier this week regarding the IMF. I am very supportive of doing whatever we can to assist the Ukrainian people during this crisis, however, we are talking about a country still in the process of overcoming deep seated corruption. In what ways can an IMF assistance package be targeted to best assist vulnerable Ukrainians, without further incentivizing government corruption?

Answer:
The IMF program will combat corruption through three main avenues: reforms to the economy; greater budget oversight; and regular safeguard assessments of the Central Bank of Ukraine.

One of the main vehicles for corruption in Ukraine over the recent period has been the natural gas sector. A condition of the IMF program will be to reform this sector, thereby reducing opportunities for corruption. Reforms will include reducing the degree of subsidization of natural gas, which should minimize opportunities for corruption along the chain of production.

The IMF program will introduce greater scrutiny of the budget and additional information sharing with IMF staff of budget detail. While the program conditionality has not been fully developed yet, it is common in programs such as the one Ukraine is negotiating, to have structural benchmarks associated with improving budget processes and transparency, thus reducing opportunities for corruption. The Ukraine parliament has already passed an anti-corruption bill focused on government procurement reform, as a step towards completing IMF conditionality.

Any country that receives financing from the IMF must regularly allow for a "safeguards assessment" of the central bank by IMF staff, to safeguard IMF resources and minimize misreporting of data. This assessment requires external audit of central bank financial statements; evaluation of the legal and functional autonomy of the central bank (i.e. independence from the government); best practices for financial reporting; sufficient internal audit function; and sound risk management practices on banking, accounting, and foreign exchange operations.

Finally, it is important to note that this program highlights the leading role that the IMF is playing in forging the international community's response to the very difficult economic situation in Ukraine, a role the international community has asked the IMF to play. The United States has an essential responsibility to lead the international effort to back Ukraine's reforms, a process that the IMF will manage over several years.

Congress' failure to pass legislation to implement the 2010 IMF quota reform is blocking the international effort to put the Fund's finances on a more stable long term footing and limits the tools available for Ukraine. It is important that the United States demonstrate its leadership role in the IMF, especially at a time when the world faces geopolitical risk.

Attachment 1 - Hatch Question 2 **Financial Agents**

Senate Finance Committee Questions for the Record - (Hearing Held March 5, 2014)

