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THE PRESIDENT'S FISCAL YEAR BUDGET PROPOSAL WITH U.S. SECRETARY OF THE TREASURY JACOB J. LEW

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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PRESIDENT'S FISCAL YEAR BUDGET PROPOSAL WITH U.S. SECRETARY OF THE TREASURY JACOB J. LEW

THURSDAY, FEBRUARY 11, 2016

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 10:05 a.m. in Room 1100 Longworth House Office Building, the Honorable Kevin Brady [Chairman of the Committee] presiding.

[The advisory announcing the hearing follows:]



Hearing on the President's Fiscal Year 2017 Budget Proposal with U.S. Secretary of the Treasury Jacob J. Lew

House Committee on Ways and Means Chairman Kevin Brady (R-TX) today announced that the Committee on Ways and Means will hold a hearing on President Obama's budget proposals for fiscal year 2017. **The hearing will take place Thursday, February 11, 2016, at 10:00 AM in Room 1100 of the Longworth House Office Building.**

Oral testimony at this hearing will be from the invited witness only. The sole witness will be the Honorable Jacob J. Lew, Secretary, U.S. Department of the Treasury. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

Details for Submission of Written Comments:
Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Tuesday, February 25, 2016**. For questions, or if you encounter technical problems, please call (202) 225-3625 or (202) 225-2610.

Formatting Requirements:
The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.
1. All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.
3. Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at http://www.waysandmeans.house.gov/.

Chairman BRADY. The committee will come to order. Thank you for joining us today. Secretary Lew, welcome. We appreciate your time. Welcome today to today's Ways and Means Committee hearing on the President's budget proposal for the Department of the Treasury for Fiscal Year 2017.

But before we begin I would like to take a moment to recognize a long-time Ways and Means staffer who will be attending her last budget hearing today. Margaret Hostetler is retiring in the coming days, after serving on the committee staff since 1987. She recently worked on Social Security Subcommittee staff, and is the all-time expert on budgets, trust funds, debt limits, and more. Her expertise extends back even before her time on the committee, to the early 1980s, when she—do you really want all these years laid out, Margaret, like this?

[Laughter.]

Chairman BRADY. Well, when she served on the House Budget Committee staff for then-Chairman Bill Roth of Delaware, she helped design the Thrift Savings Plan for federal workers, the original Gramm-Rudman law in the 1986 tax reform. She is a walking encyclopedia of committee and congressional history, and we wish her the very best in the next phase of her life.

Margaret, congratulations on the job well done.

[Applause.]

Chairman BRADY. Mr. Secretary, we are not fans of the budget the President proposed. I do want to begin by saying thank you for the collaborative work and successful work in making permanent a number of the temporary tax provisions at the end of last year. I think that both creates certainty for our economy and our businesses, and I think lays the foundation for pro-growth tax reform, going forward. So thank you for that work with this Committee.

We are not fans of this budget, because either President Obama didn't take the budget process seriously this year, or he is completely out of touch with the American people. It is hard to imagine how he could believe people would support a budget that contains a $3.4 trillion tax increase and $2.5 trillion in new spending.

For another fiscal year his extremely liberal budget is focused on growing Washington, not growing our economy. This document appears to exist solely to promote the President's liberal legacy. It is a disservice to the American people. And while he gets to leave office at the end of the year, Americans will still be expected to pay for this irresponsible spending, if Congress were to follow this plan. So, instead of solving real problems, this budget just makes life more expensive for Americans.

American people want jobs and opportunity, not higher taxes or more wasteful Washington spending. And while I believe the majority of this budget is completely irresponsible, I would like to talk to you today about three of my top concerns.

First, the President's plan to increase gas prices by $.25 per gallon is just absurd. Gas prices are low today, but we all know that will not always be the case. This new tax would have ripple effects across the economy, and constitutes a regressive tax on consumer goods and services that would hit Americans with fixed income the hardest, especially our senior citizens.

The good news is the American people do not have to worry about this horrible idea. I feel confident that I can speak for the 24 Republican Members on our committee when I say this tax proposal is dead, and dead on arrival.

Secondly, I am absolutely opposed to the President's plan to impose significant new taxes on small businesses, expanding the net investment income tax to all small business income. Mr. Secretary, our country is already experiencing economic growth, and millions of Americans had really just given up looking for a new job.

So, instead of finding new ways to add additional tax burdens on our small businesses, this Administration should do everything possible to encourage Americans to start small businesses, hire new workers, and build success stories of tomorrow. This new tax hike is another proposal that will not see the light of day in this Congress.

And finally, the President's budget doesn't address the fundamental problems of our broken Tax Code. Instead, it contains tax proposals that will actually make it harder for American companies to compete and succeed overseas and hire new workers here at home.

Members of the Ways and Means Committee are working to provide the American people with a better alternative. So instead of higher taxes and more spending, we are committed to a pro-growth agenda that will help create jobs, increase paychecks, and expand opportunities for all Americans. So, despite my objections to many of the proposals in this budget, I do hope that we can reach common ground on some policies and build on the momentum from last December's PATH Act, the permanency bill.

Our first effort must be to address our broken international tax rules and the growing threat to American worldwide companies. The risks are far greater than many perceive. These companies provide good-paying jobs across this country, and they are key partners to the thousands of local businesses in each of our districts that supply goods and services throughout the supply chain.

We simply can't ignore the broad ramifications of our outdated international tax rules a minute longer. If we can seize the oppor-

tunity to move forward in this critical area, I am confident we can keep the ball rolling. I am hopeful we can count on working with you, Mr. Secretary, to take some important steps toward the pro-growth economy every American wants and needs.

And thank you again for joining us today. We appreciate very much your time, and look forward to your testimony.

With that I now yield to the distinguished ranking member from Michigan, Mr. Levin, for the purposes of an opening statement.

Mr. LEVIN. Thank you, Mr. Chairman. Well, it is interesting to hear you attack the budget and then talk about looking for common ground. I don't know how you look for common ground if you won't hear testimony from the person who is the director of OMB.

I have been here now 33 years. I don't remember when there was a failure to take testimony from OMB directly. I guess this is part of a political tactic of the Republican Majority in the House and the Senate, but it is beyond explanation. And I think it undermines the credibility of all of your attacks.

The Secretary is here—and, Mr. Secretary, you have presented some very comprehensive testimony. I guess you drew upon your experiences heading up OMB. And I guess you will have to today stand in, in a sense, not only as the Secretary of the Treasury, but defending the budget at large. And you do that very, very well, and spell out the progress that has been made today and the progress that needs to be undertaken in the future.

But I think it is a lame excuse to talk about tax reform as a reason not to take any steps to address present tax problems. And one of them relates to inversions. And, Mr. Secretary, I am going to be asking you about this, and I think others will. What has been happening here while the Republican Majority has been essentially asleep, in terms of action on tax reform, is that more and more companies are moving overseas in name only, in order to avoid paying taxation, taxes.

The most recent example is Johnson Controls. So they are now joining Tyco. Tyco, which inverted before, they are now Ireland-based, and they moved their headquarters from New Jersey in the 1990s. So here you have a company, Johnson Controls, that benefitted dramatically from the action that was taken to save the auto industry of this country, led by the Administration. And they are essentially using a loophole to draw down their tax payments.

We have introduced legislation, the Democrats in this House as well as the Senate, to address inversions. This Majority refuses to act. The CBO, or the tax committee, has indicated that we could save over $40 billion—that is the CBO estimate—over 10 years, if we would pass that legislation. But you just sit on your hands while companies take advantage of loopholes. And you say you want tax reform, and you use it as an excuse to do nothing.

So why not act now on this inversion legislation? Why not? Some of you have said it is a problem, but you don't act. And more and more companies are inverting, losing income, and doing something that citizens are not allowed to do. Citizens can't simply change their address, maintain their life here, and pay lower taxes. But Johnson Controls can do that, Pfizer has done that, and numerous other companies.

So, I hope today, Mr. Chairman and Mr. Secretary, we will focus on actions that can be undertaken right now on loopholes, and not use the excuse of needed overall tax reform as a reason to do nothing.

Welcome, Mr. Secretary.

Chairman BRADY. Without objection, other Members' opening statements will be made part of the record.

Our sole witness today is the Honorable Jacob J. Lew, Secretary of the U.S. Treasury Department. Secretary Lew was confirmed as the 76th Secretary of the Treasury on February 27, 2013. Prior to that he served as the White House chief of staff, as well as director of the Office of Management and Budget.

Welcome, Secretary Lew. The committee has received your written statement; it will be made part of the formal hearing record. And you have five minutes to deliver your remarks, and please begin them when you are ready. Welcome.

STATEMENT OF JACOB J. LEW, SECRETARY OF THE TREASURY, U.S. DEPARTMENT OF THE TREASURY

Secretary LEW. Well, thank you, Mr. Chairman, Ranking Member Levin. It is a pleasure to be here for the first time with you as chairman, Chairman Brady. And I look forward to this testimony.

As President Obama said in the State of the Union just a few weeks ago, this is a time of extraordinary change. And to make change work for the American people, we need to foster economic opportunities for all to leverage new technologies, to solve urgent problems, such as climate change, pursue a smart foreign policy that protects our national security, and work together to improve our political discourse.

What we do in each of these areas is crucial to our future, as a nation. Today I will discuss the major aspects of the President's budget, and how it lays out a vision for what we need to do as a country, both now and over the next 5 to 10 years and beyond, to create growth and to make sure that opportunity is broadly shared.

In the seven years since President Obama took office amidst the worst financial crisis since the Great Depression, we have seen a sustained economic recovery and an unprecedented decline in the federal deficit. Notwithstanding some of the recent volatility that we have seen in financial markets, economic growth continues at a solid pace.

Since my testimony a year ago, our economy has continued its record-breaking streak of private-sector job creation, which has reached nearly 6 consecutive years and more than 14 million jobs.

Over the last two years we have experienced the strongest job creation since the 1990s. At 4.9 percent, the unemployment rate is half of its 2009 peak; real GDP expanded 1.8 percent last year, a pace of expansion that substantially exceeded many of our major trading partners; and we continue on a sound fiscal path. From Fiscal Year 2009 to 2015, the deficit, as a share of GDP, fell by almost three-quarters to two-and-a-half percent.

Despite this progress, we have much more to do to fully address the challenges associated with our new economy. The President's Fiscal Year 2017 budget puts forward the building blocks of a so-

cial compact for the 21st century, creating the conditions for sustained economic growth, while upholding the basic American belief that everyone who works hard should get a fair shot at success.

It shows that investments in growth and opportunity are consistent with and contribute to putting the nation's finances on a strong and sustainable path, and the budget substitutes more balanced deficit reduction and ends sequestration, while making other critical investments and addressing our fiscal challenges over the next 10 years.

Today I would like to briefly focus on three key areas of the President's budget, including our proposals to reform the Tax Code, invest in infrastructure, and support working families.

First, fixing America's business tax system is essential to promoting long-term growth and broad-based prosperity. The budget includes a number of concrete tax reform proposals to make our tax system more strong and more fair, including a complete reform of our international tax system, and a specific proposal to close the inversion loophole.

While inversions may be legal, it is wrong for companies to take advantage of our infrastructure, education, support for research, and rule of law, and then avoid paying their fair share of U.S. taxes. I look forward to working with this Committee and this Congress to close the door to inversions.

Second, we need to invest more in modern infrastructure that will create middle-class jobs in the short term and meet the needs of a growing economy in the long term. To accomplish this, the Administration has proposed a phased-in, $10-per-barrel fee on oil production and import that will ensure that we better manage the cost associated with fossil fuel use to provide a long-term solvency for the highway trust fund, and offer new funding for clean energy investments.

This budget also funds an expanded core infrastructure program and takes small steps to level the playing field for private investment and public infrastructure through the Financing America's Infrastructure Renewal, or FAIR, program.

Third, we must support working families. This budget seeks to respond to the changing relationship between workers and their employers. For example, it proposes expanded unemployment insurance and introduces a new wage insurance program to help families stay on their feet when under-employed as part of a job transition.

This budget also proposes to expand access to workplace retirement savings opportunities, complementing our success with the new MyRA program launched last year to help those without savings or retirement options at work begin to save for the future.

In conclusion, the President's budget will create a stronger, more inclusive economy today and in the future, while also maintaining fiscal responsibility.

Of course, we must also work together to respond to more immediate events. For example, Puerto Rico, where unemployment remains above 12 percent, is experiencing an unsustainable debt crisis. The Administration proposed a comprehensive plan to address the commonwealth's financial challenges, and I encourage Congress to act with the speed this crisis requires. This must begin with leg-

islation to permit a financial restructuring, along with new oversight, neither of which cost any taxpayer dollars.

This budget does not address every challenge we face. As the President said in the State of the Union, "Progress is not inevitable. But rather, it is the product of choices that we make together, as a nation." We face a number of big choices in the coming years. For example, we still need to take action to strengthen Social Security to keep true to our commitments to previous and future generations of workers.

The decade of fiscal responsibility laid out by this budget gives us the time we need to address these long-term challenges. In the recent agreement on the debt limit and the budget not only demonstrates that we have the capacity to find common ground on difficult issues, but it lays a foundation to address the immediate challenges we face.

I look forward to working with this Committee to make more progress over the coming year. Thank you very much, and I look forward to answering your questions.

[The prepared statement of Mr. Lew follows:]

EMBARGOED FOR DELIVERY

The Honorable Jacob J. Lew
United States Department of the Treasury
U.S. House of Representatives Committee on Ways and Means
February 11, 2016

Chairman Brady, Ranking Member Levin, Members of the Committee, thank you for the opportunity to appear before you today.

As President Obama said in his State of the Union address, this is a time of extraordinary change and, to make this change work for us, we as a country must focus on the future by confronting head-on some of our biggest challenges. The President concentrated on four key areas to which we must attend in the coming years, specifically: (i) fostering economic opportunities for all Americans; (ii) leveraging new technologies to solve urgent problems such as climate change; (iii) pursuing a smart foreign policy that protects our national security; and, (iv) working together to improve our political discourse. What we do in each of these key areas is crucial to our future as a nation. As Treasury Secretary, I focus most of my time in the area President Obama addressed first, namely how to spur growth and opportunity in our new economy. Today, I will discuss the major aspects of the President's Budget and how this Budget lays out a vision for what we need to do as a country both now and over the next five or 10 years and beyond to create growth and make sure that opportunity is broadly shared.

Before turning to what we need to do for our economy over the long-term, let me first note the progress we have made over the course of the Administration.

HOW FAR WE HAVE COME

In the seven years since President Obama took office amidst the worst financial crisis since the Great Depression, we have seen a sustained economic recovery and an unprecedented decline in the federal budget deficit. Since my testimony a year ago, our economy has continued its record-breaking streak of private sector job creation, which has reached nearly six consecutive years and 14 million jobs. Over the last two years, we have experienced the strongest job creation since the 1990s. At 4.9 percent, the unemployment rate is half of its 2009 peak. Consumer confidence is strong and small businesses are planning further increases in their payrolls. Rising home prices have restored trillions of dollars in home equity to homeowners.

Last year, we celebrated the five-year anniversaries of two major pieces of legislation—the Affordable Care Act (ACA) and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank)—that have had an important impact on the economic security of American households and the stability of our financial system, an essential prerequisite for long-term growth. As the coverage provisions of the ACA have taken effect, nearly 18 million more Americans have gained coverage. The ACA has also improved coverage for those who already had health insurance, and changed the incentives for hospitals, doctors, and other providers to encourage higher quality, more efficient care. Health care inflation has been notably slower over the past five years, and, for the first time ever, more than 90 percent of Americans have health care coverage. And Dodd-Frank has put in place protections that ensure that the financial system today is better capitalized, less leveraged, and far safer than it was prior to the crisis. It also

created the Financial Stability Oversight Council, a body that looks across the entire financial system to identify future threats to financial stability, and the Consumer Financial Protection Bureau, an agency whose sole purpose is to protect Americans from unfair, deceptive, or abusive financial practices.

The Administration has also worked hard to make our tax system stronger and fairer. Legislation enacted since early 2009 has decreased average tax bills by several hundred dollars for those in the lower third of the income distribution, while ensuring that those at the top pay a fairer share, especially among families in the top 1 percent and top 0.1 percent. Through policies like the Recovery Act expansions of the Earned Income Tax Credit, the Child Tax Credit and the American Opportunity Tax Credit (recently made permanent); ACA subsidies for purchasing health insurance; higher tax rates on dividend and long-term capital gains income; and reinstating the top rate on the highest earners to the level that prevailed in the 1990s, after-tax income increased substantially for lower-income families and the overall tax system became more progressive during this Administration. We have also made the Tax Code more stable and predictable by making major individual and business provisions, such as the Research and Experimentation (R&E) Tax Credit and enhanced small business expensing, permanent in last year's agreement, providing the certainty businesses need for effective planning.

Notwithstanding some of the recent volatility we have seen in the financial markets, economic growth continues at a solid pace. Real GDP expanded 1.8 percent last year. Private domestic demand—the demand generated by American households and businesses—was the principal driver of growth, expanding at a solid 2.7 percent. Both private sector forecasters and the IMF expect the underlying strength in domestic demand to continue this year, with real GDP growth picking up to around 2.5 percent. This pace of expansion substantially exceeds that of many of our major trading partners, and, in fact, soft demand from abroad for our exports has been, and will continue to be, a significant drag on U.S growth. While a widening trade deficit is natural in these circumstances, the rest of the world cannot depend on the United States to be the sole engine of growth. That is why this Administration has consistently worked with our international counterparts to encourage the implementation of strong and comprehensive policies to support growth.

Meanwhile, we continue on a sound fiscal path. The deficit for fiscal year 2015 was roughly $150 billion or three-quarters of a percent of GDP lower than we anticipated in our Budget one year ago. From fiscal year 2009 to 2015, the deficit as a share of GDP fell by almost three-quarters to 2.5 percent. Only the period of demobilization following the end of World War II saw a faster pace of fiscal consolidation. Since 2011, four fifths of the deficit reductions we have achieved have been from spending cuts.

And over the past three years, we have seen real progress in returning to fiscal policy that boosts our economy. The Administration began with bipartisan efforts to stabilize and restore growth to our faltering economy with targeted investment, but subsequent fiscal policy choices hurt, rather than helped, the economic recovery. In March 2013, sequestration cuts that were never intended to take effect were implemented, reducing GDP by 0.6 percentage points and costing 750,000 jobs. But later that year, following a series of damaging and unnecessary debt limit stand-offs and a protracted government shutdown, policymakers finally began to turn away from

manufactured crises and austerity budgeting. The President worked with Congress to secure a two-year budget agreement that replaced a portion of the harmful sequestration cuts with more balanced and sensible deficit reduction measures. This allowed for higher investment levels in 2014 and 2015, a significant contribution to the improvement in the labor market over the past two years. Between its peak in 2009 and the end the 2015, the deficit dropped by almost 1 trillion dollars, or over 7 percent as share of GDP. An increase in revenues as a share of GDP and a decrease in spending as a share of GDP played roughly equal roles in the decline

Again for 2016, when harmful sequestration cuts were scheduled to return, the President worked with congressional leaders from both parties to secure another two-year budget agreement (the Bipartisan Budget Act of 2015 or BBA), showing that the right results for the country can be achieved when we work together. The BBA will create an estimated 340,000 jobs in 2016 alone, while supporting middle-class families, investing in our long-term growth, protecting Social Security, and safeguarding our national security. Finally, the year-end FY 2016 omnibus appropriations act included a bipartisan agreement to extend expiring tax provisions that will, among other things, boost support for research and development and clean energy investment in the private sector, provide permanent tax relief to working families, and simplify and cut taxes for small businesses.

Still, more needs to be done. Non-defense discretionary funding in 2017 will be at its lowest level since 2006, adjusted for inflation, even as the need for pro-growth investments in infrastructure, education, and innovation has only increased due to the Great Recession and its aftermath. Inflation-adjusted defense funding will also be at its lowest level since 2006. And without further action from Congress, the sequester will come back into effect in 2018 and put at risk the economic progress we have made.

We must also not leave behind our communities in distress. Nowhere is this more evident than with the 3.5 million Americans living and working in the Commonwealth of Puerto Rico. While the economic health of our nation has improved dramatically since President Obama took office, Puerto Rico's economy continues to suffer. Their unemployment remains above 12 percent. Outmigration continues to accelerate. And the Commonwealth's debt is unsustainable. As a result, the Administration proposed a comprehensive plan to address Puerto Rico's financial challenges and we encourage Congress to act with the haste this crisis requires. This must begin with legislation to permit a financial restructuring along with new oversight, neither of which cost any taxpayer dollars.

THE FY 2017 BUDGET AND WHERE WE ARE GOING

Despite the significant progress we have made over the past seven years, we have much more to do to address fully the challenges associated with our new economy. As the President indicated in the State of the Union, the most significant and most pressing of our economic challenges is how we ensure that the benefits of our growth are shared by all Americans. While more Americans have jobs than ever before, millions of Americans are still searching for work and millions of part-time workers are still searching for full-time opportunities. We are still not seeing enough growth in household income and wages, and too many American families still

have limited savings, impairing their ability to cope with an economic shock such as job loss, let alone retirement.

The President's FY 2017 Budget is designed to address these and other pressing problems. It puts forward the building blocks of a social compact for the 21st century, creating the conditions for sustained economic growth while upholding the basic American belief that everyone who works hard should get a fair shot at success.

The President's FY17 Budget shows that investments in growth and opportunity are compatible with putting the nation's finances on a strong and sustainable path. The Budget substitutes more balanced deficit reduction and ends sequestration, while making other critical investments and addressing our fiscal challenges over the next 10 years. It keeps deficits below 3 percent of GDP while stabilizing debt and putting it on a declining path through 2025—key measures of fiscal progress.

The Budget accomplishes these goals by more than paying for all new investments and continuing to achieve significant deficit reduction. The Budget includes roughly $375 billion of health savings that grow over time and builds on the ACA with further incentives to improve quality and control health care cost growth. It also includes smart tax reforms that promote growth and opportunity, while strengthening tax policies that help middle-class families afford child care, higher education, and a secure retirement.

The Budget also shows that responsible deficit reduction can be achieved without cuts in critical aid to poor Americans and without undermining our commitments to seniors and workers. The Budget puts us on sound fiscal footing even as it modernizes benefits for workers, invests in evidence-based efforts to reduce poverty and promote opportunity, and protects Social Security and Medicare.