Financial Agent	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Alliance Bernstein	$ 6,835,000	$ 14,260,320	$ 17,258,828	$ 9,595,402	$ 5,397,270	$ 3,295,324
Avondale Investments, LLC	$ -	$ 562,500	$ 210,157	$ -	$ -	$ -
Bank of America	$ 139,971,715	$ 138,478,653	$ 151,159,891	$ 140,800,711	$ 129,702,008	$ 37,872,642
Barclays	$ 6,940,238	$ 2,850,704	$ -	$ -	$ -	$ -
Bell Rock Capital, LLC	$ -	$ 585,000	$ 814,490	$ 628,902	$ 539,507	$ 253,365
BNY Mellon	$ 11,120,763	$ 13,371,247	$ 28,551,508	$ 13,992,897	$ 11,472,424	$ 2,751,820
Bonneville Bank	$ -	$ -	$ 590,897	$ 14,283	$ -	$ -
Citibank	$ 66,204,040	$ 85,565,275	$ 72,248,989	$ 101,460,643	$ 85,134,201	$ 20,389,391
Citigroup Capital Markets	$ -	$ -	$ -	$ -	$ -	$ -
Comerica	$ -	$ -	$ 14,858,405	$ 7,677,035	$ 11,619,328	$ 1,967,205
Depositaries*	$ 7,394,086	$ 8,191,342	$ 8,134,438	$ 6,919,288	$ 6,978,368	$ 1,297,647
EARNEST Partners	$ 795,000	$ 1,755,000	$ 397,780	$ -	$ -	$ -
Fannie Mae	$ 24,997,429	$ 92,657,823	$ 103,872,924	$ 87,157,837	$ 87,110,508	$ 73,836,000
Fifth Third	$ 111,321,283	$ 120,871,061	$ 140,463,951	$ 141,024,316	$ 154,998,083	$ 50,742,466
Freddie Mac	$ 17,150,594	$ 59,909,431	$ 58,898,828	$ 67,166,512	$ 70,920,859	$ 55,400,000
FSI Group	$ 3,562,500	$ 7,344,338	$ 10,220,099	$ 5,487,160	$ 8,819,819	$ 3,222,883
Greenhill & Co.	$ -	$ -	$ 6,139,167	$ 1,225,000	$ 455,000	$ -
Houlihan Lokey	$ -	$ -	$ -	$ 4,675,000	$ 4,150,000	$ 4,800,000
Howe, Barnes, Hoefer & Arnett			$ 459,500	$ 615,250	$ -	
JPMorgan Securities LLC	$ -	$ -		$ -	$ -	$ 5,166,000
JPMorgan Chase	$ 130,079,815	$ 142,362,144	$ 135,469,697	$ 145,173,492	$ 149,937,008	$ 42,698,818
KWB Asset Management	$ -	$ 3,783,333	$ 1,154,100	$ -	$ -	$ -
Lazard Freres & Co	$ -	$ 2,000,000	$ 5,449,194	$ 6,060,726	$ 6,337,392	$ 5,250,000
Lombardia Capital Partners	$ -	$ 950,000	$ 1,285,305	$ 749,774	$ 232,787	$ -
Morgan Stanley (Howe Barnes Hoefer)	$ -	$ 13,103,547	$ 3,581,743	$ -	$ -	$ -
Paradigm Asset Management	$ -	$ 937,250	$ 1,746,728	$ 1,186,828	$ 726,967	$ 984,396
Perella Weinberg Partners	$ -	$ -	$ 5,542,473	$ -	$ -	$ -
Piedmont Investments	$ 1,690,000	$ 3,492,375	$ 3,369,169	$ 2,655,818	$ 1,336,229	$ 390,472
PNC Bank	$ 35,193,173	$ 51,110,554	$ 46,870,126	$ 35,699,445	$ 29,049,794	$ 7,181,323
Raymond James	$ -	$ 956,437	$ 1,351,695	$ 821,907	$ 426,122	$ -
State Street	$ 7,193,916	$ 19,043,981	$ 16,750,481	$ 11,446,251	$ 5,943,196	1101815.79
US Bank	$ 52,617,687	$ 51,609,813	$ 52,224,034	$ 52,787,133	$ 44,582,033	$ 10,132,014
Wells Fargo	$ 776,201	$ 1,135,230	$ 415,576	$ 6,489	$ -	$ -

**** See next chart for list of depositories***

Attachment 1 - Hatch Question 2 **Depositary Institutions**

Senate Finance Committee Questions for the Record - (Hearing Held March 5, 2014)

Depositary Institution	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Alaska USA FCU	$4,138	$4,199	$4,009	$2,925	$237	$0
AMERICAN BUSINESS BANK, N A, TGA	$5,879	$7,167	$3,652	$665	$0	$0
AMERICAN NATIONAL BANK CHEYENNE, TGA	$3,558	$3,282	$3,454	$2,545	$525	$0
AMERICU CREDIT UNION, TGA	$2,383	$1,879	$1,343	$153	$0	$0
AMSOUTH BANK, TGA	$3,181	$3,055	$3,470	$4,036	$1,804	$350
ANDREWS FCU, TGA	$15	$4,596	$5,901	$5,556	$2,699	$700
ARMED FORCES BANK, TGA	$167,858	$164,788	$158,989	$168,771	$176,775	$37,550
ASSOCIATED CREDIT UNION, TGA	$4,873	$4,061	$3,089	$1,476	$1,279	$62
ATHENS FIRST BANK & TRUST COMPANY, TGA	$937	$858	$269	$0	$0	$0
BANCO POPULAR DE PUERTO RICO, ITGA (D)	$51,681	$43,994	$75,455	$47,717	$43,996	$11,299
BANCORP SOUTH BANK, TGA	$8,426	$7,846	$7,075	$6,764	$1,031	$0
BANK OF AMERICA, TGA	$2,521,931	$2,247,096	$2,887,939	$2,414,991	$2,737,865	$456,295
BANK OF BENTON, TGA	$1,768	$1,304	$1,128	$437	$0	$0
BANK OF GUAM, ITGA (D)	$10,989	$19,424	$35,028	$13,957	$10,657	$2,493
BANK OF HAWAII	$54,320	$27,096	$25,652	$25,141	$17,752	$3,704
BANKNORTH, NATIONAL ASSOCIATION, TGA	$6,495	$6,517	$5,037	$3,213	$1,863	$410
BROADWAY NATIONAL BANK-TGA	$16,633	$15,332	$12,501	$12,447	$11,415	$2,391
C B C FEDERAL CREDIT UNION, TGA	$5,602	$4,337	$3,966	$3,570	$4,588	$734
CANANDAIGUA NAT'L BANK & TR. CO, TGA	$1,133	$1,086	$901	$0	$0	$0
CEDAR POINT FCU, TGA	$2,875	$5,137	$2,766	$2,228	$1,986	$442
CENTRAL COAST FEDERAL CREDIT UNION, TGA	$5,691	$3,781	$3,981	$3,193	$2,552	$612
CENTRAL MACOMB COMMUNITY CU-TGA	$2,936	$2,621	$2,419	$2,256	$1,843	$429
CENTRAL NATIONAL BK & TR CO OF , TGA	$1,448	$1,389	$1,316	$1,131	$1,194	$278
CITIBANK	$207,710	$189,330	$299,616	$165,049	$152,995	$300
CITIZENS BANK 036076150, TGA	$3,118	$2,478	$4,132	$1,578	$206	$0
CITIZENS BANK AND TRUST COMPANY, TGA	$3,092	$1,680	$0	$0	$0	$0
CITIZENS BANK NEW HAMPSHIRE, TGA	$16,805	$15,594	$16,517	$11,478	$430	$0
CITIZENS NATIONAL BANK, TGA	$1,676	$1,588	$1,572	$1,335	$1,274	$279
CITY NATIONAL BANK, TGA	$25,763	$15,872	$10,303	$7,317	$3,154	$313
COASTAL BANK AND TRUST, TGA	$15,391	$21,103	$17,454	$12,950	$26,494	$6,160
COASTAL BANK OF GEORGIA, TGA	$3,031	$3,300	$3,978	$3,018	$2,996	$679
COLUMBUS BANK AND TRUST COMPANY, TGA	$6,639	$12,507	$15,046	$13,482	$12,903	$3,021
COMPASS BANK - TGA	$8,015	$22,977	$8,986	$8,562	$2,116	$0
CPM FEDERAL CREDIT UNION-TGA	$450	$1,099	$995	$433	$410	$94
EAGLE BANK, TGA	$27,142	$12,334	$11,043	$10,728	$11,045	$2,498
EDWARDS FEDERAL CREDIT UNION-TGA	$787	$176	$0	$0	$0	$0
ENT FEDERAL CREDIT UNION, TGA	$7,542	$7,143	$6,262	$6,139	$5,331	$1,027
FAIRWINDS CREDIT UNION-TGA	$1,451	$910	$1,010	$571	$30	$0

Attachment 1 - Hatch Question 2 **Depositary Institutions**

Senate Finance Committee Questions for the Record - (Hearing Held March 5, 2014)