Reforming the Tax Code

In 2012, the President first laid out his Framework for Business Tax Reform, and the President's Budget continues to put forward a robust business tax reform plan to support economic growth, encourage businesses to create good, high-paying jobs in America, and expand opportunity so our nation's economic gains support a strong middle class. Fixing America's business tax system is essential to promoting long-term growth and broad-based prosperity. Over the three decades since we last rewrote it, the tax system has become heavily burdened by loopholes and inefficiencies. Businesses are forced to focus too much attention on tax planning and financial engineering rather than growing the top line of their businesses.

One clear indication of the need for reform is the pace at which companies are pursuing corporate inversions to avoid paying U.S. income taxes. While inversions may be legal, it is wrong for these companies to take advantage of U.S. infrastructure, education, support for research, and rule of law, and yet avoid paying their fair share of U.S. taxes. While the Administration has used its administrative authority to reduce the economic benefits of these transactions and to limit them to some extent, the only real solution is for Congress to enact business tax reform that addresses the root inefficiencies that cause these problems and

specifically closes the inversion loophole. The growing bipartisan consensus in Washington on how to achieve business tax reform creates the opportunity to take this key step sooner rather than later. In the meantime, Congress should act this year to change our tax laws to stop corporate inversions.

The Budget again calls for a fiscally-responsible business tax reform, and makes a number of concrete tax reform proposals, including a complete reform of our international tax system. Last year's permanent extension of several important business tax provisions, including the R&E Credit, advanced important components of our tax reform agenda. But that legislation did not offset the budgetary impact of those cuts and leaves the job of reforming our business tax system undone. Though the end-of-year legislation on certain business tax extenders was a first step, we need to take further steps to enact a comprehensive business reform plan, that, taken together with the extenders legislation, is deficit-neutral in the long run.

Building a 21st Century Infrastructure

While last year's surface transportation reauthorization bill, the Fixing America's Surface Transportation (FAST) Act, will help address our nation's crumbling infrastructure, we should not be content with merely repairing aging roads, bridges, rail, and transit systems. Transportation infrastructure has been a key ingredient of economic growth in this country nearly since its inception. And infrastructure investment provides a double return: in the short-term, it creates middle-class jobs across a range of skills and sectors; in the long-term, it provides assets that meet the needs of a growing economy and make our towns and cities more attractive to new business investment. Investments in our transportation network can also help us tackle the threat of climate change. Today, the transportation sector contributes nearly thirty percent of U.S. carbon emissions. We will need to move to a cleaner, low-carbon transportation system that is also more resilient to the impacts of climate change.

To help make this transition, the Budget proposes to invest $20 billion per year to shift Federal investments towards cleaner transportation options like rail and transit; $10 billion per year in new and innovative grant programs that partner the Federal government with local and state governments to accelerate the move towards smarter, cleaner, and more integrated communities; and $2 billion to accelerate development and deployment of clean vehicle technology.

To fund these investments, the Administration has proposed a $10.25 per barrel fee on oil, which would be gradually phased in over five years. There are many costs associated with fossil fuel use, and given our highly oil-dependent transportation environment, an oil fee will ensure that we better manage our resources to reflect those costs. These resources would also provide for long-term solvency for the Highway Trust Fund, renamed the Transportation Trust Fund in the President's Budget to reflect its multi-modal nature, beyond the current extension.

The private sector can play a valuable role in helping to maximize limited public resources for infrastructure. Effective public-private partnerships are a growing procurement alternative for state and local governments; these arrangements may accelerate the delivery of complex projects, leverage the resources and expertise of the private sector, mitigate construction and operational risks, and reduce the likelihood of deferred maintenance. The Budget includes a

number of proposals to take small steps to level the playing field for private investment in public infrastructure projects where appropriate, including renewing our proposal to create Qualified Public Infrastructure Bonds, which would extend tax-exempt benefits to certain public-private partnerships, and introducing the Financing America's Infrastructure Renewal program, which would provide direct loans to U.S. infrastructure projects developed through public-private partnerships.

Finally, the Budget maintains its support of our long-standing infrastructure bank proposal, which would help target and manage the complexity of implementing economically and regionally significant infrastructure investments. There are a number of creative ideas in Congress about how to boost our infrastructure investment, and I look forward to continuing to work with Congress to build a 21st century infrastructure.

Providing Opportunity Through Education

The United States was one of the first countries to provide public high school education, and as a result we were one of the most highly educated populations in the 20th century. Now it's time to ramp up our workforce for the 21st century by ensuring broad access to high quality education, starting with pre-K, as well as training for those who are already out of the education system. And we must make sure that once they complete their schooling, our students are not burdened with a mountain of debt that they cannot repay.

The Budget recognizes that changes in our economy make it more essential than ever that workers have the right education and training. It thus includes policies that enhance educational opportunities from pre-K through college. We propose to provide pre-K for all; offer every student hands-on computer science and math classes; and make community college and career and technical schools free for responsible students. Furthermore, this year's Budget introduces a tax credit to incentivize employers to join consortia with community colleges. This will help drive development and resourcing of career training programs that train for real employment needs in the region and provides a hiring tax credit when consortia employers hire new workers out of the program. In addition, for those already in the workforce who are struggling with the rapid change in the economy, the Budget also provides for job retraining so they can bring new skills to bear. Finally, the Budget provides funding to implement the Administration's ongoing efforts to ensure that student loan contractors provide high-quality loan servicing to students. This funding will also allow the Department of Education to provide enhanced oversight and strengthen enforcement activities, such as pursuing schools that engage in deceptive or misleading practices toward students, including veterans.

Providing a Safety Net for Working Families

The Budget again proposes a set of policies that will raise the incentives for working, including raising the minimum wage and reducing taxes on working families. For example, it proposes to strengthen the Earned Income Tax Credit for workers without dependent children—the only group that the federal tax code taxes into poverty or taxes deeper into poverty. The Budget also addresses some new needs of working families, given changes in the relationship between workers and their employers over time. For example, it proposes expanded unemployment

insurance and introduces a new wage insurance program to help families stay on their feet when their wage earners are underemployed as part of a job transition. The President's plan would ensure that workers have access to wage insurance that would replace half of lost wages, up to $10,000 over two years. Displaced workers making less than $50,000 who were with their prior employer for at least three years would be able to leverage these resources to help them get back on their feet and on the way to a new career.

Similarly, the Budget addresses holes in our unemployment insurance system, including by expanding coverage to many part-time, low-income, and intermittent workers, and workers who leave work for compelling family reasons. It would also ensure that states provide 26 weeks of coverage. This is coupled with a plan to make it easier for companies to avoid lay-offs through work-sharing, while incentivizing states to offer and allow retraining for workers on unemployment insurance or to provide relocation vouchers or subsidized employment. In addition, it would expand intensive career counseling to long-term unemployed, discouraged, and part-time workers.

Encouraging Retirement Savings

While the vast majority of people understand the benefits of saving for retirement, it is a fact that many Americans have very limited savings, and some have no retirement savings at all. Low- and moderate-income households have especially low levels of accumulated assets, and as many as 78 million working Americans do not have a retirement savings plan at work. To help people start saving, late last year Treasury launched the *my*RA retirement program. It is free to get started, there are no minimum balances or fees, and there is no risk of losing money because savings are invested in risk-free U.S. Treasury securities. *my*RA fills a crucial gap in the retirement savings system by providing an option for people who do not have access to a retirement savings plan at work. It helps people get started saving by allowing people to contribute any amount, no matter how small, and it does not conflict with private retirement options since the balance is ultimately rolled over into a private-sector IRA after 30 years or once it reaches $15,000, whichever comes first.

But, this just scratches the surface. The Budget proposes to expand access to workplace retirement savings opportunities by encouraging more employers to offer plans and making it easier for workers to participate by enabling small businesses to come together and create pooled 401(k) plans at lower cost and with less burden than they would have on their own, automatically enrolling workers without access to a workplace plan in an IRA, providing tax credits for small businesses that begin offering retirement plans or choose to automatically enroll workers in existing plans, and allowing long-term, part-time workers to participate in their employer's plan.

Conclusion

The policies in this Budget will create a stronger, more inclusive economy today and in the future, while also maintaining fiscal responsibility. Of course, this Budget does not address every challenge we face in the long term. For example, we must strengthen Social Security to keep true to our commitments to previous and future generations of workers. And while

business tax reform would significantly boost the economy, there are also significant challenges and inefficiencies on the individual side that we must address.

Our problems will undoubtedly not all be solved in the next 11 months—far from it. But there is still much we can accomplish. As the President said in his State of the Union address, progress is not inevitable but rather is the product of choices we make together as a nation. We face a number of big choices in the coming years. And though responsibility for addressing our nation's biggest problems will soon pass from this Administration to the next, we all have a stake in our country's future. Whether you hold public office, run a small business, serve in the military, or are struggling to find a job, we all have duties as citizens—to vote, to engage, to speak out for what we believe in—that we must exercise to foster an America of the future that reflects our shared goals and values.

Chairman BRADY. Great, thank you, Mr. Secretary, for your testimony. We will now proceed to the question and answer sessions.

Before we talk tax reform, let me talk tax hikes. The President has proposed a major new tax hike on working families, a very divisive $10-per-barrel oil tax, which really is a hidden gas tax that would relate to about $.25 a gallon. The time, frankly, paychecks have been stagnant for seven or eight years, if not longer, families are really struggling—businesses to make ends meet—this is a huge, divisive regressive fuel tax increase that really falls on middle-class families.

And so, the question is, how did the President think this new gas tax would help grow the economy?

Secretary LEW. Well, Mr. Chairman, to begin with, you know, the oil fee is a way to help manage resources to reflect the cost that consuming oil imposes on our citizens and on our environment.

At the same time, we have tremendous transportation and infrastructure needs that we need to address. And the oil fee provides a basis for both funding the highway trust fund and funding new investments in infrastructure and in new technology that will help America and American workers today and in the future.

There is a not exact correlation between an oil fee and what gets passed through, so I am not going to comment on the amount that would be passed through, but I would point out that it is a $10-a-barrel fee that is implemented over 5 years. And if you just do that simple division, you know, $2 a barrel, right now we are seeing oil prices move on an hourly and daily basis in amounts that make $2 a barrel seem like small, not large, movements.

So I think this is the perfect time to have a conversation about a policy like this, and we look forward to engaging. And we have proposed a mechanism to make sure that low-income families that have fixed consumption needs and can't bear any burden have a way to get extra help out of it.

So we would look forward to working to make this something that could be implemented in a way that is fair to all Americans.

Chairman BRADY. Thank you, Mr. Secretary. One, I appreciate your explanation of it. My only advice is don't spend too much time on it. It is going nowhere fast.

I appreciate—while I didn't see a lot of new proposals on the tax reform area within the budget, I know that you have a deep interest in simplifying this code, making it more competitive, sort of going beyond the Band-Aids of what we hear about inversions, actually going to the real problem. And I feel like we have got some bipartisan momentum because of the permanency bill that we passed.

Can you give me your thoughts on where we may have common ground?

Secretary LEW. I would be happy to, Mr. Chairman. And I—we have talked about this on quite a number of occasions. I think this is an area where we ought to be able to find bipartisan ground.

You look at the consequences of delay on business tax reform, and they are enormous. We are seeing it in the inversions that have already been referred to. We need to stop the inversions, and the best way to stop the inversions is to reform our business Tax Code.

We are also seeing very troubling trends. Just today I wrote to the President of the European Commission, objecting to action that is being taken in Europe in the name of state aid subsidy actions that essentially takes a—makes an attempt to undermine our Tax Code by having a tax imposed overseas on what should be income in the United States. We need to fix the business Tax Code to get that money back.

If we can do that, if we can close loopholes that are inefficient, if we can lower the business tax rates and require that overseas income be brought home, we also have the resources to make a significant investment in our infrastructure needs, going forward. I think those are ingredients that we ought to be able to make progress on.

What I would say is if we can't make broad progress on inversions—on business tax reform, we can't ignore inversions this year. Congress needs to act. We can't look back a year from now and say we should have stopped that. We need—Congress needs to act.

Chairman BRADY. You know, I agree, and especially in the sense that there is an urgency. My worry is that we are becoming more and more isolated, more and more companies feel their only option—and shareholders—is to invert or face a hostile takeover from a foreign country. And shame on us——

Secretary LEW. Correct.

Chairman BRADY [continuing]. If we don't act to stop this from going forward.

So, my sense is you are committed to working with us, trying to find that common ground to act this year, if possible, in this area.

Secretary LEW. I consider this a year of work. We have a lot to do this year, and I look forward to getting this done.

I realize there is not a lot of people who are optimistic about it, but we need to put the effort in to create the possibility.

Chairman BRADY. Yes, I agree. Final point—the IRS is still a scandal-ridden agency that just doesn't have credibility any more. You know, nearly three years ago, Treasury Inspector General, the watchdog for the tax administration, issued a report confirming the IRS did use inappropriate criteria to identify applications for tax-exempt status for extra scrutiny. The targeting of American citizens based on their political beliefs highlights the potential avenues for abuse within the agency, and the many ways in which the discretion afforded within the Tax Code can be manipulated and exploited.

My view is the IRS's actions have completely demoralized the IRS from within, caused American people to lose confidence in it. To date, to my view, Treasury and IRS have taken no concrete steps to restore that credibility and ensure this abuse of power doesn't happen again. Just the opposite: IRS proposed a new rule that would make it easier for them to target Americans.

Furthermore, this Committee asked GAO to review the whole IRS selection process, and the GAO concluded it is still possible for American citizens to be targeted for audits based on the political, education, or religious beliefs, which is why, in the permanent PATH Act, we have for the first time a ban on the IRS targeting Americans for their political beliefs or using personal emails for business.

So, my question is, I know you too want an IRS that is credible again, that is neither seen Republican or Democrat, but actually is following the law in how they audit and how they handle these tax applications. What is Treasury doing to restore the credibility of the IRS?

Secretary LEW. Mr. Chairman, I think you and I agree completely the actions that gave rise to your concerns were unacceptable. And action was taken immediately to replace all of the senior people involved, and to make sure that it could never happen again. We brought in a new IRS commissioner, who I think has done a tremendous job under very difficult circumstances at a time when the funding for the IRS budget being cut was causing huge morale problems at the IRS, not the issue that you are describing. It was the fact that they didn't have enough people to answer the phones.

Last year we made some progress. We actually saw, for the first time in several years, an increase in the IRS budget to fund answering the phones, to help us deal with cyber security threats, to help us fix our computer system. I think the IRS is doing a tremendous job. The 90,000 people at the IRS who did nothing wrong have been criticized for what a few people that we all criticized for their actions did.

We need to support the people at the IRS so that they can run a tax system that is worthy of our country. We can't not have people to answer the phone or enforce the Tax Code.

Chairman BRADY. My belief is this IRS commissioner is less credible than the one before, who was less credible than the one before that. And the line of work has to be done—you will hear from Members today about the abysmal service at the IRS, and the real problems still there.

So, look, we are going to disagree in a big way, and this Committee is going to pursue this until we are sure Americans can't be targeted, and they are getting the service they need.

Secretary LEW. You have 100 percent agreement from us that Americans should not be targeted for their political beliefs. That is unacceptable. Whoever does it is wrong, if they do it. And that is the view of the Administration, it is the view of the IRS commissioner, and I look forward to working together to make sure we can build confidence in that, because that is very important.

Chairman BRADY. Thank you, Secretary.

As I turn to Mr. Levin I would like to note that, while he lamented OMB not being invited for this fiscal year budget, as though that happens every year, the truth is last time OMB has testified on the President's budget at Ways and Means was in 2011 on that 2012 budget, and the OMB director at the time, I am pretty sure it was you, Secretary Lew——

Secretary LEW. I seem to be invited to testify wherever I am sitting.

[Laughter.]

Chairman BRADY. That doesn't seem to be a problem.

Mr. Levin, you are recognized.

Mr. LEVIN. Oh, but look, the budget director isn't being asked to testify before the budget committee.

Chairman BRADY. We are the Ways and Means Committee.

[Laughter.]

Mr. LEVIN. I know, but there is another committee called the Budget Committee. Defend why the Budget Committee is not asking the director of OMB to testify.

Chairman BRADY. Well, I will tell you what. I will give you Mr. Price's phone number, and you can visit with him shortly about it.

[Laughter.]

Mr. LEVIN. No, my suggestion is you have his phone number, call him up and ask why.

Chairman BRADY. I think we will get a chance to explore that in a moment.

Mr. LEVIN. Mr. Price? Where is——

Mr. PRICE. Will the gentleman yield?

Mr. LEVIN. I will yield.

Mr. PRICE. Well, I appreciate that. We are on a short timeline this year in order to get the budget done, and so the——

Mr. LEVIN. All right.

Mr. PRICE. And as a matter of fact——

Mr. LEVIN. I will take back my time

Mr. PRICE [continuing]. When the President's budget came to the floor, only two Democrats voted for it out of the entire Congress in——

Mr. LEVIN. Okay. But look, that is not, Mr. Price, a reason not to hear from him. That is worse than a lame excuse.

Let me just say you said shame on us, Mr. Chairman. When it comes to these loopholes, really, it is shame on you. So I want to ask the Secretary, because we favor corporate tax reform, looking at it. This has been going on for years. Is there good reason not to act on the inversion issue because we have failed to act on corporate tax reform, Mr. Secretary?

Secretary LEW. Congressman Levin, I would have to say that the right thing to do is to reform our Tax Code, because the problem in our Tax Code is we have these huge inefficiencies, loopholes, deductions, and rates that are statutory rates that are too high.

But we have to deal with inversions. If we can't deal with the whole Tax Code, I don't think that we can justify—I can't; I hope this Committee can't justify—doing nothing while another year of inversions goes on.

We are doing everything we can, administratively, to stop inversions. We have put out two pieces of guidance that have had some effect. We are working on another one. But we have made clear from the very start the only way to stop inversions is through legislation.

So, if you gave me a choice, I would choose business tax reform that fixes the problem properly. But if that can't happen, I strongly urge that you look at doing something on inversions, because I don't think anyone a year from now is going to look back and say they didn't do anything, while more companies moved overseas.

Mr. LEVIN. All right. Let me ask you. Related to that is the issue of earning stripping. And there has been recent discussion about how, when companies invert, they then utilize earning strippings to make it worse. And we are gong to be introducing legislation once again relating to this.

Just tell us what you think about this, and the limits on your authority, and why it is necessary for Congress to act.

Secretary LEW. Congressman, I think if you look at the——

Mr. LEVIN. Describe it so everybody understands what happens.

Secretary LEW. So, you know, earning stripping is when a company moves overseas and it assigns the earnings to the lower tax jurisdiction to avoid taxes. And, you know, there are ways of addressing that on a freestanding basis.

We have provisions which would stop inversions and stop earning stripping. You could pull that out of our business tax reform proposal. I haven't seen the proposal that you have described whether it is the same or not, but it certainly is possible to do that.

Now, I do not want to be unclear. I think it is far superior to do it in the context of real business tax reform. But you could pull those provisions out and, if you can't do full business tax reform, we should. Because what we can do administratively—we are looking at what we can do on earning stripping, but we don't have a very sharp scalpel, in terms of the options that we have, administratively. We are very careful, using our administrative authority within the boundaries that we have. You have the ability to write a law that would make it much more precise.

Mr. LEVIN. Thank you. I yield back.

Chairman BRADY. Thank you. Mr. Johnson, you are recognized.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Secretary, welcome back. As the Secretary of the Treasury, you also serve as managing trustee for Social Security.

Mr. JOHNSON. And on the screen you will see the size of the Social Security shortfall each year since 2009.

I know we talked about this last year, but it seems to me the news just keeps getting worse for Social Security.

My question is, just for the record, do you agree that Social Security finances have gotten worse since Obama took office in 2009——

Secretary LEW. Well——

Mr. JOHNSON [continuing]. Yes or no?

Secretary LEW. No. Look, I think that looking at the chart—which I am having a little trouble reading, but I think I can see—the—you know, we knew for decades that the Baby Boomer retirement was going to start increasing the amount of draw on the trust fund. That is why we built up reserves in the trust fund, so that it could be drawn down when the Baby Boom retired.

I think, if you look at the life span of the Social Security trust fund, we have seen it actually improve from year to year—not every year, but—so I don't think just looking at what the draw in the trust fund is. The question is, do we stand behind the trust fund? I think we should stand behind the trust fund. American workers pay into the Social Security trust fund——

Mr. JOHNSON. I hear you.

Secretary LEW [continuing]. So it can be there when they retire.

Mr. JOHNSON. My question was do you think that finances have gotten worse since you all took office?

Secretary LEW. I think that the Baby Boomers started retiring since we took office. I have certainly gotten seven years older. So I know it in a very personal way.

I don't think we can pretend that the Baby Boom won't continue to retire each year, which is why we knew that we were going to have a period where benefits were going to grow, and we needed to have reserves to draw down.

I think what is not on the chart that you are showing me is the actions taken in the period from, like, 2000 to 2009 that affected our overall fiscal posture. In the unified budget terms, the question is are we able to do it. We need to make sure we can pay Social Security, and it is our obligation, as we deal with the rest of the budget, not to make Social Security the victim because we have other budget challenges we have to——

Mr. JOHNSON. Well, let me show you what the President said about Social Security in his first budget submission in 2009. It is on the screen.

[Slide]

Mr. JOHNSON. For the next six budgets, the President basically repeated the same message. But this year what has he had to say? Nothing. Not a single sentence about fixing Social Security.

I would like to ask unanimous consent to insert into the record these quotes from previous budgets on Social Security.

[No response.]

Chairman BRADY. Without objection.

[The information follows:]

Budget of the U.S. Government, Fiscal Years 2010-2016
Social Security Narrative

Fiscal Year (FY) 2010: Page 109

The President recognizes that Social Security is indispensable to workers, the disabled, seniors, and survivors and is probably the most important and most successful program that our country has ever established. Social Security can pay full benefits until 2041. The President is committed to ensuring that Social Security is solvent and viable for the American people, now and in the future. He is strongly opposed to privatizing Social Security and looks forward to working in a bipartisan way to preserve it for future generations.