Depositary Institution	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
FIFTH THIRD BANK-TGA	$1,538	$3,395	$979	$1,294	$1,447	$291
FINANCE CENTER FEDERAL CREDIT UNION, TGA	$33,529	$2,737	$9,903	$0	$0	$0
FIRST ARKANSAS BANK & TRUST-TGA	$5,550	$5,251	$4,678	$4,276	$3,281	$667
FIRST ATLANTIC FEDERAL CREDIT UNION-TGA	$1,954	$4,037	$3,781	$135	$0	$0
FIRST CITIZENS BANK & TRUST, TGA	$57,585	$70,377	$69,497	$64,611	$89,441	$32,026
FIRST HAWAIIAN BANK-TGA	$61,412	$63,530	$55,203	$53,934	$45,233	$8,616
FIRST INTERSTATE BANK - TGA	$469	$368	$348	$394	$40	$0
FIRST NATIONAL BANK ALASKA-TGA	$21,796	$27,338	$19,343	$18,668	$11,949	$2,329
FIRST NATIONAL BANK OF FORT SMITH, TGA	$1,654	$1,702	$1,936	$1,677	$1,060	$107
FIRST NATIONAL BANK OF MIDWEST -TGA	$3,534	$3,378	$3,123	$2,903	$2,469	$496
FIRST NATIONAL BANK of ODON TGA	$783	$692	$628	$530	$424	$91
FIRST NAVY BANK-TGA	$6,610	$6,200	$5,864	$5,225	$4,565	$953
FIRST STATE BANK OF THE FLORIDA KEYS-TGA	$2,252	$1,385	$0	$0	$0	$0
FIRST TENNESSEE, TGA	$29,499	$6,384	$7,053	$6,622	$9,045	$2,017
FIRST UNIED, TGA	$15	$0	$0	$0	$0	$0
FITZSIMONS FCU-TGA	$1,409	$3,169	$2,053	$936	$0	$0
FNBT.COM BANK	$3,455	$3,788	$3,411	$3,816	$2,469	$359
FOOTHILLS CREDIT UNION	$1,663	$1,636	$1,731	$1,811	$685	$125
FORT BELVOIR FCU-TGA	$4,303	$5,065	$5,037	$4,384	$4,365	$918
FORT HOOD NATIONAL BANK-TGA	$12,602	$10,718	$10,426	$10,633	$9,465	$1,916
FORT SILL NATIONAL BANK-TGA	$24,949	$24,239	$23,011	$21,651	$22,277	$4,632
FROST NATIONAL BANK-TGA	$3,015	$2,392	$2,882	$690	$0	$0
GREAT WESTERN BANK-TGA	$4,400	$4,121	$4,027	$3,810	$3,477	$813
HANCOCK BANK OF LOUISIANA-TGA	$4,252	$3,154	$2,552	$2,106	$1,788	$356
HANSCOM FEDERAL CREDIT UNION-TGA	$5,684	$4,614	$4,438	$3,691	$2,823	$708
HERITAGEBANK OF THE SOUTH-TGA	$2,701	$1,384	$1,043	$1,126	$4,602	$1,141
HIBERNIA NATIONAL BANK-TGA	$2,267	$4,150	$3,616	$1,238	$284	$0
HSBC BANK USA-TGA	$6,178	$4,770	$5,040	$3,746	$0	$0
HUNTINGTON NATIONAL BANK-TGA	$14,021	$5,134	$2,975	$0	$0	$0
INT BANK OF COMMERCE, EAGLE PASS-TGA	$3,199	$2,728	$1,277	$814	$60	$0
INTRUST BANK-TGA	$2,413	$2,737	$2,643	$1,377	$1,513	$345
JACKSON STATE BANK & TRUST-TGA	$310	$0	$0	$0	$0	$0
JP MORGAN CHASE - CHICAGO, TGA	$124,200	$106,311	$144,884	$153,932	$53,065	$7,620
KEY BANK	$125,947	$94,114	$19,836	$174,726	$19,064	$3,284
KITSAP COMMUNITY F.C.U.-TGA	$9,244	$7,666	$7,391	$6,470	$5,287	$1,051
LAKEHURST NAVAL FEDERAL CREDIT UNION, TGA	$1,204	$1,185	$1,162	$1,028	$999	$246
MAGNOLIA, TGA	$3,521	$3,523	$1,883	$1,449	$1,504	$319
MANUFACTURERS & TRADERS TRUST BANK	$11,675	$750	$0	$0	$0	$0

Attachment 1 - Hatch Question 2 **Depositary Institutions**
Senate Finance Committee Questions for the Record - (Hearing Held March 5, 2014)