FY 2011: Page 139

The President recognizes that Social Security is indispensable to workers, people with disabilities, seniors, and survivors and is probably the most important and most successful program that our country has ever established. Based on current forecasts, Social Security can pay full benefits until 2037. The President is committed to making sure that Social Security is solvent and viable for the American people, now and in the future. He is strongly opposed to privatizing Social Security and looks forward to working in a bipartisan way to preserve it for future generations.

FY 2012: Page 163

The President recognizes that Social Security is indispensable to workers, people with disabilities, seniors, and survivors and is probably the most important and most successful program ever established in the United States. Based on current forecasts, Social Security can pay full benefits until 2037. The President is committed to making sure that Social Security is solvent and viable for the American people, now and in the future. He is strongly opposed to privatizing Social Security and looks forward to working in a bipartisan way to preserve it for future generations. The President has laid out six principles for reform, which will guide bipartisan talks on strengthening Social Security in the long term.

FY 2013: Page 195

The President recognizes that Social Security is indispensable to workers, retirees, survivors, and people with disabilities and that it is one of the most important and most successful programs ever established in the United States. Although current forecasts maintain the solvency of Social Security paying full benefits until 2036, the President is committed to making sure that Social Security is solvent and viable for the American people, now and in the future. He is strongly opposed to privatizing Social Security and looks forward to working on a bipartisan basis to preserve it for future generations.

FY 2014: Page 167

The President recognizes that Social Security is indispensable to workers, retirees, survivors, and people with disabilities and that it is one of the most important and successful programs ever established in the United States. Although current forecasts indicate that Social Security can pay full benefits until 2033, the President is committed to making sure that it is solvent and viable for the American people, now and in the future. He is strongly opposed to privatizing Social Security and looks forward to working in a bipartisan way to preserve it for future generations.

FY 2015: Page 149

The President believes that Social Security is indispensable to workers, retirees, survivors, and people with disabilities and that it is one of the most important and successful programs ever established in the United States. Although current forecasts indicate that Social Security can pay full benefits until 2033, the Administration is committed to making sure that the program is solvent and viable for the American people, now and in the future. The President is strongly opposed to privatizing Social Security and looks forward to working in a bipartisan way to strengthen the program for future generations.

FY 2016: Page 42

Social Security is indispensable to workers, retirees, survivors, and people with disabilities, and is one of the most important and successful programs ever established in the United States. Although current forecasts indicate that the combined Social Security Trust Funds can pay full benefits until 2033, the Administration is committed to ensuring that the program is solvent and viable for the American people, now and in the future, and the President has laid out key principles to achieve this objective. Any reforms should strengthen retirement security for the most vulnerable, including low-income seniors, and should maintain robust disability and survivors' benefits. The Administration will oppose any measures that privatize or weaken the Social Security system and will not accept an approach that slashes benefits for future generations or reduces basic benefits for current beneficiaries.

Mr. JOHNSON. Question two, as managing trustee of Social Security's trust funds, don't you believe we need to act now to fix Social Security?

Secretary LEW. Congressman, I have worked on Social Security for almost 40 years.

Mr. JOHNSON. I know you have.

Secretary LEW. I had a significant hand in the 1983 reforms, which I—are one of the things I am very proud of in my career. I have always thought that the sooner we could have a bipartisan conversation on dealing with Social Security, the better. But, you know, that is going to require a willingness on both sides to talk about things, you know, which involve taxes as much as benefits.

We haven't been in an environment like that. In 1983 it worked. I hope we get to that point in a political debate, conversation, where we can have that conversation again.

Mr. JOHNSON. Well, I——

Secretary LEW. I don't think there is an urgent crisis. I don't think Americans should worry that their Social Security won't be there.

Mr. JOHNSON. Well, I think——

Secretary LEW. The reality is——

Mr. JOHNSON [continuing]. Some of them do. And you know, we needs to get to work today, and I think you agree.

You know, Americans who depend on Social Security, and those who are working today and paying thousands of dollars a year into Social Security, they want, need, and deserve better.

Secretary LEW. Yes, I agree. I think Americans deserve to count on their Social Security. And the thing that we just have to tell Americans is that the shortfall that we look at over the next 75 years, even at its worst, leaves their Social Security 75 percent

funded. We have a gap, we have time to deal with it. It has to be dealt with on a balanced, even-handed basis.

I have always thought that the sooner, the better. This has not been a five or seven-year period when we have had the conditions for that kind of conversation.

Mr. JOHNSON. I agree with you, but the President didn't say one word about it. Thank you very much, yield back.

Chairman BRADY. Thank you. Mr. Rangel, you are recognized.

Mr. RANGEL. Thank you, Mr. Chairman. Well, it didn't surprise me, Mr. Chairman, that you would say that the Administration proposal is dead on arrival, because I think that was determined some seven years ago, that anything coming out of the Administration would be considered dead on arrival. But this is the end, and I am so—it is so painful that we can't find some common ground as we end the Obama Administration and our country finds itself in a position that we are asking foreign governments to be kind to us as relates to how they tax the corporations that have left the United States.

Are you saying, Mr. Secretary, that you have written a letter to the European Union, asking them not to take advantage of our tax system by taxing U.S. corporations that have left our country and settled abroad? Are you asking——

Secretary LEW. No, that—what I have written to them——

Mr. RANGEL. What are you asking?

Secretary LEW. Yes. What I have written to them is that U.S. corporations that keep their income overseas, they are still subject to U.S. taxes. I, in the letter, say that we need to enact business tax reform and bring that money home.

Mr. RANGEL. We have to——

Secretary LEW. We have to do that.

Mr. RANGEL. What are you asking——

Secretary LEW. Well, what they shouldn't be doing is they shouldn't be leveeing taxes on the income that should be taxed here.

Mr. RANGEL. Why? Under what theory of international law are you asking foreign countries not to tax income that we feel belong to us but we——

Secretary LEW. Well——

Mr. RANGEL [continuing]. Refuse to reform our Tax Code to get the income?

Secretary LEW. The fact that Congress has not yet enacted tax reform doesn't change the basic principles of what is subject to tax in the United States. If the intellectual content and the innovation is in the United States, there is a substantial tax due in the United States when that money comes home.

Because the money hasn't been repatriated, it is sitting, for the moment, not taxed. We have said that money should come home. In our tax reform proposal, it would all come home and be taxed at 19 percent——

Mr. RANGEL. If the foreign countries tell you, like the Republicans are telling you, that your request is dead on arrival, and we don't reform our tax system, what is the next step that you take?

Secretary LEW. Well, look. I don't—I understand that they are skeptical about the capacity to enact tax reform, and I think showing that we are making progress and we can get it done——

Mr. RANGEL. What progress——

Secretary LEW [continuing]. Would actually help a lot.

Mr. RANGEL [continuing]. Are we making?

Secretary LEW. Well, the progress has been relatively small to date. I think that, you know, there are overlaps of issues where I think Members on both sides of the aisle and we could agree, but we haven't really made significant progress. We haven't moved a bill forward. That is not a basis, I think, for reaching in and asserting tax authority over U.S. income. That is something——

Mr. RANGEL. Well, it is not a basis for the Republicans saying that any proposal is dead on arrival, either.

Secretary LEW. I agree with that. I mean, I——

Mr. RANGEL. Okay. Well, listen. I—the search now has to be for common ground. I don't think any Republican believes that General Electric, who in 2013 paid 4 percent taxes, last year 10 percent taxes, they have $36 billion overseas, that we should not have that money. These corporations that are going overseas take advantage of our research, our infrastructure, our—everything, and they go overseas.

I don't see a partisan issue here. So what—forgetting public meetings, because this is for the public, it is a presidential year. But behind the scenes, where Americans get together, Republicans and Democrats, do you have any hope at all that there is something done that would be good for Americans and the tax system, where we can have reform, lower the corporate rate, improve our education, our infrastructure, and have a fair, competitive position, internationally? Is there any hope at all, notwithstanding the chairman saying that your public proposal is dead on arrival?

Secretary LEW. I think that the responsibility that everyone in this room has to stop inversions and to make sure that the kinds of things we are talking about in terms of the erosion of the U.S. tax base gets stopped should give all of us reasons to be more hopeful.

I am probably more hopeful always than most, because I think if we give up we make sure nothing happens. We have got to be hopeful. We have got to put the effort in to make it real——

Mr. RANGEL. Is there any one person on the Republican side that gives you any basis for that hope?

Secretary LEW. Well, I appreciated the chairman's opening comments, where he expressed the desire to continue working together. I am prepared to do——

Mr. RANGEL. I would like to take down his words——

Secretary LEW. I am prepared to do that. We have known, you know, that conversations over business tax reform are an uphill battle, because people always say it is too hard to do. It can't be too hard to do. We have to make it something we can get done. If it can't happen this year, it is going to have to happen some time soon. But what we can't do is push off this issue on inversions indefinitely, because we are just going to see more and more American companies going overseas.

Mr. RANGEL. Thank you.

Chairman BRADY. Thank you, Mr. Chairman. As I yield to Mr. Tiberi let me be clear: tax increases in this budget proposal are dead. Discussions on tax reform, especially in the international tax area, are very much alive.

I appreciate the letter that you sent, because what the EU is doing—now there is going beyond simply addressing income shifting. It is a money grab targeted on U.S. companies in a variety of ways, not just to generate revenue, but to make it more uncompetitive for U.S. companies to compete around the world. That is why we need not just treat the symptoms of what we are seeing, but the real problems around it. And that is the Tax Code. In that area we share, I think, common ground, Mr. Secretary.

Mr. Tiberi.

Mr. TIBERI. Thank you.

Mr. Lew, your written testimony claims that "In the seven years since President Obama took office, we have seen a sustained economic recovery," and that economic growth continues at a solid pace.

Additionally, the latest budget touts the success of administration policies past, present, and proposed. I would like to address the Administration's economic and fiscal policies relative to reality, a reality which indeed is reflected in OMB's growth forecast underlying this proposed budget.

I would also note that this reality recognized in the budget does not seem to be recognized either in your comments today, quite frankly, about economic growth continuing at a solid pace, or the President's recent rhetoric.

[Chart]

Mr. TIBERI. So I have a chart that was released today by the Joint Economic Committee that you will see in front of you, and it has past Obama budgets from this Administration, and they have repeatedly projected a surge—in the red—of economic growth that, quite frankly, never happened.

So the Fiscal Year 2017 budget seems to finally accept the reality of the inability of the Administration's policy to generate the surge that each of the past budgets have said would happen that didn't happen. Worse, even, are OMB's projections of annual growth rates for the long term at 2.3 percent lower than earlier budgets, but much lower than—as you know—the average growth rate of 3.2 percent it calculates through the post-war period—post-war period.

I might add that CBO, the Federal Reserve, and the blue chip indicators all project even lower long-term growth than the OMB. And then we wonder why, in the Democrat and Republican primaries, voters are angry. They are full of anxiety that this new normal of 2.3 percent, which is significant in terms of wage growth and what people are feeling, is happening out there.

So, the chart displayed vividly captures how the Administration's own expectations have not come true. They have been deflated. These aren't my numbers. The black is the actual number. As you can see, it doesn't look like it is solid or sustained, the black number, which is actual numbers, versus the red, which is OMB's projections.

So, how could the Administration continue to cling to the same basic economic policy, Mr. Lew, of more taxes, more debt, bigger

government, more spending, more regulation? Isn't it time to reconsider a new way forward?

Secretary LEW. Congressman, this chart starts in 2010, 2 years after the deepest recession since the Great Recession [sic]. If it went back a couple of years earlier, you would see the biggest hole we have had since the Great Depression, which we dug out of, and we have created 14 million jobs doing it.

You go around the world, the world is looking at the United States as a beacon of hope. I am not arguing that we don't want more growth. I want every tenth of a percent we can get on GDP. But——

Mr. TIBERI. Mr. Lew, those are your projections, not mine. The red is your projection.

Secretary LEW. So——

Mr. TIBERI. In fact, you were director at one point.

Secretary LEW. But, Congressman, I am talking about the experience that we have had. Economic projections? We have been close to, you know, other forecasts as we have gone through. Forecast error can be in either direction. Obviously, you always would like to over-perform. But when you look at the headwinds we have had globally, we have continued to grow at a sustained rate notwithstanding substantial international headwinds, because the core strength of the U.S. economy, the U.S. consumer, has been strong. That is reflected in the jobs numbers.

Mr. TIBERI. But the actual number is not sustained. I don't want to quibble with you, but I think anybody, any economics teacher, would say that black number is not sustained growth. In 2.3 percent versus what has happened—versus the World War II growth, including every other economic recovery, has not been even near what every other economic recovery has—even your—again, even your own projections.

Secretary LEW. The performance of the U.S. economy has had to create economic growth and jobs to make up for the deepest, deepest hole we have had in 70 years, in terms of our economy. We have done that. We have performed in a way that—you know, I have been to international meetings where, three years ago, people looked at us and said, "How could you cause a financial crisis?" They now look at us and say, "How do you have this economy that bounces back, where the American people bounce back?"

That doesn't mean we have done all the work. We have a lot of proposals. If we could work together on things like infrastructure, you would see some more progress. If we could work together on education and training, you would see more progress. We have jobs in this country that aren't being filled because we don't have people with the skills for the jobs.

Mr. TIBERI. Well, I would argue——

Secretary LEW. So there is a lot of work we could do to make more progress, but I think if you look at where the country was seven years ago, and where it is now, we have made a lot of progress.

Mr. TIBERI. Thank you.

Chairman BRADY. Thank you. Dr. McDermott, you are recognized.

Mr. MCDERMOTT. Thank you, Mr. Chairman. Secretary Lew, I want you to remember you are talking to the American people, as well as to this Committee. So I want you to be very clear and simple in how you explain things.

I have been listening for as long as I have been in Congress about the fact that debt was going to bury America, and that was going to be the end of us. Can you tell us what the President has done with the question of debt during his eight years in office?

Secretary LEW. Well, when we took office, the projections were the debt was going to grow to over 100 percent of GDP. We were seeing deficits, annual deficits of 10 percent of GDP. The annual deficit is down to 2.5 percent of GDP. We have stabilized the debt at around 75 percent, which is high by historical standards, but it is because we were coming out of the deepest recession since the Great Depression, so that it is for a reason that it got as high as it did.

We are also in a period of very low interest rates. So it has made it more manageable to handle the debt that we have.

I think that we have made a huge amount of progress. That is not to say that over the long term we shouldn't be working towards reducing it. I am not going to argue that, if we could work together on the kinds of tax policies and the kinds of deficit reduction that would make sense in the long term, we could make more progress.

But what we can't do is we can't just cut the things that we need to grow in order to reduce the deficit more in the short run.

Mr. MCDERMOTT. Well, that is what I wanted——

Secretary LEW. You were seeing that for a few years. When sequestration was allowed to take effect, it was cutting at the bone of this country. It was hurting our economy on a year-to-year basis. The actions taken to restore discretionary spending, the annual appropriations, and to replace cuts in annual appropriations with longer-term, more balanced fiscal policies, has actually help boost the American economy by several tenths of a percentage point. So we have a control to even do better.

Mr. MCDERMOTT. Do you think a country can grow without spending and going into debt? Can you put money into the national institutions of health, or—how do you get the national institutes of health to work——

Secretary LEW. I think right now, when you look at what our debt is, our deficit, annual deficit, is essentially interest on the debt. Economists call that primary balance. You know, so we are, on a current basis, paying for what we spend, but we do have the debt that we have to service. That is why it is, relatively speaking, stable.

That is not to say that we should have no concerns over the next 20, 30, 50 years. But right now, if the trade-off between investing in infrastructure, investing in research and development, and an incremental additional bit of deficit reduction, I think would be economically a mistake.

Mr. MCDERMOTT. Does the budget reflect that?

Secretary LEW. Yes, the budget reflects that. I mean it maintains stability in this 10-year window. It—we will leave office with a manageable situation. We inherited what was an economy and a

budget that was in complete meltdown, so I think we have made huge progress over the last seven years.

We still have more work to do on many, many fronts. So I am not saying——

Mr. MCDERMOTT. Let me bring you to the point of that other work to do. Have you seen the Republican proposal for tax reform? Have they come up to the White House and said, "This is what we would like to pass, Mr. President, what do you think about it"?

Secretary LEW. The only formal proposal that I have seen is the one that the former chairman of this Committee, Dave Camp, put out.

Mr. MCDERMOTT. What happened to it?

Secretary LEW. Well, it didn't get—I think I was more friendly to it than many people in Congress were. I think there were a lot of things in that plan that we could reach bipartisan agreement on. Not the whole thing.

But if you look at what we are saying, and you look at what is in that plan, and you overlap them, the overlap would tell any reasonable person there could be agreement here. Obviously, you got to engage and work it through.

Mr. MCDERMOTT. Last night we were at the Library of Congress, we heard about Reagan. It took Reagan 6 years, from 1980 to 1986, to get tax reform through. That was at a time when Reagan talked to Tip O'Neill, and when you had Members in the Senate on both sides working together, Packwood and Bradley and all the rest, and Rostenkowski and all of the people—are the elements there today for us to do that?

Secretary LEW. Look, I think that, you know, it is more challenging today than it was in 1986 because in 1986, you know, there was no need to pay for the rate reductions. And, you know, we have proposed business tax reform that pays for itself. And our budget this year repeats that it should pay for itself, looking at last year's expiring provisions and—as a whole.

Chairman BRADY. Thank you, Mr. Secretary. All time has expired.

Mr. Reichert.

Mr. REICHERT. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. I want to touch briefly on an issue that you commented on yesterday with the Senate related to TPP forced data localization. And I want to read your quote. "One of the issues here is the requirements of our regulators in terms of what they need to have their prudential reviews of financial institution." And you added, "So, as we are in the international space, we can't give away something for our financial regulators that they would need here, in the United States. But we are working with the industry and the regulators, as we go through this."

So, what—Mr. Secretary, I am not convinced that our financial regulators have made the case that they—that having such a provision adversely affects their prudential review. I just want your commitment that you will work with us in trying to resolve this issue.

Secretary LEW. Congressman, I will work on it. This is a complicated issue. There is a lot of memories of what happened in the financial crisis when there was a problem getting access to infor-

mation overseas, and it contributed to the inability of some of our regulators to respond, because they couldn't see what was going on.

So I think there are legitimate concerns. We are having a conversation to see—with the—with industry, with the regulators. What can we do, going forward?

And as I also said yesterday, in general our view on data localization is we ought not to tolerate barriers being created that require that information technology be on-shored in each of the countries where you are doing business. And we have pushed hard in many areas against localization. This is a more complicated area because of the prudential regulatory concerns, and we have made the commitment that trade agreements won't overrule any of the prudential regulatory matters.

Mr. REICHERT. So I will take that as a yes, that you are——

Secretary LEW. Yes, I——

Mr. REICHERT [continuing]. Working——

Secretary LEW. We are working hard to try to come to a place where people——

Mr. REICHERT. Okay.

Secretary LEW [continuing]. Can be more comfortable.

Mr. REICHERT. I look forward to working. I want to switch real quick to something that you and I talked about last year, and that is taxes on small businesses. And I am really frustrated by the President's budget in this regard.

At least we have some agreement, though, on the earned income tax credit. So I am happy to see that, and some efforts on waste, fraud, and abuse, and in other areas of the proposal.

But let me just go through what I personally think tax reform should look like. And I don't see it in the President's budget. In fact, I think it is really offensive to small businesses. Tax reform should stimulate growth and efficiency by reforming America's current complicated and burdensome system into a simpler, fairer, Tax Code, flatter Tax Code. Tax reform should promote U.S. jobs and higher wages through a more competitive international tax system. Tax reform should ensure that small businesses have a fair and competitive tax system, including the tax rate.

As a result of the President's budget, the top rate for small businesses will be 43.4 percent. They don't get it. And I don't get it, either, Mr. Secretary. Tax reform should aggressively lower rates and simplify the code. Even after enacting substantial increases in capital gains taxes in 2010 and again in 2013, President Obama continues to propose raising taxes on the investment American workers need to become more productive and earn higher wages.

In 2009 the top rate on capital gains was 15 percent. With the enactment of the 3.8 percent tax on investment income to fund Obamacare, it was raised to 18.8 percent in 2010. In 2013 it went to 23.8 percent. And with the proposal today, another 4.2 percent has been added, and effectively it will be 29.2 percent.

Mr. Secretary, I and the small businesses in this country would like your commitment to work with us on—and I would like you to explain to me how raising taxes on small businesses helps the American economy grow, helps small businesses grow, helps create jobs. I don't understand how you can raise taxes and create a growing economy and create jobs. Can you tell me how that helps?

Secretary LEW. Well, Congressman, the President's tax reform proposal would be a tax benefit for 95 percent of small businesses. So we totally agree that we ought to be helping——

Mr. REICHERT. We went through this last year——

Secretary LEW [continuing]. Small business.

Mr. REICHERT [continuing]. And your numbers don't add up.

Secretary LEW. Well, I am happy to go through it with you more than I can do in——

Mr. REICHERT. What I just read to you are tax increases on small businesses.

Secretary LEW. Yes. You know, I just would point out that the choice to organize as a pass-through or as a corporation is a decision businesses make, and——

Mr. REICHERT. These are family-owned businesses that you are taxing, Mr. Secretary.

Secretary LEW [continuing]. And we——

Chairman BRADY. The time has expired.

Mr. REICHERT. I yield back.

Secretary LEW. I look forward to—I really haven't had a chance to respond, but I would love to have a more complete conversation, because this is an important issue. We are very much advocates for small business.

Chairman BRADY. Thank you.

Mr. Neal, you are recognized.

Mr. NEAL. Thank you, Mr. Chairman.

Thank you, Mr. Secretary. And I want to congratulate you for what I think has been a stellar career. And I assume this is your last budget presentation to the Congress. Always well recommended, and an individual who is very easy to have a conversation with. And I think you have really done a terrific job as Secretary of the Treasury—not to miss the point that one of the great ironies of my time in Congress is that the budget decisions that were made well before Barack Obama was President made by our friends on the other side, who really set the fire upon Barack Obama's inauguration, and they get to call the fire department. I mean there is a certain irony to that period of time.