Depositary Institution	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
MARINE FEDERAL CREDIT UNION, TGA	$0	$0	$0	$0	$0	$121
NATIONAL BANK OF ARIZONA-TGA	$3,699	$3,250	$2,762	$2,924	$15	$0
NATIONAL CITY BANK, COLUMBUS-TGA	$15,217	$8,637	$0	$0	$0	$0
NATIONAL INSTITUTE OF HEALTH FEDERAL CREDIT UNION, TGA	$1,684	$1,698	$1,657	$1,301	$1,010	$280
NAVY FEDERAL CREDIT UNION, TGA	$1,658	$2,454	$2,158	$2,265	$3,228	$844
NBANC-TGA	$1,771	$1,876	$1,713	$1,364	$1,238	$283
NEW MEXICO BANK AND TRUST-TGA	$1,598	$1,586	$1,609	$1,527	$1,320	$283
NORTH MILWAUKEE STATE BANK, TGA	$267	$83	$0	$0	$0	$0
NYMEO FEDERAL CREDIT UNION, TGA	$0	$56	$623	$876	$622	$144
OLD NATIONAL BANK, TGA	$3,662	$2,823	$1,794	$1,332	$85	$0
PACIFIC MARINE CREDIT UNION, TGA	$5,610	$5,703	$5,502	$3,664	$3,725	$700
PEN AIR FEDERAL CREDIT UNION, TGA	$1,873	$1,634	$1,706	$1,330	$1,086	$211
PEOPLES TRUST COMPANY, TGA	$1,073	$257	$0	$0	$0	$0
PNC BANK	$83,230	$138,559	$146,453	$125,880	$100,188	$20,689
REGIONS BANK-1 TGA	$24,465	$14,016	$11,650	$12,288	$8,037	$1,202
RIVER CITY BANK, INC., TGA	$1,283	$0	$0	$0	$0	$0
ROCK ISLAND ARSENAL FED CU, TGA	$8,517	$2,436	$2,488	$2,313	$2,400	$567
RONAN STATE BANK, TGA	$6,861	$0	$0	$0	$0	$0
ROYAL BANK OF CANADA, ITGA (D)	$22,383	$25,161	$41,448	$20,955	$14,785	$3,211
S A F E CREDIT UNION, TGA	$5,327	$4,122	$4,343	$3,908	$3,100	$781
SABINE STATE BANK & TRUST CO, TGA	$5,654	$7,173	$6,643	$7,478	$6,518	$1,231
SIERRA CENTRAL CREDIT UNION, TGA	$4,145	$3,738	$3,819	$3,048	$2,274	$429
SIOUX EMPIRE FEDERAL CU, TGA	$3,699	$3,319	$3,166	$1,878	$809	$202
STATE BANK OF SOUTHERN UTAH, TGA	$2,169	$1,972	$2,596	$2,199	$1,974	$158
STOCKMAN BANK OF MONTANA, TGA	$685	$648	$653	$643	$443	$91
SUNTRUST BANK, MID-ATLANTIC, TGA	$64,442	$61,409	$79,170	$73,530	$65,464	$13,750
SUSQUEHANNA BANK, TGA	$364	$308	$282	$167	$0	$0
BORDER FEDERAL CREDIT UNION, TGA	$0	$0	$0	$0	$1,924	$552
THE HERITAGE BANK-TGA	$14,361	$12,970	$13,916	$17,692	$16,614	$3,655
THE OLD POINT NATL BK OF PHOEBU, TGA	$1,265	$1,062	$837	$788	$442	
THE PEOPLES BANK, TGA	$0	$0	$0	$0	$5,287	$1,354
TOBYHANNA ARMY DEPOT FCU, TGA	$1,116	$1,115	$991	$803	$1,016	$223
TOWNE BANK, TGA	$756	$581	$151	$0	$0	$0
TRAVIS CREDIT UNION, TGA	$4,340	$590	$0	$0	$0	$0
TRUSTMARK NATIONAL BANK, TGA	$5,802	$8,057	$8,740	$9,488	$4,228	$742
TYNDALL FEDERAL CREDIT UNION, TGA	$4,870	$4,535	$2,892	$3,441	$2,676	$574
UMB BANK NA, TGA	$752,110	$714,976	$653,812	$489,821	$401,628	$77,760
UNION BANK OF CALIFORNIA NA, TGA	$31,520	$18,036	$0	$0	$0	$0

Attachment 1 - Hatch Question 2 **Depositary Institutions**
Senate Finance Committee Questions for the Record - (Hearing Held March 5, 2014)