But let me speak specifically to an issue that is important to those of us in western Massachusetts, and that is the ongoing debt crisis in Puerto Rico. And I—again, pleased with the leadership that you have demonstrated on it. I think there is an acceptance that there are going to have to be structural changes, the worker participation rate in the island of Puerto Rico I think we all acknowledge is problematic. And not to miss the point that in restructuring they are going to need some debt relief, as well. And I know that there is an acceptance that there is going to have to be, perhaps, a—if I might use the example of a control board put in place.

But the island needs more than structural changes. And it certainly needs more expansive economic opportunity and growth. And most of us who have constituents and constituencies that involve tourism, we know that they are much subject to the vagaries of economies.

So could you talk a little bit about what your ideas are to fix the Puerto Rican economy, Mr. Secretary, and——

Secretary LEW. I am happy to. Thank you for the kind personal words. As you know, I started out working for House Speaker O'Neill. And much of what I have learned I owe to the time I spent with him. And I think of that every time I am in this room.

Mr. NEAL. Thank you, Mr. Secretary.

Secretary LEW. I think if you look at Puerto Rico, it is a classic case of insolvency. They have $72 billion of debt in a very complicated structure that they can't pay. They don't—it is a third of their budget, they don't have the capacity. So there has to be a restructuring of their debt, in order for them to have an economic future that can get back into any kind of a healthy place.

The immediate need is for Congress to pass legislation that will permit them to restructure their debt. They don't have that ability on their own. I agree with you there is going to need to be some kind of oversight that is respectful of Puerto Rico, but is serious, accompanying that.

We have been working on both sides of the Congress, House and Senate, on both sides of the aisle. I have talked to dozens and dozens of Members of the House and Senate. I think there is a broad understanding that this is something that will determine whether three-and-a-half million Americans are plunged into chaos.

And I think there should be no misunderstanding of the immediacy. They are already, for all practical purposes, in default. They are not able to pay some of their bonds on a current basis. To pay the other bonds they are doing things that would be unthinkable in any governmental organization that was not insolvent. They are taking money out of pension funds to pay bond holders. They are taking money that is dedicated to one group of creditors and moving it to pay another. These are classic kinds of things you do when you are insolvent.

Now, there is a solution. They can work through a restructuring. That restructuring can be respectful of the fact that there are different categories of creditors. It doesn't have to be one size fits all. But it requires Congress taking action, because I don't believe that a voluntary restructuring process will be successful.

Let me just kind of say what happens if they don't restructure. If they don't restructure, there is going to be a cascading series of defaults that will lead to prolonged litigation, probably 5, 10 years of litigation. It will tie the island in knots, and it will take an economy that is already suffering, with 3,000 people a month leaving the island, and just make it so that it may never be able to bounce back.

So this is quite urgent, it is something that I think we have to all remember, that three-and-a-half million Americans, including veterans, deserve our immediate attention.

Chairman BRADY. Thank you. Dr. Boustany, you are recognized.

Mr. BOUSTANY. Thank you, Mr. Chairman. Welcome, Secretary Lew.

I—let me just start by saying I condemn this crude oil tax in the harshest terms. I think it is the wrong diagnosis and the wrong prescription. Now I can tell you, as a—before I came here, as a cardiovascular surgeon I had to deal with a lot of complex problems. You got to get the diagnosis right, and you got to act with urgency to fix the problem.

This industry, American energy production, took us out of recession. It was one of the major factors that took us out. It was American innovation that has restructured the entire energy markets now superimposed on slack demand because of low growth, globally. We need the right approach to this. And putting this tax on oil is going to hit the producers, it will hit the refiners, it will make us less competitive. And the consumer in America will pay the price at the end of the day. We deserve better than that. We need a real 21st century energy strategy that is part of our broader economic strategy. But I wanted to at least get that on the record.

But now I want to focus on international tax for a moment. This is something I have been working on. I am chairing the Tax Policy Subcommittee with the recent changes we have had. We are committed to doing this, and doing it with urgency. I don't have to tell you about the problems out there with the OECD BEPS issue, state aid, a hostile tax environment, adverse mergers and acquisitions and inversions. All of this, we all know about it, we have talked about it ad nauseam. It is time for action, and we need a commitment from you to work with us on this Committee to do this.

Now, I have put forward a bill. And I appreciate your letter to the president of the EU commission. It is important that you step up on the economic diplomacy side to promote our American companies in an unfair environment right now. I put forward some legislation dealing with BEPS and Action 13 because some of our—our companies feel like they are going to be treated unfairly with regard to this master file issue.

The legislation gives you, as Secretary of Treasury, more tools to deal with this by potentially withholding country by country reports when necessary, and using that as leverage. Would you support that effort?

Secretary LEW. Congressman, we will look at all the tools that we have at our disposal. They sometimes don't work as well when you look closely. But I am not familiar with that particular matter, but I am happy to take a look at——

Mr. BOUSTANY. I would ask that you do that. Secondly, I don't think we should be taking the approach of punitive measures going after our American business that is trying to help grow this economy, the tip of the spear of American soft power, globally. What we need is we really need international tax policy that is going to promote economic growth, competitiveness, and innovation, that frees up capital, brings it back.

And that is what we are going to be working on, from lowering the corporate tax rate to something that is really competitive, moving to a dividend exemption system, trying to deal with base erosion in a very fair way, and looking at other types of innovations like an IP box, are you committed to working with us on these issues?

Secretary LEW. Congressman, I am committed to working together to get business tax reform done that works. I have made clear we think that that should encompass lowering the statutory rate, closing the loopholes, providing—using the one-time revenue to pay for infrastructure, and closing down the inversions.

I am open to suggestions. There are some things that we have some problems with, as you know, and we—I am not going to pretend that we love the patent box idea. That is something we think is—has some problems. But I am open to working on this.

And you mentioned base erosion. It is important to remember that we have made more progress in the last two years on the international discussion of base erosion than in the prior 20 years. When the G20 adopted base erosion principles, that was a big step forward. One of the concerns I raised in my letter——

Mr. BOUSTANY. We have to make sure that these things are applied fairly, and——

Secretary LEW. That is exactly where I was going.

Mr. BOUSTANY. Right.

Secretary LEW. One of the points I made in the letter I wrote to the president of the European Commission is it risks undermining the progress we have made if there are unfair actions being taken that target——

Mr. BOUSTANY. They are going beyond Action 13 now, with——

Secretary LEW. Yes.

Mr. BOUSTANY [continuing]. These country-by-country reports. So I am glad you are doing this. But I want to give you more——

Secretary LEW. Well, we have to act, because we can't pretend that our companies are not parking money to prevent paying—avoid paying taxes on it. That is wrong, also, and we need to bring that money home.

Mr. BOUSTANY. That is why we need tax reform——

Secretary LEW. Right.

Mr. BOUSTANY [continuing]. And not punitive measures directed at American business. We need positive measures, going forward.

And I want to give you the tools, and your successor the tools as Treasury Secretary, to have the leverage to deal in this very difficult environment. So I hope you will work with me——

Secretary LEW. I look forward to working with you——

Mr. BOUSTANY [continuing]. And our committee on this. Thank you, I yield back.

Chairman BRADY. Thank you. Mr. Becerra, you are recognized.

Mr. BECERRA. Thank you, Mr. Chairman.

Mr. Secretary, great to have you with us. Thank you for your testimony. And, by the way, I hope you go at warp speed at what you are doing in trying to go after those tax cheats, those tax evaders, those companies that depend on American military power, American foreign and diplomatic efforts, that depend on the American public to make them as good as they are, that depend on American consumers to be profitable.

I hope you go out there and do everything you can to show those American companies that if they want to continue to be American companies they should pay their fair share of American taxes, because no American who gets paid on a weekly or monthly basis with a paycheck, and has his or her taxes deducted at the same time he gets—he or she gets a check should be—should find that a company can avoid paying those taxes because they don't have the same kind of monthly deductions to help keep our government,

we the people, our government, functioning to protect our American families and those American companies.

So you go to it, and do not be intimidated by anyone who is trying to protect companies that are not paying their fair share of American taxes.

I wanted to ask you about Puerto Rico—and I know you have been asked a little bit about it already. Do you see any light at the end of the tunnel here? Because the people in Puerto Rico, those U.S. citizens in Puerto Rico, are trying to figure out will we finally see action taken so that they can get their house, fiscal house, back in order?

Secretary LEW. Look, I do see some light in the tunnel. I think it is very important that Speaker Ryan directed the House committees to take action by the end of March. It reflects the urgency of the need to act now. There are May, June, and July bond payments due. You need to act in time for Puerto Rico to have space to be able to manage that.

I think there is differences of views as to how to do this. Those differences can be bridged. The one thing that I just have to say on a slightly more pessimistic note is this is not a case where just doing something solves the problem. It has to be something that works. It has to cover enough of the debt that they can actually restructure and have a way forward. And I have heard some proposals that would limit it to such a small portion of Puerto Rico's debt that it doesn't solve the problem.

So, there is various ways to do it. There is ways to be—to not have it create precedence for states. There is ways to do it without amending the bankruptcy code. Because of the territorial status, you could do it through territorial legislation. We are open to a conversation on a bipartisan/bicameral basis, but it has to happen fast. If action isn't taken in the March/April time frame, we are going to find ourselves looking at May, June, and July before we blink.

Mr. BECERRA. Well, thank you for that. And I hope that Congress will step to the plate and do its part because, quite honestly, it has to be Congress who has to make it possible. And we are talking about doing something that helps the people in Puerto Rico without costing American taxpayers a single penny. And I think it is outrageous that U.S. citizens in Puerto Rico have to wait until Congress will act to be able to get their fiscal house in order. They are just simply asking for the same opportunities that states have, that cities have, to make sure that they get their fiscal house in order. And it is distressing. And so I urge you to continue your efforts there.

Can I—I am going to veer for a second. Can you send a message to Commissioner Koskinen for me? Could you please tell him to do not—don't be intimidated by some of the words that he may be hearing coming out of this Congress, telling him not to do his job. I think it is outrageous that today we have in the law a provision in the law that allows certain entities to create a corporation and call it non-profit, which is supposed to be there for the exclusive purpose of providing social welfare services, and that provision in the tax law is being used by entities to game the system and play politics.

More money is being spent by these so-called not-for-profit entities than the political parties combined. And that this Congress would put a provision into law that prevents the commissioner of IRS from investigating those entities that are gaming the system is outrageous, and I hope that the commissioner will not be intimidated, and will pursue the proper investigation of this to make sure that American taxpayers' money is not misspent.

Chairman BRADY. Thank you. All time is expired.

Mr. BECERRA. Yield back my time.

Chairman BRADY. Mr. Roskam, you are recognized.

Mr. ROSKAM. I think there is unanimity on the committee that we want the IRS to follow the law as the law is written. But let me bring your attention to something else, Mr. Secretary.

In 2008 to 2012, ClearStream, which is a Luxembourg financial service provider, essentially accumulated and was involved in the transfer of payments, and shielded the Iranian Government, took in $1.67 billion in payments. There was federal litigation that was brought by the victims of terror through the Marine bombing in Beirut, and they were unable to attach that money. A federal judge invited the Treasury Department, the Office of Foreign Asset Control, to weigh in on the question. OFAC did not weigh in on the question, and the judge ruled against the victims of terror.

So, think about it. You have got this foreign entity that is this Luxembourg operation that is involved in, essentially, a financial hustle and a manipulation, arguing that these assets are outside and cannot be attached by a U.S. jurisdiction. And notwithstanding the good work of OFAC in the past, they were silent. They were absent, and they didn't weigh in on this.

So, if we are deferring then on this—essentially, a sharia sort of financial arrangement, how is it that we can, number one, bring justice to these victims and, number two, isn't that a dangerous precedent? And can you—I mean—and these are in violation, Mr. Secretary, of executive orders. I mean this is pretty clear stuff. Can you give us a sense of where this is going, and how these victims get their justice?

Secretary LEW. Congressman, I don't comment on specific matters that are pending either at OFAC or in other bodies like that. But let me just talk, if I could, a little bit about both the victims and about our approach on sanctions.

We, obviously, have a great deal of empathy for the victims, and have on many occasions, you know, worked to make sure that, to the extent that we can be helpful, that we are helpful.

The—our approach on sanctions has, I think, been very tough. We have worked, you know, without any reservation to go against Iranian assets and put them in a place where we lock them up. And I think that is one of the reasons that we saw Iran come to the negotiating table over its nuclear weapons, because it worked——

Mr. ROSKAM. Listen, I will stipulate that is why they came to the negotiating table.

Secretary LEW. Yes.

Mr. ROSKAM. Time is short, so let me urge you to reconsider this OFAC question, because I think it is a problem. It is a problem vis-a-vis the Iranians, it is going to be a problem vis-a-vis any

other bad actor who basically says, "Hey, we are able to take this money and by doing bookkeeping manipulations, we are able to keep this outside of the jurisdiction." That is a problem.

Let me ask you a question as it relates to tax treatment. Then-Chairman Ryan wrote to the President last fall, asking about the 901(j) provisions. These are tax provisions. This is authority that the President has to waive certain favorable tax treatment, possibly, to the Iranians. Based on what you were just saying about the Administration's attitude on sanctions, do we have your assurance that the Administration is not going to waive any provisions under 901, under Section 901, so long as the Iranians are complicit with terror?

Secretary LEW. So I am going to have to get back to you on 901. I——

Mr. ROSKAM. It is the foreign tax treatment for the Iranians.

Secretary LEW. So what we have made clear is that we are going to hold Iran accountable for its behavior.

Mr. ROSKAM. And does the accountability mean they don't get any—they don't get waiver——

Secretary LEW. Well——

Mr. ROSKAM [continuing]. So long as they are continuing to finance Hezbollah, Hamas, and these other terror organizations, which——

Secretary LEW. Well——

Mr. ROSKAM [continuing]. The Administration admits they are doing?

Secretary LEW. So having agreed on the nuclear issues, we have lifted the nuclear sanctions, but we have in place the—sanctions on terrorism, sanctions on missile development, sanctions on regional destabilization. In the last weeks we have put in place additional designations on missile designations. I have been clear that all of those efforts will continue underway.

I am not familiar with the 901(j) issue, so I don't want to address it specifically. But our view on our—on the non-nuclear sanctions is that they stay in place, and that Iran has to change its behavior in those areas.

At the same time, we have lifted the nuclear sanctions because they complied with the nuclear agreement, and that is a good thing, because that slows down and takes them off the path they were on to——

Mr. ROSKAM. Silence is assent. And the unwillingness to answer Chairman Ryan's question I think is troubling.

Chairman BRADY. Thank you.

Mr. Doggett, you are recognized.

Mr. DOGGETT. Thank you, Mr. Chairman. And thank you, Mr. Secretary.

I think eyes glaze over for anyone who is watching our discussion of earnings stripping and inversions, unless they are a tax lawyer or perhaps a lobbyist for one of these tax-dodging corporations.

Earnings stripping, in simple form, is two corporations next door to each other competing for the same American customers, and one of them comes up with the bright idea with their accountants and tax lawyers that they will shift some of their profits and not be taxed like their competitor to some sham offshore operation. And

they do that, and we have permitted them to do that, and they gained a competitive advantage over an American company that is here, doing its fair share.

Same thing is true of inversions, where a corporation basically renounces its charter, its American citizenship, and declares that it is a foreign corporation, even though it keeps all of its operations here. This is not a new problem.

Treasury did the study almost a decade ago about how earnings stripping and inversions come together and predominate within the inversion category. I think it is outrageous that this giant rip-off of the American people continues to occur, that our Republican colleagues obstruct legislation that has been pending here for years. You come up with the same proposals year after year.

It would seem to me that the inversion problem is so severe that we would be better off, in addition to what you propose, doing what Secretary Clinton has proposed, and which—a matter in which I offered legislation last year and will re-introduce, and that is to have an exit tax.

The Supreme Court thinks these corporations are people, and they ought to be treated like wealthy people who renounce their citizenship, who don't love America enough to pay any taxes here, and who go off and get a passport from some Caribbean island.

I think a legislative approach to deal with a Tyco that goes to Bermuda, goes to Ireland, but really stays in New Jersey—that is Johnson Controls will join them. A Pfizer that won't charge Americans Irish pharmaceutical prices, but want to pay Irish taxes is a really serious problem this Congress does, as you suggest, need to urgently address with legislation.

But I think also, Mr. Secretary, this is where we have some disagreement. Because of the failure of this Congress to act, and the fact that it is very improbable that it will act, you need to be more completely using existing administrative authority. The actions that you have taken to try to discourage inversions haven't worked very well. The inversions have continued. In fact, in size they may well have increased.

I believe that as you look at codifying or reducing to formal regulations what you have already done, that you have authority through Section 385 to limit earnings stripping, that you have authority under Section 385 to draw a distinction between debt for multinationals and debt on the domestic scene, and that you ought to use that authority because you can see this Congress will not act.

Similarly, under Section 956, as has been urged by Professor Avayona, who has testified here on a number of occasions, you have the ability to deal with the hopscotch transactions that are going on, where companies like Pfizer are dodging their responsibilities to pay their fair share, as Mr. Becerra said, of our national security. You have other authority under Section 956.

And I would just urge you to recognize this is a hemorrhage that is going on. It is a hemorrhage that has been going on for some time. This Congress won't act. And it really begins to appear to anyone who is cynical about it that you would rather use these inversions as an excuse for broader tax reform than to prevent them from happening.

I am all for broader tax reform. I think our rates should come down. But I don't think tax reform should be used as an excuse to just let multinationals pay even less than they are now. We get some sense of how big that gap is from the proposal that you have advanced for tax reform where you have increased by 70 percent to $350 billion the amount that you believe would be obtained with your 19 percent rate being applied.

That is a huge amount. It has grown substantially since last year. It will continue to grow. Please use your authority to stop some of this now, even though we know the ultimate solution is a Congress that cares about protecting the American people and seeing that our businesses are dealt with on a level, competitive playing field. I yield back.

Chairman BRADY. Thank you.

Dr. Price, you are recognized.

Mr. PRICE. Thank you, Mr. Chairman and welcome, Mr. Secretary. I want to start with a compliment on the President's budget. I noted that there are cuts and consolidations on the discretionary side that are identified of nearly $30 billion in Fiscal Year 2017. And so I want to thank you for that positive move. I hope we can get together and work on that.

I want to, however, talk initially about kind of the big picture. And we have talked about a lot of specifics on this budget. But the fact of the matter is that the President's budget, the budget that you all are presenting, is—incorporates $4.1 trillion in spending in the next fiscal year, the first budget by a president over $4 trillion.

It proposes $3.4 trillion in new taxes, new taxes on the American people, including that $10-a-barrel tax on oil which is paid by the American people. That is not paid by those companies, it is paid by the American people, one of the most regressive taxes that this Administration has proposed.

Adds 9—your budget adds $9.3 trillion—trillion dollars—to the national debt over a 10-year period of time, and it never, ever, ever balances. The budget never balances. That increase in debt means that we pay more interest on that debt. In fact, in 2022 the interest on the debt in your budget, the President's budget, will exceed the amount that we are spending to protect the American people, the amount that we are spending on defense. And the interest rate in 2026 will be over $900 billion a year, certainly not a sustainable path, I don't believe.

You were—you said earlier that, "Progress is not inevitable, it is the result of choices." And so, I want to share with you a slide here, and revisit an issue that has been talked about.

Mr. PRICE. And folks are passing this out. This is the growth projections from Congressional Budget Office, average growth over a 10-year period of time, over the last 4 years. In January of 2012, in 2012, the projection was it would be 3 percent a year. Then 2.9 percent a year. And then 2.5 percent a year. And then 2.3 percent a year. And then—and this projected from CBO—2.1 percent a year.

Mr. Secretary, that doesn't appear to be a movement in the right direction, and it appears to be the result of some choices that the Federal Government is making. So I would ask you why do you be-

lieve the projections are—have dropped over 30 percent, 30 percent in the past 4 years?

Secretary LEW. Well, Congressman, as I was indicating before, if you look at all of the economic indicators, obviously, the creation of 14 million new jobs and the reduction——

Mr. PRICE. That is not the question.

Secretary LEW. So——

Mr. PRICE. Why has the projection for growth gone down 30 percent?

Secretary LEW. You know, there is no question right now that there are international headwinds that are slowing U.S. growth. We are doing well in an environment, a global environment, that is very challenging.

Mr. PRICE. Let me ask you——

Secretary LEW. And I think that that has to be taken into account.

Mr. PRICE. You are absolutely right. Shouldn't also the taxes that we apply to businesses and individuals be taken into account, and the regulatory oppression that we have?

What is our corporate tax rate right now?

Secretary LEW. Our statutory rate is 39.5 percent.

Mr. PRICE. Thirty-nine-and-a-half percent. And you are familiar with the OECD, the industrial——

Secretary LEW. Look, there is no doubt our——

Mr. PRICE. The list of industrialized countries—you are familiar with the industrialized countries?

Secretary LEW. That is why we are all so much saying that we support business tax reform. Our statutory tax rate and our average tax rate have nothing to do with each other.

Mr. PRICE. And you proposed to take the corporate tax rate to what?

Secretary LEW. We have proposed taking it to 28 percent.

Mr. PRICE. And Canada's rate is?

Secretary LEW. I would have to look——

Mr. PRICE. Fifteen.

Secretary LEW [continuing]. To get the exact——

Mr. PRICE. And Germany's rate is 15. And Ireland's rate is 12.5. And Switzerland's rate is 8.5.

Secretary LEW. Yes.

Mr. PRICE. And the United Kingdom's rate is——

Secretary LEW. I think if the United States' statutory tax rate was 28 percent, it would be enormously competitive in the——

Mr. PRICE. Let me talk about inversions, because we have heard them called tax cheats. Are these companies cheating? Are they cheating the tax——

Secretary LEW. Look, I have said it is wrong, and we have to change the law.

Mr. PRICE. Is it illegal?

Secretary LEW. No, we have to change the law. Congress has to change the law——

Mr. PRICE. Okay. It is important that people appreciate it is not illegal.

Secretary LEW. That doesn't make it right.

Mr. PRICE. And you are right. And when you have got so many companies doing this, at some point we have got to look in the mirror, as a country.

Secretary LEW. Yes, look at——

Mr. PRICE. What are we doing that is incentivizing them to move? Because they didn't move 20 years ago. They didn't move 40 years ago. In fact, they wanted to start their businesses in the United States, because they knew this was the place of opportunity, and the place where things could thrive and grow. And something has happened now for these companies to say to themselves when they sit in the room and try to figure out just how to make a go of it, how to create jobs and grow businesses, something has happened for them to say, "We think it is better for us to be at those lower tax rates."