Depositary Institution	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
UNION PLANTERS BANK, N.A., TGA	$9,342	$10,184	$9,836	$9,588	$6,068	$625
UNITED BANK, INC., TGA	$23,864	$6,018	$2,686	$2,799	$1,211	$175
US BANK NA, TGA	$1,891,533	$3,304,712	$2,667,943	$2,246,292	$2,406,143	$494,055
WARREN FEDERAL CREDIT UNION, TGA	$3,073	$3,054	$3,247	$2,495	$1,621	$202
WASHINGTON FEDERAL - TGA	$0	$0	$0	$0	$20	$122
WELLS FARGO BANK	$557,920	$421,727	$359,772	$332,618	$363,072	$67,886
WHITE SANDS FEDERAL CREDIT UNION, TGA	$2,067	$1,822	$1,917	$1,761	$1,439	$246
WRIGHT PATMAN CONGRESSION FCU, TGA	$4,657	$5,928	$5,555	$5,318	$4,532	$758

SUBMITTED BY SENATOR ROBERTS

From *The Wall Street Journal*

Opinion

Connecting the Dots in the IRS Scandal

The 'smoking gun' in the targeting of conservative groups has been hiding in plain sight

By Bradley A. Smith

February 26, 2014

The mainstream press has justified its lack of coverage over the Internal Revenue Service targeting of conservative groups because there's been no "smoking gun" tying President Obama to the scandal. This betrays a remarkable, if not willful, failure to understand abuse of power. The political pressure on the IRS to delay or deny tax-exempt status for conservative groups has been obvious to anyone who cares to open his eyes. It did not come from a direct order from the White House, but it didn't have to.

First, some background: On Jan. 21, 2010, the Supreme Court issued its ruling in *Citizens United v. FEC* upholding the right of corporations and unions to make independent expenditures in political races. Then, on March 26, relying on *Citizens United*, the D.C. Circuit Court of Appeals upheld the rights of persons (including corporations) to pool resources for political purposes. This allowed the creation of "super PACs" as well as corporate contributions to groups organized under Section 501(c)(4) of the Internal Revenue Code that spend in political races.

The reaction to *Citizens United* was no secret. Various news outlets such as CNN noted that "Democrats fear the decision has given the traditionally pro-business GOP a powerful new advantage."

The 501(c)(4) groups in question are officially known as "social-welfare organizations." They have for decades been permitted to engage in political activity under IRS rules, so long as their primary purpose (generally understood to be more than 50% of their activity) wasn't political. They are permitted to lobby without limitation and are not required to disclose their donors. The groups span the political spectrum, from the National Rifle Association to Common Cause to the Planned Parenthood Action Fund. If forced out of 501(c)(4) status, these nonprofit advocacy groups would have to reorganize as for-profit corporations and pay taxes on donations received, or reorganize as "political committees" under Section 527 of the IRS Code and be forced to disclose their donors.

Now consider the following events, all of which were either widely reported, publicly released by officeholders or revealed later in testimony to Congress. These are the dots the media refuse to connect:

- Jan. 27, 2010: President Obama criticizes *Citizens United* in his State of the Union address and asks Congress to "correct" the decision.
- Feb. 11, 2010: Sen. Chuck Schumer (D., N.Y.) says he will introduce legislation known as the Disclose Act to place new restrictions on some political activity by corporations and force more public disclosure of contributions to 501(c)(4) organizations. Mr. Schumer says the bill is intended to "embarrass companies" out of exercising the rights recognized in *Citizens United*. "The deterrent effect should not be underestimated," he said.
- Soon after, in March 2010, Mr. Obama publicly criticizes conservative 501(c)(4) organizations engaging in politics. In his August 21 radio address, he warns Americans about "shadowy groups with harmless sounding names" and a "corporate takeover of our democracy."
- Sept. 28, 2010: Mr. Obama publicly accuses conservative 501(c)(4) organizations of "posing as not-for-profit, social welfare and trade groups." Max Baucus, then chairman of the Senate Finance Committee, asks the IRS to investigate 501(c)(4)s, specifically citing Americans for Job Security, an advocacy group that says its role is to "put forth a pro-growth, pro-jobs message to the American people."
- Oct. 11, 2010: Sen. Dick Durbin (D., Ill.) asks the IRS to investigate the conservative 501(c)(4) Crossroads GPS and "other organizations."
- April 2011: White House officials confirm that Mr. Obama is considering an executive order that would require all government contractors to disclose their donations to politically active organizations as part of their bids for government work. The proposal is later dropped amid opposition across the political spectrum.
- Feb. 16, 2012: Seven Democratic senators—Michael Bennet (Colo.), Al Franken (Minn.), Jeff Merkley (Ore.), Mr. Schumer, Jeanne Shaheen (N.H.), Tom Udall (N.M.) and Sheldon Whitehouse (R.I.)—write to the IRS asking for an investigation of conservative 501(c)(4) organizations.
- March 12, 2012: The same seven Democrats write another letter asking for further investigation of conservative 501(c)(4)s, claiming abuse of their tax status.
- July 27, 2012: Sen. Carl Levin (D., Mich.) writes one of several letters to then-IRS Commissioner Douglas Shulman seeking a probe of nine conservative groups, plus two liberal and one centrist organization. In 2013 testimony to the House Oversight and Government Reform Committee, former IRS Acting Commissioner Steven Miller describes Sen. Levin as complaining "bitterly" to the IRS and demanding investigations.
- Aug. 31, 2012: In another letter to the IRS, Sen. Levin calls its failure to investigate and prosecute targeted organizations "unacceptable."
- Dec. 14, 2012: The liberal media outlet ProPublica receives Crossroads GPS's 2010 application for tax-exempt status from the IRS. Because the group's tax-exempt status had

not been recognized, the application was confidential. ProPublica publishes the full application. It later reports that it received nine confidential pending applications from IRS agents, six of which it published. None of the applications was from a left-leaning organization.

- April 9, 2013: Sen. Whitehouse convenes the Judiciary Subcommittee on Crime and Terrorism to examine nonprofits. He alleges that nonprofits are violating federal law by making false statements about their political activities and donors and using shell companies to donate to super PACs to hide donors' identities. He berates Patricia Haynes, then-deputy chief of Criminal Investigation at the IRS, for not prosecuting conservative nonprofits.
- May 10, 2013: Sen. Levin announces that the Permanent Subcommittee on Investigations will hold hearings on "the IRS's failure to enforce the law requiring that tax-exempt 501(c)(4)s be engaged exclusively in social welfare activities, not partisan politics." Three days later he postpones the hearings when Lois Lerner (then-director of the IRS Exempt Organizations Division) reveals that the IRS had been targeting and delaying the applications of conservative groups applying for tax-exempt status.
- Nov. 29, 2013: The IRS proposes new rules redefining "political activity" to include activities such as voter-registration drives and the production of nonpartisan legislative scorecards to restrict what the agency deems as excessive spending on campaigns by tax-exempt 501(c)(4) groups. Even many liberal nonprofits argue that the rule goes too far in limiting their political activity—but the main target appears to be the conservative 501(c)(4)s that have so irritated Democrats.
- Feb. 13, 2014: The Hill newspaper reports that "Senate Democrats facing tough elections this year want the Internal Revenue Service to play a more aggressive role in regulating outside groups expected to spend millions of dollars on their races."

In 1170, King Henry II is said to have cried out, on hearing of the latest actions of the Archbishop of Canterbury, "Will no one rid me of this turbulent priest?" Four knights then murdered the archbishop. Many in the U.S. media still willfully refuse to see anything connecting the murder of the archbishop to any actions or abuse of power by the king.

Mr. Smith, a former chairman of the Federal Election Commission, is chairman of the Center for Competitive Politics.

COMMITTEE ON FINANCE
NEWS RELEASE
http://finance.senate.gov

Hearing Statement of Chairman Ron Wyden (D-Ore.) at FY2015 Budget Hearing with Treasury Secretary Lew

I'm going to be brief this morning and, of course, state first that it's a tremendous honor to chair this committee and work with all of you. This committee is the go-to place for tackling America's big domestic challenges, and Senator Hatch and I intend to preserve the committee history of addressing these vital issues in a bipartisan way.