Secretary LEW. Our Tax Code is broken. And Congress has to fix it. That is why I have, for three years, come before this Committee saying let's work together to fix it.

Mr. PRICE. And let me—and we thank you for that. But nothing has been done. And I want to associate myself with the remarks earlier that mentioned the pass-through entities, the small businesses have a tax rate above 40 percent. So we, as a government, are punishing job creators and the American people.

Secretary LEW. Well, if you are interested in working on fixing business tax——

Mr. PRICE. Look forward to it.

Secretary LEW [continuing]. The business Tax Code so we can lower the statutory rate and be competitive in the world, that is what we are advocating, so——

Chairman BRADY. Time has expired. Thank you.

Mr. Thompson, you are recognized.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Secretary, thank you very much for being here. I want to commend the President's budget in regard to the new market tax credits. I think that is extremely important. And I want to commend you and your team for working with my office on improving that program. We came to you with an issue regarding closed military bases, and tried to put a BRAC component.

I had legislation in the House to do that, bipartisan with a former Member of—Ralph Hall from Texas. And in this Congress, sadly, it went nowhere. But with your commitment and your determination, we were able to work around that, and figured out a way to allow closed military bases to take advantage of these tax credits. And that is going to be extremely important, and will be job growth-inducing and environmentally important, as well as these bases start to——

Secretary LEW. I appreciate your interest in the new market tax credit and your advocacy for it. I am pretty attached to it. It is one of the last things we did at the end of the Clinton Administration on a bipartisan basis with the Congress, and I think it has done an enormous amount of good, which is why we are—we are supportive of it because it works.

Mr. THOMPSON. Well, I appreciate it very, very much. And the one issue I do have concern with—and I think you know my position on this well, and that is the repeal of LIFO.

My concern, as you know, is the retroactive aspect of it, and I think that—if that were to happen, it was going to be very damaging to a lot of businesses who have been playing by the rules, abiding by the law, and working right here in this country, not one of these—not these companies that try and manipulate the Tax Code so they don't have to pay taxes or move overseas so they can avoid taxes. But just good business people, good businesses right here at home, trying to make a living and trying to employ people. And if this retroactive component is to take effect, it would be very damaging to these folks.

And I know you passed out the letter that you had sent to the European commission, and in it you reference to the DG for competition that you—one of your first concerns is that they are changing procedures and imposed penalties retroactively. And I just wanted you to know that those of us who represent districts that have LIFO companies, LIFO industries, we feel the same heartburn when you talk about retroactively collecting revenues and changing the Tax Code.

So I would really like to work with you to see if we can't figure this out, and just wonder if you have considered the impact of this proposal on small businesses and their employers, and if you—and have you considered that it could be less disruptive or less burdensome on businesses—ways that it would be less burdensome on businesses if they used the LIFO in its existing condition?

Secretary LEW. Congressman, I understand this is an issue of deep concern to businesses in your district, and it is, in common with other loopholes that we close in the Tax Code, something that does impose a burden on those who have benefitted from what we believe is something that needs to be fixed in the Tax Code.

The nature of this provision is it will be implemented over time that firms will have an ability to do some averaging, so it doesn't hit all at once. And we don't view it as retroactive, because it just is a question of the timing, not the incidence of the tax burden. So, we would look forward to working with you on this.

I think that one of the reasons tax reform is so hard to do is that it does impose burdens to close loopholes. But we can't lower the statutory rate if we don't close the loopholes that make the average rate now——

Mr. THOMPSON. I don't disagree——

Secretary LEW [continuing]. Lower than the statutory——

Mr. THOMPSON. I don't disagree with you on that front. However, when you close a loophole but reach back and try and collect those revenues that were the revenues from tax law as it used to be before change, I think that is where the rub comes.

It would be the same if, you know, we changed the tax bracket at which you are taxed, and went back 5 years or 10 years and had you make that up. It just seems inherently unfair, and it would have a very negative impact on businesses. And not just in my district. There is a number of people on this dais and throughout the Congress who have LIFO companies, and it would harm them and their communities. So thank you.

Secretary LEW. I appreciate the concern.

Chairman BRADY. Thank you. For the Members' information, let me ruin Mr. Larson's day by noting we will be going two-to-one

questioning at this point to ensure all of our Members get a chance to question the Secretary.

So, Mr. Smith, you are recognized.

Mr. SMITH OF NEBRASKA. Thank you, Mr. Chairman and thank you, Mr. Secretary, for your presence here today.

I just want to clarify some things here. Now, when you said business tax reform, that is equating to corporate tax reform, correct?

Secretary LEW. Well, I mean, the reason we call it business tax reform is we also have done things to change the way that all businesses can handle their accounting and their choice of how they present themselves, what form they organize under. So there are benefits that go to particularly small businesses under the proposals that we have.

Our changes to the rate structure are on the corporate side.

Mr. SMITH OF NEBRASKA. So you are saying that a small business that might pay under the individual tax rate or pass-through is inclusive of this in this term?

Secretary LEW. Well, for example, we propose increasing the Section 179 deduction. That will be a benefit to small businesses, however they are organized. So there are benefits in here that are going to accrue to small businesses. Our calculation is——

Mr. SMITH OF NEBRASKA. But no rate reform for——

Secretary LEW. That is what I said. The loophole closers and the rate changes are on the corporate side.

Mr. SMITH OF NEBRASKA. Okay, but I—I appreciate that clarity, because, let's face it, roughly half of all private-sector employment in the United States exists in these pass-through entities that pay tax under the individual rate structure. Isn't that accurate?

Secretary LEW. Yes. I mean we have to also be clear that the pass-throughs are a very different—they are very different kinds of businesses that are pass-throughs. Most small businesses are going to get a benefit from our business tax reform proposal. The ones that are going to tend not to are not what people usually think of as pass-throughs. It is large firms, like oil pipeline, gas pipeline companies, hedge funds that have organized as pass-throughs to take advantage of a more attractive structure in the Tax Code. So we have to be clear who we are talking about.

Mr. SMITH OF NEBRASKA. But in the same vein, I mean, corporate tax reform would include General Electric. Wouldn't that be accurate?

Secretary LEW. Correct.

Mr. SMITH OF NEBRASKA. And——

Secretary LEW. Anyone organized on the corporate side.

Mr. SMITH OF NEBRASKA. Right, right. So I would hope that realizing that the current state of our Tax Code is begging for reform—and not just the corporate side, or not just perhaps adding some layers of complexity on the individual side that we would say is a tax relief, but, you know, simplifying our Tax Code must happen.

And, you know, I—there is a lot of debate now about, you know, small, large businesses, domestic, international. And so we know that U.S. businesses have generated business overseas. And I see that as a good sign. Would you agree with that?

Secretary LEW. I think generating business at home and overseas are both good signs.

Mr. SMITH OF NEBRASKA. Right. And I am glad we can agree on that.

Now, you had mentioned earlier about wanting to require businesses to return their profits to the U.S., require U.S. businesses to return their profits——

Secretary LEW. Yes. Right now you have a lot of businesses that are holding their earnings overseas before they bring them home. They are not investing them overseas, they are not investing them here, they are just deferring bringing them home.

We would—as we go through the process of rewriting the business Tax Code, we would say that all that income that is parked overseas comes home. And then we propose a tax rate of 19 percent. I believe the——

Mr. SMITH OF NEBRASKA. What would be the mechanism that would require them to bring that back?

Secretary LEW. It would be a requirement in the—that, actually—my tax counsel is correctly pointing out they wouldn't have to bring it home, they would have to pay taxes on it. You couldn't defer the tax on it. They could leave it sitting where it is, but they couldn't defer the taxes any longer.

Mr. SMITH OF NEBRASKA. Okay. So I do hear you saying that our international tax policy needs to be reformed, and we can help businesses, U.S. businesses, grow as a result, and help our economy as well. Is that accurate?

Secretary LEW. Yes. And, you know, Congressman, I will say I have said to some of the U.S. businesses that are affected by the actions we have talked about in the European Union that they ought to, before having the kind of minimum tax proposal that we have, to bring that money home and clarify this issue so they are not being attacked overseas.

I actually think it would be better for everyone if we did it. You know, you could negotiate what the rate is. You know, if I recall correctly, Chairman Camp proposed 12 percent, I think a 12 percent rate. We proposed 19.

You know, the point is it shouldn't be sitting tax free. The reason we are seeing the kind of outrage around the world is the money is just sitting there. That is not an excuse for saying that it is not U.S. income to be taxed in the United States. But only Congress can do something that will address that.

Mr. SMITH OF NEBRASKA. Thank you.

Chairman BRADY. Thank you.

Ms. Jenkins, you are recognized.

Ms. JENKINS. Thank you, Mr. Chairman.

Thank you, Secretary Lew, for being with us today. Over the past five years in the House there have only been two votes in support of the President's budget. There is 435 of us, 2 votes for the President's budget the last 5 years. All of us are elected to represent the American people. And I am just really puzzled, when you are rejected that soundly by the folks here in the people's house, why you wouldn't be willing to work with us on changing—I think you called this budget your vision for America—one that might more accurately reflect the priorities of the American people.

You know, this Committee has discussed on numerous occasions that the American people are being hurt by this President's failed economic policies, and statistics that we just saw show that growth is being stuck at two percent, nationally. That really does not do justice to the hard-working American people who are suffering right now.

In this budget for Fiscal Year 2017 our budget chairman has already noted you will increase annual spending by $2.5 trillion over the next 10 years. It includes 3.4 trillion in new taxes. Annual collections will increase by over 2 trillion in 10 years. The debt, federal debt held by the public, will increase well over 7 trillion in the next 10 years. That is a 51 percent growth in debt in just 10 years.

The President's plan more than triples interest costs, which remains the fastest growing item in the budget. The President's estimates indicate the net interest outlays will grow 228 percent over the 10-year budget window. Under this President's plan, interest costs are going to be larger than the appropriations for the Defense Department for 2022.

This budget is putting us on a path where we are just borrowing to continue to pay for more borrowing. Can you tell us and the folks that we represent how can you be comfortable with this budget, when we are borrowing nearly twice as much money as we are currently borrowing, just money to pay more money?

Secretary LEW. Congresswoman, you know, if you look where we started in 2009, and where we are now, we have stabilized the situation that was out of control. I know what it means to balance a budget; I was OMB director for three years——

Ms. JENKINS. Well then, why don't you budget——

Secretary LEW [continuing]. The only three years we had a balanced budget.

Ms. JENKINS. Why don't you balance the budget?

Secretary LEW. But when we came into office, the economy had shrunk by way more than two percent. It was like eight or nine percent the year before.

Ms. JENKINS. You are talking about——

Secretary LEW. We had the deepest——

Ms. JENKINS [continuing]. About 2022.

Secretary LEW. Yes, so——

Ms. JENKINS. You can't ever, ever get to balance—in perpetuity, when we take these figures, and you project it out in perpetuity, you can't ever point to a time where you will stop spending more of my constituents' money than you take in. And I get tired of hearing this primary balance. The folks at home know what balance means. It means you don't spend more money than you take in. And I don't see how we can look our kids in the eye and explain to them why we can't pay for the things that we are enjoying today, we are just going to send them the bill.

Secretary LEW. So, look. I think that we have to look at the drivers of some of the spending and ask: Do we want to pretend it is not happening? Demographic changes have meant that more people will be on Social Security and Medicare in these coming decades——

Ms. JENKINS. So you are just not being honest with people——

Secretary LEW. No——

Ms. JENKINS [continuing]. You really intend to raise taxes——

Secretary LEW. No——

Ms. JENKINS [continuing]. A whole lot more than the budget reflects, you just don't want to tell them that.

Secretary LEW. No, I am being completely honest. I am saying that, you know—go back a few years. When I was OMB director and we had a surplus, we were building up, over the 10 years when I left, $5.5 trillion of surplus.

Ms. JENKINS. Why can't you do that again?

Secretary LEW. That money wasn't there when we came back in. We were seeing deficits that were enormous. And we have stabilized it. I don't think Social Security and Medicare should be cut, you know, to take away from people what they need and what they have been promised.

Ms. JENKINS. And we will agree on that——

Secretary LEW. And we have proposed a balanced approach——

Ms. JENKINS. So what year does your——

Secretary LEW [continuing]. To get to a stable budget.

Ms. JENKINS [continuing]. Your budget balance?

Secretary LEW. I am not going to say that it presents a year of balance.

Ms. JENKINS. That is because it never does.

Secretary LEW. I said it is a stable, sustainable path, and we have a long period when we can deal with some of these long-term issues.

I think I would ask the question to you: How would you balance the budget? What would you cut?

Ms. JENKINS. Our budgets the last few years, and the budget that the budget chairman will present, they always get to balance, and puts us on a path to totally eliminate the debt.

See, the problem here is——

Secretary LEW. And I suspect there will be policy there——

Ms. JENKINS. Excuse me. The problem here is——

Secretary LEW [continuing]. That we have real disagreements over.

Ms. JENKINS [continuing]. That people in Kansas are sitting there, running their businesses and their personal finance, and they have to balance their budget. And they can't, for the life of them, figure out why we can't do the same here in Washington.

Chairman BRADY. Thank you. Mr. Larson, you are recognized.

Mr. LARSON. Thank you, Chairman Brady. And thank you for holding this hearing. I would just say that—and Secretary Lew, thank you so much for your service to the country in two administrations. And thank you for leaving us with a surplus, and having balanced the budget, and left us in a position that we could have built on, where we would have alleviated all of our national debt by 2009.

There was another administration that happened in between and, yes, there were also wars that have taken place. But clearly, this Administration has done an outstanding job in digging us out of the ditch that we were presented—as you pointed out, the worst since the Great Depression.

I want to thank the chairman, as well, for his comments about the kind of cooperation that we saw at the end of the session. I

think we ought to build on that, as a committee. You know, above the chamber it was Webster who famously said, "Let us develop our resources of our land, call forth its powers, build up its institutions, promote all of its great interests, and see whether we also, in our day, in generation, may not perform something worthy to be remembered." I think that is what the American people want. They are tired of this back-and-forth. You see that, we see it on both sides with respect to our presidential races.

And look who—look where the public is. And as many are calling this an outsider revolution, I am heartened to see that Donald Trump, for example, is supporting—the Republican frontrunner is supporting increases in Social Security, is advocating directly negotiating with pharmaceutical companies so that we can actually lower the cost. We are heartened by this.

We are heartened, clearly and always, by the standard-bearer of our party, Hillary Clinton, standing up for expanding Social Security, and Bernie Sanders, as well. This is a great opportunity.

I would like to submit for the record also—and I have the greatest respect for my colleague from Texas, I am glad that he brought up those—the situation that exists with Social Security. But I would add just a couple of things, Mr. Lew, by way of question.

Social Security often times gets called an entitlement. I believe this is called the Federal Insurance Contribution Act. Is it not, in fact, a premium payment that individuals make into the Treasury?

Secretary LEW. Well, it is funded by employer and employee contributions.

Mr. LARSON. Yes. And I would like to submit for the record this actuarial report from a Social Security chief actuary, a plan that we have introduced on this side. And I hope—and I say this with all due respect—that we are able to get a hearing on this, because it is the vitality of ideas. And with both sides of the aisle talking about this in a presidential race, I think we should be talking about it here in this Committee as well, because this should be something that this Committee that has—can be remembered by.

And I think it is long overdue that we come to an understanding. Mr. Neal pointed out the other day in another hearing that we had—and I thank you for that, Mr. Chairman—that we have become totally reliant. Employers are moving to 401(k)s as the only means in which members are going to be able to put money aside. If not for Social Security, what do we have?

And for Republicans now finally—and I commend Mr. Trump for saying, "Look, we cannot be talking about cutting benefits from people who the only thing that they may have to retire on is their Social Security, including most women." I know that the gentleman from Texas understands this from the people that he has represented all of his life. And I think, at its core, all of us want to make sure that we are preserving Social Security so that it works for the people.

We have an opportunity to do this. We have a proposal that will do this that will not increase the national debt but, in fact, will provide an opportunity that will not only expand benefits, but—how about this, and I hope my colleagues will join me with this—provide a tax cut for working seniors, because we have never adjusted since 1983, when Mr. Lew and others did the work on this

Committee to make sure we put there—we placed there, and did not make the change for our working seniors to have a tax break.

So let us join together on this, solve the problem for the next 75 years, not 40, not 30, but do it in a way that we both offer extra and expanded security and tax cuts. Clearly, we can both agree on that.

Chairman BRADY. Thank you. Without objection, the documents will be entered into the record.

[The information follows:]

SOCIAL SECURITY
Office of the Chief Actuary

March 18, 2015

The Honorable John Larson
United States House of Representatives
Washington, D.C. 20515

Dear Representative Larson:

I am writing in response to your request for estimates of the financial effects on Social Security of H.R. 1391, *The Social Security 2100 Act*, which you introduced yesterday. This Bill (hereafter referred to as the proposal) includes six provisions with direct effects on the Social Security Trust Funds. We have enjoyed working closely with Scott Stephanou of your staff in developing this proposal to meet your goals.

The enclosed tables provide estimates of the effects of the six provisions on the cost, income, and combined trust fund reserves for the Old Age, Survivors, and Disability Insurance (OASDI) program, as well as estimated effects on retired worker benefit levels for selected hypothetical workers. In addition, tables 1b and 1b.n provide estimates of the Federal budget implications of the six provisions. Assuming enactment of the proposal, we estimate the OASDI program to be sustainably solvent throughout the 75-year projection period, under the intermediate assumptions of the 2014 Trustees Report.

We base all estimates on the intermediate assumptions of the 2014 Trustees Report. We provide estimates for the combined OASI and DI Trust Funds reflecting the intent to reallocate the total tax rate as needed to equalize the actuarial status of the two separate trust funds. The estimates and analysis provided here reflect the combined effort of many in the Office of the Chief Actuary, but most particularly Alice Wade, Christopher Chaplain, Daniel Nickerson, Jason Schultz, Kyle Burkhalter, Katie Sutton, Tiffany Bosley, and Karen Glenn.

The proposal includes the following six provisions with direct effects on the OASDI program:

1) *Increase the first PIA formula factor from 90 percent to 93 percent for all eligible beneficiaries as of January 2016, and for those newly eligible for benefits after January 2016.*
2) *Use the Consumer Price Index for the Elderly (CPI-E) to calculate the cost-of-living adjustment (COLA), effective for December 2016 COLA.* We assume this change would increase the COLA by an average of 0.2 percentage point per year.
3) *Increase the special minimum PIA, beginning for workers who become newly eligible for retirement or disability benefits or die beginning in 2016.* For beneficiaries newly eligible in 2016, the minimum initial PIA for workers with 30 or more years of coverage (YOCs) is 125 percent of the annual poverty guideline for a single individual published

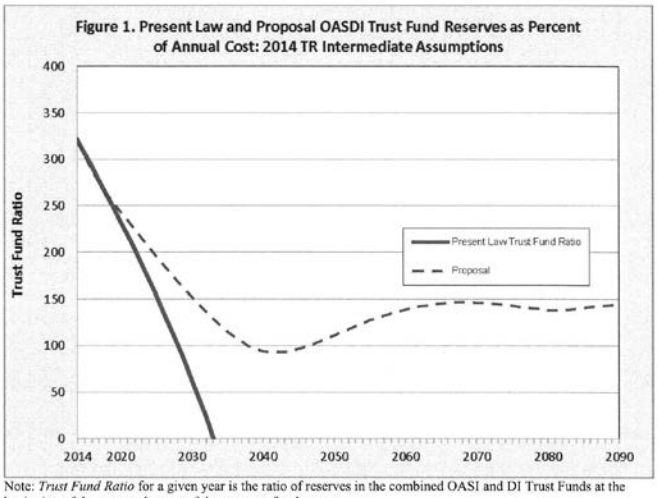
by the Department of Health and Human Services for 2015, divided by 12. For beneficiaries newly eligible after 2016, the minimum initial PIA increases by the growth in the SSA average wage index (AWI).

4) *Increase the thresholds for taxation of OASDI benefits to $50,000 for single filers and $100,000 for joint filers, fully effective in 2016.* These revised thresholds would be fixed and not indexed to price inflation or average wage increase. The Hospital Insurance (HI) Trust Fund would be held harmless relative to current law, with respect to taxation of benefit revenues.
5) *Apply the combined OASDI payroll tax rate on earnings above $400,000, fully effective in 2016.* Tax all earnings once the current-law taxable maximum exceeds $400,000. Credit the additional earnings that are taxed for benefit purposes by: (a) calculating a second average indexed monthly earnings ("AIME+") reflecting only additional earnings taxed above the current-law taxable maximum, (b) applying a 2-percent factor on this newly computed "AIME+" to develop a second component of the PIA, and (c) adding this second component to the current-law PIA.
6) *Increase the combined OASDI payroll tax rate to 14.8 percent, fully effective for 2041, and then to 15.3 percent, fully effective for 2084.* The combined rate is increased by 0.1-percentage point each year starting in 2018 and ending in 2041, and again starting in 2080 and ending in 2084. In addition, the payroll tax rate is reallocated between the Disability Insurance (DI) Program and the Old-Age and Survivors Insurance (OASI) Program with the intent to roughly equalize the actuarial status of the two trust funds.

The balance of this letter provides a summary of the effects of the six provisions on the actuarial status of the OASDI program, our understanding of the specifications and intent of each provision, and descriptions of our detailed financial estimates for trust fund operations, benefit levels, and implications for the Federal budget.

Summary of Effects of the Proposal on OASDI Actuarial Status

Figure 1 below illustrates the estimated change in the combined Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Fund reserves, expressed as a percent of annual program cost, assuming enactment of the six provisions of this proposal. Assuming enactment, the OASDI program is expected to be solvent throughout the 75-year projection period, under the intermediate assumptions of the 2014 Trustees Report.