In addition, the Finance Committee is the principal committee in the Senate with jurisdiction over international trade. Therefore, we are now looking at every possible economic lever to pressure Russia to step back from its unprovoked incursion into Crimea. The fact is, Russia has consistently used trade as a cudgel to bully its neighbors. The committee members will want Secretary Lew to tell us how the Administration can best marshal our country's economic might in defense of the people of the Ukraine.

Now back on the domestic front, the committee has before it several issues with a date stamp on them. Those issues include repealing and replacing the badly-flawed Medicare payment system for doctors, enacting bipartisan tax reforms that make the tax code more fair and more pro-growth, shoring up our transportation system, and helping American workers compete in tough global markets.

And we are very pleased to have the Secretary here today to discuss the President's 2015 budget.

This conversation of the budget is different than it's been in recent memory because this year, the Congress is actually operating under a bipartisan budget agreement, and the government isn't closing down.

So there is an opportunity to pivot from these budget battles and focus on the big challenges before the country. I would submit that the top challenge is sustaining and expanding our middle class. Today America has what I call a "Dollar Tree-Nieman Marcus economy." As has been noted in several publications, the bargain stores are doing well, and the high end retailers can't keep enough of the expensive items in stock. But stores that cater to the middle class are hurting.

Every one of our big economic challenges depends on sustaining and growing the middle class. And just briefly I'll tick off a few areas where we can boost that cause.

The first is innovation. Whether it's through the tax code or other action, investment in innovation and research can help turn creative startups into thriving businesses with more good-paying, high skill jobs. That's why I plan to move quickly to extend a number of expired tax provisions such as the Research and Development credit. Over the long term, that credit, through comprehensive tax reform, could be made even more useful for American startups.

The Obama administration's budget includes a proposal for business tax reform. I believe a broader approach that comprehensively overhauls our broken, dysfunctional code would do more to give all Americans – especially in the middle class – the opportunity to get ahead. And we're going to work in a bipartisan way and with the Administration closely on that matter.

A second priority ought to be savings. The vast majorities of savings are delivered through the tax system, and it's time for fresh policies that give all Americans the opportunity to accumulate wealth. The President offered one proposal to help workers save, MyRA, during the State of the Union, and the budget includes another called auto-IRAs.

There is an additional idea that ought to be examined. As has been noted previously, establishing a savings account for every American child has had deep conservative roots and significant bipartisan support. The idea of helping young people, particularly ones of modest income, be part of the opportunity to accumulate wealth in this country is especially important, and such accounts can open doors to higher education, home ownership and retirement security.

Third, the committee is going to focus on education. This is another area where the tax code doesn't pass the smell test. There are 15 separate incentives to help defray the cost of an education, and each has its own set of mind-numbing rules and definitions.

There are ways to improve those incentives – not just in the short-term, but for the long-haul through real tax reform – so that more Americans can secure the economic mobility that an affordable, high-quality education can give.

Fourth, you can't have big-league economic growth with little-league infrastructure. The committee is now working to provide fresh thinking that can pull some of the billions of dollars of private-sector capital off the sidelines and into infrastructure investments that spark new job growth.

And America will soon need a solution to keep the Highway Trust Fund solvent. We are going to go prospecting, colleagues, for bipartisan ideas in both areas.

In closing, this committee is going to focus on other issues outside our borders, besides Ukraine. One aspect of the international trade agenda that a number of colleagues have spoken about is currency manipulation. It's a major challenge confronting American workers and manufacturers. I look forward to working with Secretary Lew and the Department to ensure that our country is doing all it can to address misaligned currencies.

And finally to depart from Secretary Lew just for a moment from your portfolio, I would like to publicly thank the President for adopting a plan that Senators Crapo and Bennet and I from the Finance Committee and Senator Risch and Udall from the Energy Committee developed to reform federal wildlife policy. Fires in Oregon and throughout the West have gotten bigger and hotter, but our policies have not kept up. And this new system is going to allow us to get more value out of this in my view, also helping in a bipartisan way to address the challenge of these natural disasters.

Let me turn now to Senator Hatch for his comments, and also again express our thanks to Secretary Lew for his appearance.

○