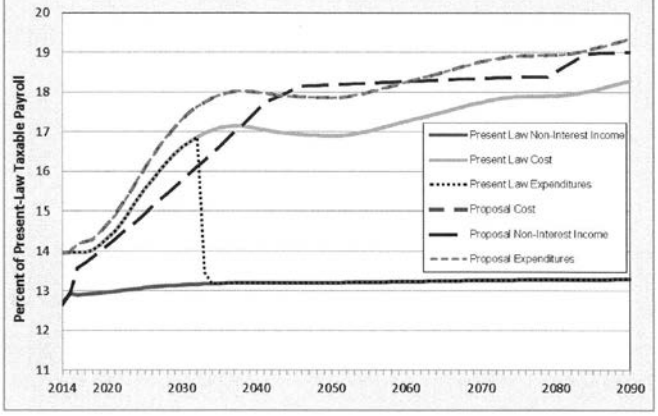
Note: *Trust Fund Ratio* for a given year is the ratio of reserves in the combined OASI and DI Trust Funds at the beginning of the year to the cost of the program for the year.

Under current law, 77 percent of scheduled benefits are projected to be payable in 2033 after reserve depletion. Under the proposal, the projected level of reserves for the theoretical combined OASI and DI Trust Funds declines from 320 percent of annual program cost at the beginning of 2014 to 93 percent for 2042, increases to 147 percent for 2068, decreases to 138 percent for 2081, and then increases to 143 percent at the end of the 75-year projection period for 2088. Enactment of the six provisions of this proposal would eliminate the entire long-range OASDI actuarial deficit of 2.88 percent of taxable payroll under current law, replacing the OASDI actuarial deficit with a positive actuarial balance of 0.06 percent of payroll for the long-range period. The ratio of trust fund reserves to annual program cost (trust fund ratio, or TFR) is projected to remain positive and to be increasing gradually at the end of the long-range period. Therefore, the proposal meets the requirements for sustainable solvency. However, because the

gradual increase in the TFR is slowing at the end of the long-range period, the OASDI program may need some further changes well beyond the end of the 75-year period.

Figure 2 illustrates annual projected levels of cost, expenditures, and non-interest income as a percent of the present-law taxable payroll. The projected level of cost reflects the full cost of scheduled benefits under both present law and the proposal. Under the proposal, projected expenditures equal the full cost of scheduled benefits because trust fund reserves do not deplete during the projection period.

Figure 2. Proposal and Present Law Cost and Non-Interest Income as Percent of Taxable Payroll: 2014 TR Intermediate Assumptions

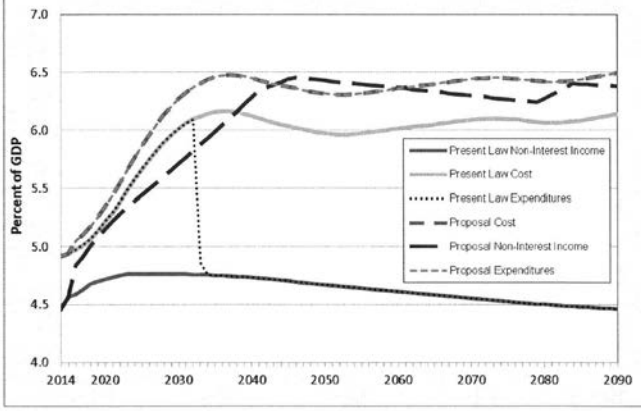


Beginning in 2016, OASDI program cost is higher under the proposal than under current law. This difference in program cost increases quickly at first, then increases gradually over time to about 1.0 percent of current-law payroll by 2088. Non-interest income under the proposal is also higher than under current law, with the difference in non-interest income growing from 0.7 percent of payroll for 2016 to 5.7 percent of payroll by 2088. The proposal improves the annual balance (non-interest income minus program cost) by 3.9 percent of payroll by 2045, with the improvement reaching 4.7 percent of payroll for 2088. Under the proposal, annual balance is negative at the beginning of the long-range period, with annual deficits decreasing from 1.3 percent of payroll for 2014 to 0.5 percent of payroll for 2018 and then increasing to a peak of 1.5 percent of payroll for 2031. The annual balance turns positive in 2044 and continues to improve to a peak annual surplus of 0.3 percent of payroll for 2051. The annual balance becomes negative again in 2061 and stays negative throughout the remainder of the long-range period,

with annual deficits increasing to 0.5 percent of payroll for 2077, decreasing to 0.1 percent of payroll for 2084, and increasing thereafter to 0.2 percent of payroll for 2088. Under current law, the projected annual deficit under current law is 4.9 percent of payroll for 2088.

It is also useful to consider the projected cost, expenditures, and income for the OASDI program expressed as a percentage of Gross Domestic Product (GDP). Figure 3 below illustrates these levels under both current law and the proposal.

Figure 3. Proposal and Present Law Cost and Non-Interest Income as Percent of GDP: 2014 TR Intermediate Assumptions



Specification for Provisions of the Proposal

(1) *Increase the first PIA factor to 93 percent for all beneficiaries beginning in 2016.*

This provision increases the first factor in the PIA formula from 90 to 93 percent for all eligible beneficiaries as of January 2016, and for those newly eligible for benefits after January 2016.

We estimate that enactment of this provision alone would increase the long-range OASDI actuarial deficit by 0.24 percent of taxable payroll and would increase the annual deficit for the 75th projection year (2088) by 0.27 percent of payroll.

(2) *Use CPI-E to calculate the COLA, effective for December 2016 COLA.*

Under current law, the annual cost-of-living adjustment (COLA) applied to Social Security benefits is calculated using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). We estimate that using the Consumer Price Index for the Elderly (CPI-E) instead of the CPI-W beginning with the December 2016 COLA would increase the COLA by 0.2 percentage points per year on average.

We estimate that enactment of this provision alone would increase the long-range OASDI actuarial deficit by 0.38 percent of taxable payroll and would increase the annual deficit for the 75th projection year (2088) by 0.54 percent of payroll.

(3) *Increase the special minimum PIA, beginning for workers who become newly eligible for retirement or disability benefits or die beginning in 2016.*

Under this provision, the minimum initial PIA for worker beneficiaries newly eligible in 2016 with 30 or more years of coverage (YOCs) would be 125 percent of the annual poverty guideline for a single individual published by the Department of Health and Human Services for 2015, divided by 12. For those with less than 30 YOCs, the minimum PIA per YOC in excess of 10 YOCs is the minimum PIA for workers with 30 or more YOCs, divided by 20. Any year in which a worker earns 4 quarters of coverage is determined to be a YOC. For beneficiaries newly eligible after 2016, the initial PIA per YOC in excess of 10 YOCs is indexed by growth in the SSA average wage index (AWI) to determine the minimum applicable for the year of initial eligibility. After the year of initial eligibility, the minimum benefit is increased by the COLA for each cohort.

We estimate that enactment of this provision alone would increase the long-range OASDI actuarial deficit by 0.17 percent of taxable payroll and would increase the annual deficit for the 75th projection year (2088) by 0.27 percent of payroll.

(4) *Increase the thresholds for taxation of OASDI benefits to $50,000 for single filers and $100,000 for joint filers, effective in 2016.*

Under current law, single tax filers with combined "income" (approximately equal to adjusted gross income plus non-taxable interest income and half of their Social Security benefit) greater than $25,000 may have to pay income tax on up to 50 percent of the benefits. If combined "income" exceeds $34,000, up to 85 percent of the benefits may be taxable. The income tax revenue for taxing up to 50 percent of Social Security benefits goes to the OASI and DI Trust Funds. The additional income tax revenue derived from taxing benefits in excess of 50 percent, up to 85 percent, goes to the Hospital Insurance (HI) Trust Fund. The process is similar for joint tax filers, with $32,000 and $44,000 thresholds applying for possible taxation of up to 50 percent or 85 percent of the Social Security benefits, respectively. All threshold levels are fixed amounts and not indexed to price inflation or average wage increase.

Under the proposal, the $25,000 and $32,000 thresholds (applicable for taxation-of-benefit revenues to the OASDI Trust Fund) increase to $50,000 and $100,000 for single and joint filers,

respectively, beginning in 2016. The $34,000 and $44,000 thresholds would also be raised to $50,000 and $100,000, respectively. These revised thresholds are unchanged for years after 2016. However, the amount of total revenue from taxation of OASDI benefits that is transferred to the Hospital Insurance Trust Fund would be maintained at the amount that would have been due for HI under current law for each future year.

We estimate that enactment of this provision alone would increase the long-range OASDI actuarial deficit by 0.12 percent of taxable payroll and would increase the annual deficit for the 75th projection year (2088) by 0.01 percent of payroll.

(5) *Apply OASDI payroll tax rate on earnings above $400,000, effective in 2016.*

This provision applies the OASDI payroll tax rate to earnings above $400,000 in 2016 and later. The $400,000 level is a fixed amount after 2016 and not indexed to price inflation or wage increase. All earnings would be taxed once the current-law taxable maximum exceeds $400,000, which is projected to occur in 2046. Any earnings above the higher of $400,000 or the current-law taxable maximum in a given year would be counted as "excess wages" and would be credited for benefit purposes by:

a. Calculating a second average indexed monthly earnings ("AIME+") reflecting only additional earnings taxed,
b. Applying a 2-percent PIA factor to this newly computed "AIME+" to develop a second component of the PIA, and
c. Adding this second component to the current-law PIA.

We estimate that enactment of this provision alone would reduce the long-range OASDI actuarial deficit by 1.84 percent of taxable payroll and would reduce the annual deficit for the 75th projection year (2088) by 2.35 percent of payroll.

(6) *Increase the OASDI payroll tax rate to 14.8 percent, fully effective for 2041, and then to 15.3 percent, fully effective for 2084.*

The increase in the OASDI payroll tax rate is phased in by increasing the payroll tax rate by 0.05 percentage point for employers and for employees (0.10 percentage point total), every year from 2018 through 2041, and again starting in 2080 and ending in 2084. For years 2084 and later, the OASDI payroll tax rate is 7.65 percent for both employers and employees (15.3 percent total), up from 6.2 percent each (12.4 percent total) under current law.

The proposal specifies a reallocation of the total OASDI payroll tax rate between the OASI and DI Trust Funds. The intent of this reallocation is to roughly equalize the actuarial status of the OASI and DI Trust Funds. The reallocation specified in the proposal would extend the solvency of the DI program well beyond the projected date of reserve depletion under current law (2016). However, further technical adjustments to this specified reallocation would be required to fully equalize the actuarial status of the funds. These technical adjustments would have no material effect on the projections provided in this letter for the combined OASI and DI Trust Funds.

We estimate that enactment of this provision alone would reduce the long-range OASDI actuarial deficit by 1.73 percent of taxable payroll and would reduce the annual deficit for the 75th projection year (2088) by 2.85 percent of payroll.

Detailed Financial Results for the Provisions of the Proposal

Summary Results by Provision

Table A provides estimates of the effects on the OASDI long-range actuarial balance for each of the six provisions of the proposal separately and on a combined basis. The table also includes estimates of the effect of each provision on the annual balance (the difference between income rate and the cost rate, expressed as a percent of present-law taxable payroll) for the 75th projection year, 2088. Interaction among individual provisions is reflected only in the total estimates for the combined provisions.

Benefit Illustrations

Tables B1 and B2 provide illustrative examples of the projected change in benefit levels under the three provisions that affect benefit levels for beneficiaries retiring at age 65 in future years at five selected earnings levels, with selected numbers of years of work. The "Maximum-AIME Steady Earner" is assumed to have earnings at ages 22 through 64 that equal the present-law taxable maximum level (equivalent to $117,000 for 2014). As a result, the provision to increase the taxable maximum does not affect benefit levels illustrated in these tables. **Table B3** provides additional important information on characteristics of the illustrative retiring workers.

Table B1 compares the initial benefit levels assuming retirement at age 65 under the provisions of the proposal to both scheduled and payable present-law benefit level. All benefit amounts under the proposal are higher than those scheduled in current law, especially for the very low and low hypothetical earners with at least 30 years of earnings (due largely to the minimum benefit provision). The final two columns of this table show the level of scheduled benefits under the proposal as a percentage of present-law scheduled and present-law payable benefits, respectively.

Table B2 compares the change in scheduled benefit levels at ages 65, 75, 85, and 95 under the proposal to scheduled benefits under present law, assuming retirement at age 65. Table B2 shows that projected scheduled benefits under the provisions of this proposal increase in relation to present-law scheduled benefits between ages 65 and 95, because of the change in computing the COLA.

The hypothetical workers represented in these tables reflect average career-earnings patterns of workers who started receiving retirement benefits under the Social Security program in recent years. The tables subdivide workers with very low and low career-average earnings levels by their numbers of years of non-zero earnings.

Table B3 provides information helpful in interpreting the benefit illustrations in tables B1 and B2. Percentages in Table B3 are based on tabulations from a 10-percent sample of newly-

entitled retired workers in 2007. Table B3 displays the percentages of these newly-entitled retired workers in 2007 that are closest to each of the illustrative examples and are:

1) "Dually Entitled", meaning they received a higher spouse or widow(er) benefit based on the career earnings of their husband or wife,
2) "WEP" (Windfall Elimination Provision), meaning that they received a reduced benefit due to having a pension based on earnings that were not covered under the OASDI program (primarily certain government workers), and they had less than 30 years of substantial earnings that were taxable under the OASDI program,
3) "Foreign Born", meaning that they entered the Social Security coverage area after birth (and generally after entering working ages), and
4) "All Others", meaning they had none of the three characteristics listed above.

The extent to which retired-worker beneficiaries represented by each of the illustrative examples has any of the characteristics listed above (dually entitled, WEP, foreign born) is important because such individuals are less dependent on the OASDI benefit that relates to their own career-average earnings level.

Detailed Tables Containing Annual and Summary Projections

Enclosed with this letter are **tables 1, 1a, 1b, 1b.n, 1c, and 1d,** which provide annual and summary projections for the proposal.

Trust Fund Operations

Table 1 provides projections of the financial operations of the OASDI program and shows that the combined OASDI Trust Funds would remain solvent throughout the 75-year period. The table shows the annual cost and income rates, annual balances, and trust fund ratios (reserves as percent of annual program cost) for OASDI, as well as the change from present law in these cost rates, income rates, and balances. Included at the bottom of this table are summarized rates for the 75-year (long-range) period.

The actuarial balance for the OASDI program over the 75-year projection period is improved by 2.94 percent of taxable payroll, from an actuarial deficit of 2.88 percent of payroll under current law to a positive actuarial balance of 0.06 percent of taxable payroll.

Program Transfers and Trust Fund Reserves

Column 4 of **Table 1a** provides a projection of the level of reserves for the theoretical combined OASI and DI Trust Funds. These trust fund reserve amounts are expressed in present value dollars discounted to January 1, 2014. The table indicates that the provisions include no new specified transfers of general revenue to the trust funds. For purpose of comparison, the OASDI Trust Fund reserves, expressed in present value dollars, are also shown for the current-law Social Security program both without and with the added proposal general fund transfers (zero in this case) in columns 6 and 7.

Note that negative values in columns 6 and 7 represent the "unfunded obligation" for the program through the year. The unfunded obligation is the present value of the shortfall of revenue needed to pay full scheduled benefits on a timely basis from the date of trust fund reserve depletion through the end of the indicated year. Gross Domestic Product (GDP), expressed in present value dollars, is shown in column 5 for comparison with other values in the table.

Effect of the Social Security Provisions on the Federal Budget

Table 1b shows the projected effect, in present value discounted dollars, on the Federal budget (unified-budget and on-budget) cash flows and balances, assuming enactment of the six Social Security provisions of this proposal. Table **1b.n** provides the estimated nominal dollar effect of enactment of the proposal on annual budget balances for years 2014 through 2024. All values in these tables represent the amount of *change* from the level projected under current law and reflect the budget scoring convention that presumes benefits, not payable under the law after depletion of trust fund reserves, would still be paid using revenue provided from the General Fund of the Treasury obtained by additional borrowing from the public.

Column 1 of Table 1b shows the added proposal general fund transfers (zero in this case). Column 2 shows the net changes in OASDI cash flow from all provisions of the proposal.

We expect the net effect of the proposal on unified budget cash flow (column 3) to be positive in years 2016 and later, reflecting the payroll tax rate increase in provision 6 and the payroll tax newly applied to earnings above $400,000 in provision 5.

Column 4 of Table 1b indicates that the effect of implementing the six provisions is a reduction of the Federal debt held by the public, reaching about $11.4 trillion in present value at the end of the 75-year projection period. Column 5 provides the projected effect of the proposal on the annual unified budget balances, including both the cash flow effect in column 3 and the additional interest on the accumulated debt in column 4. Columns 6 and 7 indicate that the provisions of this proposal would have no expected direct effects on the on-budget cash flow, or on the total Federal debt, in the future.

It is important to note that we base these estimates on the intermediate assumptions of the 2014 Trustees Report and thus these estimates are not consistent with estimates made by the Office of Management and Budget or the Congressional Budget Office based on their assumptions. In particular, all present values are discounted using trust fund yield assumptions under the intermediate assumptions of the 2014 Trustees Report.

Annual Trust Fund Operations as a Percent of GDP

Table 1c provides annual cost, annual expenditures (amount that would be payable), and annual tax income for the OASDI program expressed as a percentage of GDP for both present law and assuming enactment of the six Social Security provisions of the proposal. Showing the annual trust fund cash flows as a percent of GDP provides an additional perspective on these trust fund operations in relation to the total value of goods and services produced in the United States. The

relationship between income and cost is similar when expressed as a percent of GDP to that when expressed as a percent of taxable payroll (Table 1).

Effects on Trust Fund Reserves and Unfunded Obligations

Table 1d provides estimates of the changes in trust fund reserves. Values in this table are expressed in present value dollars discounted to January 1, 2014.

For the 75-year (long-range) period as a whole, the present-law unfunded obligation of $10.6 trillion is replaced by a positive trust fund reserve of $0.8 trillion in present value. This change of $11.4 trillion results from:

- A $14.5 trillion increase in revenue (column 2), primarily from additional payroll tax, *minus*
- A $3.1 trillion increase in cost (column 3), primarily from the special minimum PIA provision, calculating the COLA using the CPI-E rather than the CPI-W, increasing current and future benefits by replacing the 90 factor in the PIA formula with 93, and additional benefits from earnings taxed above the current-law taxable maximum.

We hope these estimates are helpful. Please let me know if we may provide further assistance.

Sincerely,

Stephen C. Goss

Stephen C. Goss
Chief Actuary

Enclosures

Table A--Estimated Long-Range OASDI Financial Effects of the *Social Security 2100 Act* (114th Congress), Introduced by Representative Larson

Provision	Estimated Change in Long-Range OASDI Actuarial Balance [1] (as a percent of payroll)	Estimated Change in Annual Balance in 75th year [2] (as a percent of payroll)
1) Increase the first PIA formula factor from 90 percent to 93 percent for all beneficiaries eligible as of January 2016 and for those newly eligible for benefits after January 2016	-0.24	-0.27
2) Starting December 2016, compute the COLA using the Consumer Price Index for the Elderly (CPI-E). We estimate this new computation would increase the annual cost-of-living adjustment (COLA) by about 0.2 percentage point, on average	-0.38	-0.54
3) Beginning in 2016, reconfigure the special minimum benefit for beneficiaries newly eligible after 2014: (a) A year of coverage (YOC) is defined as a year in which 4 quarters of coverage are earned. (b) For those newly eligible in 2016 with 30 or more YOCs, set the minimum PIA equal to 125 percent of the 2015 Health and Human Services (HHS) monthly poverty level. For those with under 30 YOCs, the PIA per year YOC in excess of 10 YOCs is 125 percent of the HHS monthly poverty level for 2015, divided by 20. (c) For beneficiaries newly eligible after 2016, index the initial PIA per YOC by growth in the SSA average wage index	-0.17	-0.27
4) Increase the threshold for taxation of OASDI benefits to $50,000 for single filers and $100,000 for joint filers starting in 2016. Taxation of benefits revenues transferred to the Hospital Insurance (HI) Trust Fund would be maintained at the same level as if the current-law computation applied	-0.12	-0.01
5) Apply the OASDI payroll tax rate on earnings above $400,000 starting in 2016, and tax all earnings once the current-law taxable maximum exceeds $400,000. Credit the additional earnings taxed for benefit purposes by: (a) calculating a second average indexed monthly earnings ("AIME+") reflecting only earnings taxed above the current law taxable maximum, (b) applying a 2 percent factor on this newly computed "AIME+" to develop a second component of the PIA, and (c) adding this second component to the current-law PIA	1.84	2.35

Table A--Estimated Long-Range OASDI Financial Effects of the *Social Security 2100 Act* (114th Congress), Introduced by Representative Larson

Provision	Estimated Change in Long-Range OASDI Actuarial Balance [1] (as a percent of payroll)	Estimated Change in Annual Balance in 75th year [2] (as a percent of payroll)
6) Increase the OASDI payroll tax rate (currently 12.4 percent) by 0.1 percentage point each year from 2018-2037, until the rate reaches 14.8 percent in 2041. Then increase the payroll tax rate an additional 0.1 percentage point in each year from 2080-2084, until the rate reaches 15.3 percent for 2084 and later. In addition, the payroll tax rate is reallocated between the Disability Insurance (DI) Trust Fund and the Old-Age and Survivors Insurance (OASI) Trust Fund with the intent to roughly equalize the actuarial status of the two trust funds.....	1.73	2.85
Total for all provisions, including interaction	**2.94**	**4.65**

[1]Under current law, the estimated long-range OASDI actuarial balance is -2.88 percent of taxable payroll.
[2]Under current law, the estimated 75th year annual balance is -4.90 percent of taxable payroll.

Notes: All estimates are based on the intermediate assumptions of the 2014 OASDI Trustees Report.
Estimates of individual provisions appear on a stand-alone basis relative to current law, unless otherwise stated.

Social Security Administration
Office of the Chief Actuary
March 18, 2015

Table B1. Changes in Benefits for Hypothetical Workers Beginning Benefit Receipt at age 65
***Social Security 2100 Act*, Introduced by Representative Larson**

Year Attain Age 65	Present Law Scheduled Monthly Benefits[1] (Wage-Indexed 2014 Dollars)	(CPI-Indexed 2014 Dollars)	Scheduled Benefit Level Percent Change at age 65 COLA[2]	Benefit Formula[3]	Minimum Benefit[4]	Total	Proposal Scheduled Benefit Percent of Present Law: Scheduled	Payable
			(Percent change)				(Percents)	
Very-Low-AIME ($11,697 for 2014[1]) 30-Year Scaled Earner (8.5% of Retirees[2])								
2014	705	705	0.0	0.0	0.0	0.0	100	100
2030	629	806	0.6	3.2	52.8	58.6	159	159
2050	633	1,015	0.6	3.2	52.8	58.5	159	206
2080	632	1,397	0.6	3.2	52.8	58.5	159	218
Very-Low-AIME ($11,697 for 2014[1]) 20-Year Scaled Earner (4.8% of Retirees[2])								
2014	705	705	0.0	0.0	0.0	0.0	100	100
2030	629	806	0.6	3.2	0.0	3.8	104	104
2050	633	1,015	0.6	3.2	0.0	3.8	104	135
2080	632	1,397	0.6	3.2	0.0	3.8	104	143
Very-Low-AIME ($11,697 for 2014[1]) 14-Year Scaled Earner (4.6% of Retirees[2])								
2014	705	705	0.0	0.0	0.0	0.0	100	100
2030	629	806	0.6	3.2	0.0	3.8	104	104
2050	633	1,015	0.6	3.2	0.0	3.8	104	135
2080	632	1,397	0.6	3.2	0.0	3.8	104	143
Low-AIME ($21,054 for 2014[1]) 44-Year Scaled Earner (15.3% of Retirees[2])								
2014	922	922	0.0	0.0	0.0	0.0	100	100
2030	823	1,055	0.6	2.4	17.6	21.2	121	121
2050	828	1,328	0.6	2.4	17.6	21.2	121	157
2080	827	1,828	0.6	2.4	17.6	21.2	121	167
Low-AIME ($21,054 for 2014[1]) 30-Year Scaled Earner (5.0% of Retirees[2])								
2014	922	922	0.0	0.0	0.0	0.0	100	100
2030	823	1,055	0.6	2.4	17.6	21.2	121	121
2050	828	1,328	0.6	2.4	17.6	21.2	121	157
2080	827	1,828	0.6	2.4	17.6	21.2	121	167
Low-AIME ($21,054 for 2014[1]) 20-Year Scaled Earner (2.4% of Retirees[2])								
2014	922	922	0.0	0.0	0.0	0.0	100	100
2030	823	1,055	0.6	2.4	0.0	3.0	103	103
2050	828	1,328	0.6	2.4	0.0	3.0	103	134
2080	827	1,828	0.6	2.4	0.0	3.0	103	142
Medium-AIME ($46,787 for 2014[1]) 44-Year Scaled Earner (29.2% of Retirees[2])								
2014	1,520	1,520	0.0	0.0	0.0	0.0	100	100
2030	1,356	1,739	0.6	1.5	0.0	2.1	102	102
2050	1,364	2,189	0.6	1.5	0.0	2.1	102	132
2080	1,364	3,013	0.6	1.5	0.0	2.1	102	140
Medium-AIME ($46,787 for 2014[1]) 30-Year Scaled Earner (2.7% of Retirees[2])								
2014	1,520	1,520	0.0	0.0	0.0	0.0	100	100
2030	1,356	1,739	0.6	1.5	0.0	2.1	102	102
2050	1,364	2,189	0.6	1.5	0.0	2.1	102	132
2080	1,364	3,013	0.6	1.5	0.0	2.1	102	140
High-AIME ($74,859 for 2014[1]) 44-Year Scaled Earner (21.5% of Retirees[2])								
2014	2,015	2,015	0.0	0.0	0.0	0.0	100	100
2030	1,797	2,304	0.6	1.1	0.0	1.7	102	102
2050	1,807	2,900	0.6	1.1	0.0	1.7	102	132
2080	1,807	3,992	0.6	1.1	0.0	1.7	102	140
Maximum-AIME ($117,000 for 2014[1]) 43-Year Steady Earner (6.0% of Retirees[2])								
2014	2,432	2,432	0.0	0.0	0.0	0.0	100	100
2030	2,199	2,819	0.6	0.9	0.0	1.5	102	102
2050	2,210	3,545	0.6	0.9	0.0	1.5	102	132
2080	2,204	4,870	0.6	0.9	0.0	1.5	102	139

[1] Average of highest 35 years of earnings wage indexed to 2014.
[2] Projected percent of new retired worker awards in 2050 closest to AIME levels and years of work.
[3] After the trust fund reserves deplete under present law continuing taxes are expected to be enough to pay about three fourths of scheduled benefits.
[4] Starting Dec 2016, compute the COLA using a chained CPI-E, producing 0.2% higher annual COLAs on average.
[5] For benefits payable beginning for 2016, increase the 90 percent PIA factor to 93 percent.
[6] For beneficiaries newly eligible in 2016, establish a minimum PIA level such that a worker with 30/10 years of coverage would receive an initial PIA of at least 125%/0% of the monthly poverty level for 2015. For beneficiaries newly eligible after 2016, the initial minimum PIA level would be adjusted for average wage growth. The Minimum Benefit Percent change is calculated after all other provisions, so that the Proposed Benefit Amount is at least the Minimum Benefit, where applicable.

All estimates based on the intermediate assumptions of the 2014 Trustees Report.

Office of the Chief Actuary, Social Security Administration — March 18, 2015

Table B2. Changes in Benefits for Hypothetical Workers Beginning Benefit Receipt at age 65
***Social Security 2100 Act*, Introduced by Representative Larson**

Year Attain Age 65	Age 65	Age 75	Age 85	Age 95
		Proposal Scheduled Benefit as Percent of Present Law Scheduled		
		(Percent)		
		Very-Low-AIME ($11,697 for 2014[1]) 30-Year Scaled Earner (8.5% of Retirees[2])		
2014	100.0	105.0	107.1	109.2
2030	158.6	161.7	164.9	168.1
2050	158.5	161.7	164.8	168.1
2080	158.5	161.7	164.8	168.1
		Very-Low-AIME ($11,697 for 2014[1]) 20-Year Scaled Earner (4.8% of Retirees[2])		
2014	100.0	105.0	107.1	109.2
2030	103.8	105.8	107.9	110.0
2050	103.8	105.8	107.9	110.0
2080	103.8	105.8	107.9	110.0
		Very-Low-AIME ($11,697 for 2014[1]) 14-Year Scaled Earner (4.6% of Retirees[2])		
2014	100.0	105.0	107.1	109.2
2030	103.8	105.8	107.9	110.0
2050	103.8	105.8	107.9	110.0
2080	103.8	105.8	107.9	110.0
		Low-AIME ($21,054 for 2014[1]) 44-Year Scaled Earner (15.3% of Retirees[2])		
2014	100.0	104.3	106.3	108.4
2030	121.2	123.6	126.0	128.5
2050	121.2	123.6	126.0	128.5
2080	121.2	123.6	126.0	128.5
		Low-AIME ($21,054 for 2014[1]) 30-Year Scaled Earner (5.0% of Retirees[2])		
2014	100.0	104.3	106.3	108.4
2030	121.2	123.6	126.0	128.5
2050	121.2	123.6	126.0	128.5
2080	121.2	123.6	126.0	128.5
		Low-AIME ($21,054 for 2014[1]) 20-Year Scaled Earner (2.4% of Retirees[2])		
2014	100.0	104.3	106.3	108.4
2030	103.0	105.1	107.1	109.2
2050	103.0	105.1	107.1	109.2
2080	103.0	105.1	107.1	109.2
		Medium-AIME ($46,787 for 2014[1]) 44-Year Scaled Earner (29.2% of Retirees[2])		
2014	100.0	103.3	105.3	107.4
2030	102.1	104.1	106.1	108.2
2050	102.1	104.1	106.1	108.2
2080	102.1	104.1	106.1	108.2
		Medium-AIME ($46,787 for 2014[1]) 30-Year Scaled Earner (2.7% of Retirees[2])		
2014	100.0	103.3	105.3	107.4
2030	102.1	104.1	106.1	108.2
2050	102.1	104.1	106.1	108.2
2080	102.1	104.1	106.1	108.2
		High-AIME ($74,859 for 2014[1]) 44-Year Scaled Earner (21.5% of Retirees[2])		
2014	100.0	102.9	104.9	107.0
2030	101.7	103.7	105.7	107.8
2050	101.7	103.7	105.7	107.8
2080	101.7	103.7	105.7	107.8
		Maximum-AIME ($117,000 for 2014[1]) 43-Year Steady Earner (6.0% of Retirees[2])		
2014	100.0	102.7	104.7	106.8
2030	101.5	103.5	105.5	107.6
2050	101.5	103.5	105.5	107.6
2080	101.5	103.5	105.5	107.6

[1] Average of highest 35 years of earnings wage indexed to 2014.

[2] Projected percent of new retired worker awards in 2050 closest to AIME levels and years of work.

Note: Starting Dec 2016, compute the COLA using a chained CPI-E, producing 0.2% higher annual COLAs on average.
For benefits payable beginning for 2016, increase the 90 percent PIA factor to 93 percent.

Other Changes:

- For beneficiaries newly eligible in 2016, establish a minimum PIA level such that a worker with 30/10 years of coverage would receive an initial PIA of at least 125%/0% of the monthly poverty level for 2015. For beneficiaries newly eligible after 2016, the initial minimum PIA level would be adjusted for average wage growth.

All estimates based on the intermediate assumptions of the 2014 Trustees Report.

Office of the Chief Actuary, Social Security Administration — March 18, 2015

Table B3. Important Characteristics of Hypothetical Workers in 2007

Category	Percent of Beneficiaries Within Each Category That Are: Dually Entitled[2]	WEP[3]	Foreign Born	All Others[4]
Very-Low-AIME ($11,697 for 2014[1]):				
30-Year Scaled Earner (9.3% of Retirees)	47	6	11	40
20-Year Scaled Earner (5.8% of Retirees)	38	16	21	31
14-Year Scaled Earner (5.3% of Retirees)	22	21	45	20
Low-AIME ($21,054 for 2014[1]):				
44-Year Scaled Earner (13.1% of Retirees)	15	2	6	78
30-Year Scaled Earner (5.9% of Retirees)	16	9	18	59
20-Year Scaled Earner (3.1% of Retirees)	10	23	35	37
Medium-AIME ($46,787 for 2014[1]):				
44-Year Scaled Earner (23.0% of Retirees)	1	1	5	93
30-Year Scaled Earner (4.4% of Retirees)	1	8	26	67
High-AIME ($74,859 for 2014[1]):				
44-Year Scaled Earner (20.5% of Retirees)	0	0	6	93
Maximum-AIME ($117,000 for 2014[1]):				
Steady Earner (9.4% of Retirees)	0	0	7	93

Note 1:Table B3 displays the percentages of these newly-entitled retired workers in 2007 that are closest to each of the illustrative examples.

Note 2: Percents based on tabulations of a 10-percent sample of newly entitled retired-worker beneficiaries in 2007 (169,725 records). We can be 95 percent confident that each of the values shown above is within 1.4 percentage points of the value we would find using 100 percent of the retirees in 2007.

Note 3: The sum of the percentages for each category (sum across rows) could be greater than 100 percent because some beneficiaries can be classified in more than one of the following groups: dually entitled, WEP, and foreign born.

[1] Average of highest 35 years of earnings wage indexed to 2014.

[2] Under current law, entitled to an additional benefit based on someone else's account. The dually entitled percent is a minimum value. Some beneficiaries that are not currently dually entitled could become dually entitled in the future.

[3] Covered by pension from government employment and are subject to the windfall elimination provision (WEP).

[4] Neither foreign born, subject to WEP, or dually entitled.

Office of the Chief Actuary, Social Security Administration July 28, 2014

Table 1 - OASDI Cost Rate, Income Rate, Annual Balance, and Trust Fund Ratio
***Social Security 2100 Act (114th Congress)*, introduced by Representative Larson**

	Proposal				Change from Present Law		
	Expressed as a percentage of present-law taxable payroll				Expressed as a percentage of present-law taxable payroll		
Year	Cost Rate	Income Rate	Annual Balance	Trust Fund Ratio 1-1-year	Cost Rate	Income Rate	Annual Balance
2014	13.95	12.67	-1.29	320	0.00	0.00	0.00
2015	13.97	12.92	-1.06	306	0.00	0.00	0.00
2016	14.19	13.58	-0.61	287	0.22	0.89	0.47
2017	14.22	13.69	-0.54	275	0.25	0.78	0.53
2018	14.30	13.85	-0.45	264	0.29	0.92	0.63
2019	14.47	14.00	-0.47	253	0.32	1.05	0.73
2020	14.69	14.15	-0.54	243	0.36	1.19	0.83
2021	14.90	14.30	-0.60	234	0.39	1.32	0.92
2022	15.17	14.46	-0.71	225	0.43	1.45	1.02
2023	15.47	14.61	-0.86	215	0.47	1.58	1.11
2024	15.78	14.77	-1.01	205	0.51	1.72	1.22
2025	16.09	14.94	-1.15	196	0.54	1.87	1.32
2026	16.37	15.10	-1.27	187	0.56	2.01	1.43
2027	16.64	15.27	-1.37	178	0.61	2.16	1.56
2028	16.89	15.43	-1.46	169	0.65	2.31	1.67
2029	17.12	15.60	-1.52	161	0.68	2.47	1.79
2030	17.31	15.77	-1.54	152	0.71	2.62	1.91
2031	17.48	15.94	-1.55	144	0.74	2.78	2.04
2032	17.63	16.11	-1.52	136	0.76	2.94	2.18
2033	17.74	16.28	-1.46	129	0.79	3.10	2.32
2034	17.85	16.45	-1.40	122	0.81	3.27	2.46
2035	17.92	16.62	-1.30	115	0.83	3.44	2.60
2036	17.98	16.80	-1.18	109	0.85	3.61	2.76
2037	18.01	16.98	-1.04	104	0.87	3.78	2.91
2038	18.02	17.16	-0.87	100	0.89	3.96	3.08
2039	18.02	17.34	-0.68	96	0.90	4.14	3.24
2040	18.00	17.52	-0.47	94	0.91	4.33	3.42
2041	17.97	17.71	-0.26	93	0.92	4.52	3.60
2042	17.94	17.80	-0.14	93	0.93	4.61	3.68
2043	17.92	17.89	-0.02	93	0.94	4.69	3.75
2044	17.90	17.99	0.09	95	0.94	4.79	3.85
2045	17.89	18.08	0.19	96	0.95	4.88	3.94
2046	17.88	18.15	0.26	99	0.95	4.95	3.99
2047	17.87	18.16	0.28	102	0.95	4.96	4.00
2048	17.86	18.16	0.30	105	0.95	4.96	4.00
2049	17.86	18.17	0.32	108	0.95	4.97	4.01
2050	17.86	18.18	0.32	111	0.97	4.98	4.01
2051	17.86	18.19	0.32	114	0.97	4.99	4.02
2052	17.88	18.20	0.31	118	0.97	4.99	4.02
2053	17.91	18.21	0.29	121	0.97	5.00	4.03
2054	17.95	18.22	0.27	124	0.98	5.01	4.03
2055	17.99	18.22	0.23	127	0.98	5.01	4.03
2056	18.04	18.23	0.19	130	0.98	5.02	4.04
2057	18.10	18.24	0.15	132	0.99	5.02	4.04
2058	18.15	18.25	0.10	135	0.99	5.03	4.04
2059	18.20	18.26	0.06	137	0.99	5.03	4.04
2060	18.25	18.27	0.02	139	0.99	5.04	4.05
2061	18.30	18.28	-0.02	141	1.00	5.04	4.05
2062	18.35	18.29	-0.07	142	1.00	5.05	4.05
2063	18.40	18.29	-0.11	143	1.00	5.05	4.05
2064	18.45	18.30	-0.15	145	1.00	5.06	4.05
2065	18.50	18.31	-0.19	145	1.01	5.06	4.05
2066	18.56	18.32	-0.24	146	1.01	5.07	4.05
2067	18.61	18.32	-0.29	146	1.01	5.07	4.05
2068	18.66	18.33	-0.33	147	1.02	5.08	4.05
2069	18.71	18.34	-0.37	147	1.02	5.08	4.05
2070	18.76	18.35	-0.42	146	1.02	5.08	4.06
2071	18.81	18.35	-0.45	146	1.02	5.09	4.06
2072	18.84	18.36	-0.48	145	1.03	5.09	4.07
2073	18.87	18.36	-0.51	145	1.03	5.10	4.07
2074	18.90	18.37	-0.53	144	1.03	5.10	4.07
2075	18.91	18.37	-0.54	143	1.03	5.10	4.07
2076	18.92	18.38	-0.54	142	1.03	5.11	4.07
2077	18.93	18.38	-0.54	141	1.03	5.11	4.08
2078	18.93	18.39	-0.54	140	1.03	5.11	4.08
2079	18.93	18.39	-0.54	139	1.03	5.12	4.08
2080	18.94	18.50	-0.44	138	1.03	5.23	4.19
2081	18.95	18.61	-0.34	138	1.04	5.34	4.30
2082	18.97	18.73	-0.24	138	1.04	5.45	4.42
2083	19.00	18.84	-0.16	139	1.04	5.57	4.53
2084	19.04	18.96	-0.08	139	1.04	5.68	4.64
2085	19.08	18.97	-0.11	141	1.04	5.69	4.65
2086	19.13	18.98	-0.15	142	1.04	5.70	4.65
2087	19.18	18.99	-0.20	143	1.04	5.70	4.65
2088	19.24	18.99	-0.25	143	1.05	5.70	4.65
2089	19.29	19.00	-0.30	144	1.05	5.70	4.65

Summarized Rates: OASDI					Summarized Rates: OASDI		
	Cost Rate	Income Rate	Actuarial Balance	Year of reserve depletion*	Change in Cost rate	Change in Income Rate	Change in Actuarial Balance
2014 - 2088	17.58%	17.64%	0.06%	N/A	0.81%	3.75%	2.94%

Based on Intermediate Assumptions of the 2014 Trustees Report
* Under present law the year of combined Trust Fund reserve depletion is 2033.

Office of the Chief Actuary
Social Security Administration
March 18, 2015

Table 1a - General Fund Transfers, OASDI Trust Fund Reserves, and Theoretical OASDI Reserves
***Social Security 2100 Act (114th Congress)*, Introduced by Representative Larson**

	Proposal General Fund Transfers			*Present Value in Billions as of 1-1-2014*			
		Present Value in Billions as of 1-1- 2014				Theoretical Social Security[1] with Borrowing Authority	
						Net OASDI Trust Fund Reserves at End of Year	
Calendar Year	Percentage of Payroll	Annual Amounts	Accumulated as of End of Year	Proposal Total OASDI Trust Fund Reserves at End of Year	Gross Domestic Product	Without General Fund Transfers	With Plan General Fund Transfers
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2014	0.0	0.0	0.0	2,686.5	17,248.0	2,686.5	2,686.5
2015	0.0	0.0	0.0	2,622.1	17,479.5	2,622.1	2,622.1
2016	0.0	0.0	0.0	2,564.0	17,764.0	2,564.4	2,564.4
2017	0.0	0.0	0.0	2,549.7	18,073.7	2,485.8	2,485.8
2018	0.0	0.0	0.0	2,520.1	18,376.4	2,414.4	2,414.4
2019	0.0	0.0	0.0	2,488.8	18,640.8	2,333.7	2,333.7
2020	0.0	0.0	0.0	2,452.2	18,857.5	2,240.3	2,240.3
2021	0.0	0.0	0.0	2,411.5	19,026.1	2,135.5	2,135.5
2022	0.0	0.0	0.0	2,362.7	19,140.3	2,015.5	2,015.5
2023	0.0	0.0	0.0	2,302.8	19,227.7	1,877.7	1,877.7
2024	0.0	0.0	0.0	2,232.7	19,280.8	1,722.0	1,722.0
2025	0.0	0.0	0.0	2,153.0	19,278.2	1,549.3	1,549.3
2026	0.0	0.0	0.0	2,065.4	19,215.2	1,361.3	1,361.3
2027	0.0	0.0	0.0	1,971.2	19,086.8	1,159.7	1,159.7
2028	0.0	0.0	0.0	1,872.4	18,893.0	946.6	946.6
2029	0.0	0.0	0.0	1,771.1	18,668.8	724.2	724.2
2030	0.0	0.0	0.0	1,669.2	18,445.7	494.4	494.4
2031	0.0	0.0	0.0	1,568.6	18,223.6	258.8	258.8
2032	0.0	0.0	0.0	1,471.0	18,005.7	19.3	19.3
2033	0.0	0.0	0.0	1,378.2	17,795.3	-222.4	-222.4
2034	0.0	0.0	0.0	1,290.9	17,587.9	-465.8	-465.8
2035	0.0	0.0	0.0	1,210.8	17,387.7	-709.2	-709.2
2036	0.0	0.0	0.0	1,139.2	17,192.4	-951.7	-951.7
2037	0.0	0.0	0.0	1,077.2	17,003.0	-1,192.0	-1,192.6
2038	0.0	0.0	0.0	1,026.1	16,820.9	-1,429.2	-1,429.2
2039	0.0	0.0	0.0	987.0	16,643.5	-1,662.3	-1,662.3
2040	0.0	0.0	0.0	960.5	16,469.7	-1,890.8	-1,890.8
2041	0.0	0.0	0.0	946.8	16,298.4	-2,114.8	-2,114.8
2042	0.0	0.0	0.0	940.2	16,127.3	-2,333.7	-2,333.7
2043	0.0	0.0	0.0	940.2	15,957.2	-2,548.3	-2,548.3
2044	0.0	0.0	0.0	946.3	15,789.1	-2,758.1	-2,759.1
2045	0.0	0.0	0.0	958.3	15,619.5	-2,966.4	-2,966.4
2046	0.0	0.0	0.0	974.0	15,450.2	-3,170.4	-3,170.4
2047	0.0	0.0	0.0	990.5	15,281.2	-3,371.2	-3,371.2
2048	0.0	0.0	0.0	1,007.8	15,112.3	-3,568.7	-3,568.7
2049	0.0	0.0	0.0	1,025.7	14,943.6	-3,763.2	-3,763.2
2050	0.0	0.0	0.0	1,043.8	14,774.2	-3,955.0	-3,955.9
2051	0.0	0.0	0.0	1,061.7	14,605.5	-4,144.6	-4,144.6
2052	0.0	0.0	0.0	1,078.9	14,436.3	-4,332.4	-4,332.4
2053	0.0	0.0	0.0	1,094.9	14,266.8	-4,518.9	-4,518.9
2054	0.0	0.0	0.0	1,109.2	14,097.9	-4,704.6	-4,704.6
2055	0.0	0.0	0.0	1,121.7	13,929.6	-4,889.6	-4,889.6
2056	0.0	0.0	0.0	1,132.9	13,761.9	-5,074.2	-5,074.2
2057	0.0	0.0	0.0	1,140.1	13,595.7	-5,258.5	-5,258.5
2058	0.0	0.0	0.0	1,146.9	13,431.2	-5,442.5	-5,442.5
2059	0.0	0.0	0.0	1,149.9	13,268.8	-5,626.1	-5,626.1
2060	0.0	0.0	0.0	1,151.8	13,108.0	-5,809.3	-5,809.3
2061	0.0	0.0	0.0	1,151.8	12,949.7	-5,992.1	-5,992.1
2062	0.0	0.0	0.0	1,149.9	12,794.2	-6,174.3	-6,174.3
2063	0.0	0.0	0.0	1,146.1	12,640.5	-6,356.0	-6,356.0
2064	0.0	0.0	0.0	1,140.8	12,489.1	-6,537.2	-6,537.2
2065	0.0	0.0	0.0	1,133.3	12,339.8	-6,717.8	-6,717.8
2066	0.0	0.0	0.0	1,124.2	12,192.7	-6,898.0	-6,898.0
2067	0.0	0.0	0.0	1,113.3	12,048.2	-7,077.8	-7,077.8
2068	0.0	0.0	0.0	1,100.7	11,905.9	-7,257.0	-7,257.0
2069	0.0	0.0	0.0	1,086.6	11,766.0	-7,435.7	-7,435.7
2070	0.0	0.0	0.0	1,071.0	11,627.9	-7,613.7	-7,613.7
2071	0.0	0.0	0.0	1,054.0	11,491.2	-7,791.0	-7,791.0
2072	0.0	0.0	0.0	1,036.1	11,356.6	-7,967.3	-7,967.3
2073	0.0	0.0	0.0	1,017.5	11,223.5	-8,142.2	-8,142.2
2074	0.0	0.0	0.0	998.4	11,091.9	-8,315.6	-8,315.6
2075	0.0	0.0	0.0	979.1	10,961.8	-8,487.3	-8,487.3
2076	0.0	0.0	0.0	960.0	10,833.2	-8,657.0	-8,657.0
2077	0.0	0.0	0.0	941.0	10,705.9	-8,824.7	-8,824.7
2078	0.0	0.0	0.0	922.4	10,579.8	-8,990.2	-8,990.2
2079	0.0	0.0	0.0	904.0	10,454.4	-9,153.5	-9,153.5
2080	0.0	0.0	0.0	886.5	10,329.9	-9,315.0	-9,315.9
2081	0.0	0.0	0.0	878.7	10,206.0	-9,474.8	-9,474.8
2082	0.0	0.0	0.0	871.2	10,082.9	-9,633.2	-9,633.2
2083	0.0	0.0	0.0	866.8	9,960.4	-9,790.5	-9,790.5
2084	0.0	0.0	0.0	865.0	9,838.6	-9,946.7	-9,946.7
2085	0.0	0.0	0.0	862.2	9,717.5	-10,102.3	-10,102.3
2086	0.0	0.0	0.0	858.0	9,597.5	-10,257.1	-10,257.1
2087	0.0	0.0	0.0	852.4	9,478.5	-10,411.4	-10,411.4
2088	0.0	0.0	0.0	845.4	9,360.5	-10,565.1	-10,565.1
2089	0.0	0.0	0.0	837.0	9,243.8	-10,718.3	-10,718.3
Total 2014-2088		0.0					

Based on the Intermediate Assumptions of the 2014 Trustees Report
Ultimate Real Trust Fund Yield of 2.5%

[1] Theoretical Social Security is the current Social Security program with the assumption that the law is modified to permit borrowing from the General Fund of the Treasury.

Office of the Chief Actuary
Social Security Administration
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Table 1b - OASDI Changes & Implications for Federal Budget and Debt of Specified Plan Provision Effects on OASDI[1] (Present Value Dollars)
***Social Security 2100 Act (114th Congress)*, introduced by Representative Larson**

Billions of Present Value Dollars as of 1-1-2014

Year	Specified General Fund Transfers (1)	Basic Changes in OASDI Cash Flow (2)	Change in Annual Unified Budget Cash Flow (3)	Change in Debt Held by Public at End of Year (4)	Change in Annual Unified Budget Balance (5)	Change In Total Federal Debt End Of Year (6)	Change in Annual On Budget Balance (7)
2014	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2015	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2016	0.0	29.7	29.7	-29.7	29.7	0.0	0.0
2017	0.0	34.1	34.1	-63.8	35.1	0.0	0.0
2018	0.0	41.9	41.9	-105.7	44.1	0.0	0.0
2019	0.0	49.4	49.4	-155.1	53.2	0.0	0.0
2020	0.0	56.8	56.8	-211.9	62.4	0.0	0.0
2021	0.0	64.1	64.1	-276.1	72.0	0.0	0.0
2022	0.0	71.2	71.2	-347.2	81.6	0.0	0.0
2023	0.0	77.9	77.9	-425.2	91.4	0.0	0.0
2024	0.0	85.5	85.5	-510.7	103.2	0.0	0.0
2025	0.0	93.6	93.6	-603.7	115.8	0.0	0.0
2026	0.0	100.3	100.3	-704.0	129.0	0.0	0.0
2027	0.0	107.4	107.4	-811.5	143.0	0.0	0.0
2028	0.0	114.4	114.4	-925.8	158.0	0.0	0.0
2029	0.0	121.1	121.1	-1,046.9	173.8	0.0	0.0
2030	0.0	127.9	127.9	-1,174.8	194.2	0.0	0.0
2031	0.0	134.9	134.9	-1,309.8	198.1	0.0	0.0
2032	0.0	141.9	141.9	-1,451.6	212.3	0.0	0.0
2033	0.0	149.6	149.6	-1,600.6	227.0	0.0	0.0
2034	0.0	156.1	156.1	-1,756.7	242.1	0.0	0.0
2035	0.0	163.4	163.4	-1,920.1	257.8	0.0	0.0
2036	0.0	170.8	170.8	-2,090.9	274.0	0.0	0.0
2037	0.0	178.3	178.3	-2,269.2	290.7	0.0	0.0
2038	0.0	186.1	186.1	-2,455.3	308.0	0.0	0.0
2039	0.0	194.0	194.0	-2,649.3	325.9	0.0	0.0
2040	0.0	202.0	202.0	-2,851.3	344.4	0.0	0.0
2041	0.0	210.2	210.2	-3,061.5	363.4	0.0	0.0
2042	0.0	212.4	212.4	-3,273.9	378.9	0.0	0.0
2043	0.0	214.6	214.6	-3,488.5	390.5	0.0	0.0
2044	0.0	216.9	216.9	-3,705.4	404.3	0.0	0.0
2045	0.0	219.3	219.3	-3,924.6	418.4	0.0	0.0
2046	0.0	219.7	219.7	-4,144.4	430.6	0.0	0.0
2047	0.0	217.3	217.3	-4,361.7	440.0	0.0	0.0
2048	0.0	214.8	214.8	-4,576.5	449.2	0.0	0.0
2049	0.0	212.4	212.4	-4,788.9	458.3	0.0	0.0
2050	0.0	209.9	209.9	-4,998.8	467.7	0.0	0.0
2051	0.0	207.5	207.5	-5,206.3	476.1	0.0	0.0
2052	0.0	205.0	205.0	-5,411.3	484.7	0.0	0.0
2053	0.0	202.5	202.5	-5,613.8	493.3	0.0	0.0
2054	0.0	200.0	200.0	-5,813.8	501.6	0.0	0.0
2055	0.0	197.5	197.5	-6,011.3	509.8	0.0	0.0
2056	0.0	194.9	194.9	-6,206.2	517.9	0.0	0.0
2057	0.0	192.4	192.4	-6,398.6	525.9	0.0	0.0
2058	0.0	190.0	190.0	-6,588.6	533.8	0.0	0.0
2059	0.0	187.5	187.5	-6,776.1	541.5	0.0	0.0
2060	0.0	185.1	185.1	-6,961.2	549.2	0.0	0.0
2061	0.0	182.7	182.7	-7,143.8	556.7	0.0	0.0
2062	0.0	180.3	180.3	-7,324.2	564.2	0.0	0.0
2063	0.0	178.0	178.0	-7,502.1	571.5	0.0	0.0
2064	0.0	175.7	175.7	-7,677.8	578.8	0.0	0.0
2065	0.0	173.4	173.4	-7,851.1	585.9	0.0	0.0
2066	0.0	171.1	171.1	-8,022.2	592.9	0.0	0.0
2067	0.0	168.9	168.9	-8,191.1	599.9	0.0	0.0
2068	0.0	166.7	166.7	-8,357.7	606.8	0.0	0.0
2069	0.0	164.5	164.5	-8,522.3	613.6	0.0	0.0
2070	0.0	162.4	162.4	-8,684.7	620.3	0.0	0.0
2071	0.0	160.3	160.3	-8,845.0	627.0	0.0	0.0
2072	0.0	158.3	158.3	-9,003.3	633.6	0.0	0.0
2073	0.0	156.3	156.3	-9,159.7	640.1	0.0	0.0
2074	0.0	154.4	154.4	-9,314.0	646.5	0.0	0.0
2075	0.0	152.4	152.4	-9,466.5	652.9	0.0	0.0
2076	0.0	150.5	150.5	-9,617.0	659.2	0.0	0.0
2077	0.0	148.7	148.7	-9,765.7	665.4	0.0	0.0
2078	0.0	146.9	146.9	-9,912.5	671.6	0.0	0.0
2079	0.0	145.1	145.1	-10,057.6	677.7	0.0	0.0
2080	0.0	147.0	147.0	-10,204.5	687.4	0.0	0.0
2081	0.0	149.0	149.0	-10,353.5	697.3	0.0	0.0
2082	0.0	150.9	150.9	-10,504.5	707.2	0.0	0.0
2083	0.0	152.8	152.8	-10,657.2	717.2	0.0	0.0
2084	0.0	154.5	154.5	-10,811.7	727.1	0.0	0.0
2085	0.0	152.7	152.7	-10,964.4	733.6	0.0	0.0
2086	0.0	150.7	150.7	-11,115.1	739.8	0.0	0.0
2087	0.0	148.7	148.7	-11,263.8	746.0	0.0	0.0
2088	0.0	146.7	146.7	-11,410.6	752.0	0.0	0.0
Total 2014-88	0.0	11,410.6	11,410.6				

Based on Intermediate Assumptions of the 2014 Trustees Report.
Ultimate Real Trust Fund Yield of 2.9%
Note: Changes reflect the budget scoring convention that presumes benefits not payable after reserve depletion would nonetheless be paid, based on transfers from the General Fund of the Treasury resulting in additional borrowing from the public.
[1] Effects of tax provisions on the On-Budget are not reflected in this table.

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Table 1b.n - OASDI Changes & Implications for Federal Budget and Debt of Specified Plan Provision Effects on OASDI[1] (Nominal Dollars)
***Social Security 2100 Act (114th Congress),* Introduced by Representative Larson**

Billions of Nominal Dollars

Year	Specified General Fund Transfers	Basic Changes in OASDI Cash Flow	Change in Annual Unified Budget Cash Flow	Change in Debt Held by Public at End of Year	Change in Annual Unified Budget Balance	Change in Total Federal Debt End of Year	Change in Annual On Budget Balance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2014	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2015	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2016	0.0	32.4	32.4	-33.3	33.3	0.0	0.0
2017	0.0	38.5	38.5	-75.1	41.8	0.0	0.0
2018	0.0	49.0	49.0	-130.4	55.4	0.0	0.0
2019	0.0	59.9	59.9	-200.4	70.0	0.0	0.0
2020	0.0	71.3	71.3	-288.0	85.6	0.0	0.0
2021	0.0	83.6	83.6	-388.5	102.5	0.0	0.0
2022	0.0	96.4	96.4	-509.1	120.6	0.0	0.0
2023	0.0	109.7	109.7	-649.3	140.2	0.0	0.0
2024	0.0	125.5	125.5	-812.9	163.6	0.0	0.0

Based on Intermediate Assumptions of the 2014 Trustees Report.
Note: Changes reflect the budget scoring convention that presumes benefits not payable after reserve depletion would nonetheless be paid, based on transfers from the General Fund of the Treasury resulting in additional borrowing from the public.
[1] Effects of tax provisions on the On-Budget are not reflected in this table.

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Table 1c - Present Law and Proposal Cost, Expenditures, and Income: As Percent of Gross Domestic Product
***Social Security 2100 Act (114th Congress)*, Introduced by Representative Larson**

	Present Law OASDI			Proposal OASDI		
Calendar Year	Cost (1)	Expenditures (Payable) (2)	Non-Interest Income (3)	Cost (4)	Expenditures (Payable) (5)	Non-Interest Income (6)
2014	4.92	4.92	4.46	4.92	4.92	4.46
2015	4.94	4.94	4.57	4.94	4.94	4.57
2016	4.97	4.97	4.69	5.05	5.05	4.83
2017	5.01	5.01	4.83	5.10	5.10	4.91
2018	5.06	5.06	4.67	5.17	5.17	5.00
2019	5.13	5.13	4.70	5.25	5.25	5.08
2020	5.21	5.21	4.71	5.34	5.34	5.15
2021	5.29	5.29	4.73	5.43	5.43	5.21
2022	5.38	5.38	4.75	5.54	5.54	5.28
2023	5.48	5.48	4.76	5.65	5.65	5.34
2024	5.57	5.57	4.76	5.76	5.76	5.39
2025	5.66	5.66	4.76	5.86	5.86	5.44
2026	5.74	5.74	4.76	5.95	5.95	5.49
2027	5.82	5.82	4.76	6.04	6.04	5.55
2028	5.89	5.89	4.76	6.13	6.13	5.60
2029	5.96	5.96	4.76	6.20	6.20	5.65
2030	6.01	6.01	4.76	6.27	6.27	5.71
2031	6.06	6.06	4.76	6.32	6.32	5.77
2032	6.09	6.09	4.76	6.37	6.37	5.82
2033	6.12	6.86	4.76	6.40	6.40	5.88
2034	6.14	4.75	4.75	6.44	6.44	5.93
2035	6.16	4.75	4.75	6.46	6.46	5.99
2036	6.16	4.75	4.75	6.47	6.47	6.05
2037	6.16	4.74	4.74	6.48	6.48	6.10
2038	6.16	4.74	4.74	6.47	6.47	6.16
2039	6.14	4.74	4.74	6.46	6.46	6.22
2040	6.12	4.73	4.73	6.45	6.45	6.28
2041	6.10	4.72	4.72	6.43	6.43	6.34
2042	6.08	4.72	4.72	6.42	6.42	6.37
2043	6.06	4.71	4.71	6.40	6.40	6.39
2044	6.05	4.71	4.71	6.38	6.38	6.41
2045	6.03	4.70	4.70	6.37	6.37	6.44
2046	6.02	4.69	4.69	6.36	6.36	6.45
2047	6.01	4.69	4.69	6.35	6.35	6.45
2048	5.99	4.68	4.68	6.33	6.33	6.44
2049	5.98	4.67	4.67	6.32	6.32	6.43
2050	5.97	4.67	4.67	6.31	6.31	6.43
2051	5.97	4.66	4.66	6.31	6.31	6.42
2052	5.96	4.66	4.66	6.31	6.31	6.42
2053	5.96	4.65	4.65	6.31	6.31	6.41
2054	5.97	4.64	4.64	6.31	6.31	6.40
2055	5.97	4.64	4.64	6.32	6.32	6.40
2056	5.98	4.63	4.63	6.32	6.32	6.39
2057	5.99	4.63	4.63	6.33	6.33	6.38
2058	6.00	4.62	4.62	6.34	6.34	6.38
2059	6.00	4.62	4.62	6.35	6.35	6.37
2060	6.01	4.61	4.61	6.36	6.36	6.37
2061	6.02	4.60	4.60	6.37	6.37	6.36
2062	6.03	4.60	4.60	6.38	6.38	6.35
2063	6.04	4.59	4.59	6.38	6.38	6.35
2064	6.04	4.59	4.59	6.39	6.39	6.34
2065	6.05	4.58	4.58	6.40	6.40	6.33
2066	6.06	4.57	4.57	6.41	6.41	6.32
2067	6.07	4.57	4.57	6.42	6.42	6.32
2068	6.07	4.56	4.56	6.42	6.42	6.31
2069	6.08	4.56	4.56	6.43	6.43	6.30
2070	6.09	4.55	4.55	6.44	6.44	6.30
2071	6.10	4.55	4.55	6.45	6.45	6.29
2072	6.10	4.54	4.54	6.45	6.45	6.28
2073	6.10	4.54	4.54	6.45	6.45	6.28
2074	6.10	4.53	4.53	6.45	6.45	6.27
2075	6.10	4.52	4.52	6.45	6.45	6.26
2076	6.09	4.52	4.52	6.44	6.44	6.26
2077	6.09	4.51	4.51	6.44	6.44	6.25
2078	6.08	4.51	4.51	6.43	6.43	6.25
2079	6.07	4.50	4.50	6.42	6.42	6.24
2080	6.07	4.50	4.50	6.42	6.42	6.27
2081	6.07	4.49	4.49	6.42	6.42	6.30
2082	6.07	4.49	4.49	6.42	6.42	6.33
2083	6.07	4.49	4.49	6.42	6.42	6.37
2084	6.08	4.48	4.48	6.43	6.43	6.40
2085	6.08	4.48	4.48	6.44	6.44	6.40
2086	6.09	4.48	4.48	6.45	6.45	6.39
2087	6.11	4.47	4.47	6.46	6.46	6.39
2088	6.12	4.47	4.47	6.47	6.47	6.39

Based on Intermediate Assumptions of the 2014 Trustees Report.

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Table 1d - Change in Long-Range Trust Fund Reserves / Unfunded Obligation
Social Security 2100 Act (114th Congress), introduced by Representative Larson

(Billions of Dollars, Present Value on 1-1-2014)

Year	Present Law OASDI Trust Fund Reserves / Unfunded Obligation Through End of Year (1)	Changes in OASDI Income (2)	Changes in OASDI Cost (3)	Basic Changes in OASDI Cash Flow (4) = (2)-(3)	Total Change Through End of Year (5) = cumulative sum(4)	Proposal OASDI Trust Fund Reserves / Unfunded Obligation Through End of Year (6) = (1)+(5)
2014	2,686.5	0.0	0.0	0.0	0.0	2,686.5
2015	2,622.1	0.0	0.0	0.0	0.0	2,622.1
2016	2,554.4	43.7	14.0	29.7	29.7	2,584.0
2017	2,485.9	50.5	16.4	34.1	63.8	2,549.7
2018	2,414.4	60.9	19.0	41.9	105.7	2,520.1
2019	2,333.7	71.2	21.8	49.4	155.1	2,488.8
2020	2,240.3	81.4	24.6	56.8	211.9	2,452.2
2021	2,135.5	91.5	27.4	64.1	276.1	2,411.5
2022	2,015.5	101.4	30.2	71.2	347.2	2,362.7
2023	1,877.7	110.9	33.0	77.9	425.2	2,302.8
2024	1,722.0	121.2	35.7	85.5	510.7	2,232.7
2025	1,549.3	131.2	38.2	93.0	603.7	2,153.0
2026	1,361.3	140.8	40.5	100.3	704.0	2,065.4
2027	1,159.7	150.0	42.6	107.4	811.5	1,971.2
2028	946.6	158.8	44.4	114.4	925.8	1,872.4
2029	724.2	167.0	46.0	121.1	1,046.9	1,771.1
2030	494.4	175.3	47.4	127.9	1,174.8	1,669.2
2031	258.8	183.6	48.7	134.9	1,309.8	1,568.6
2032	19.3	191.6	49.7	141.9	1,451.6	1,471.0
2033	-227.4	199.6	50.7	149.0	1,600.6	1,378.2
2034	-465.8	207.6	51.5	156.1	1,756.7	1,290.9
2035	-709.2	215.6	52.2	163.4	1,920.1	1,210.8
2036	-951.7	223.6	52.8	170.8	2,090.9	1,139.2
2037	-1,192.0	231.6	53.2	178.3	2,269.2	1,077.2
2038	-1,429.2	239.6	53.5	186.1	2,455.3	1,026.1
2039	-1,662.3	247.6	53.7	194.0	2,649.3	987.0
2040	-1,890.8	255.7	53.7	202.0	2,851.3	960.5
2041	-2,114.6	263.8	53.7	210.2	3,061.5	946.8
2042	-2,333.7	266.0	53.5	212.4	3,273.9	940.2
2043	-2,548.3	267.8	53.3	214.6	3,488.5	940.2
2044	-2,759.1	270.0	53.1	216.9	3,705.4	946.3
2045	-2,966.4	272.0	52.8	219.3	3,924.6	958.3
2046	-3,170.4	272.1	52.4	219.7	4,144.4	974.0
2047	-3,371.2	269.3	52.0	217.3	4,361.7	990.5
2048	-3,568.7	266.4	51.5	214.8	4,576.5	1,007.8
2049	-3,763.2	263.4	51.0	212.4	4,788.9	1,025.7
2050	-3,955.0	260.4	50.5	209.9	4,998.8	1,043.8
2051	-4,144.6	257.5	50.0	207.5	5,206.3	1,061.7
2052	-4,332.4	254.5	49.5	205.0	5,411.3	1,078.9
2053	-4,518.9	251.4	48.9	202.5	5,613.8	1,094.9
2054	-4,704.6	248.4	48.4	200.0	5,813.8	1,109.2
2055	-4,889.6	245.4	47.9	197.5	6,011.3	1,121.7
2056	-5,074.2	242.3	47.4	194.9	6,206.2	1,132.0
2057	-5,258.5	239.3	46.9	192.4	6,398.6	1,140.1
2058	-5,442.5	236.3	46.4	190.0	6,588.6	1,146.0
2059	-5,626.1	233.4	45.9	187.5	6,776.1	1,149.9
2060	-5,809.3	230.5	45.4	185.1	6,961.2	1,151.8
2061	-5,992.1	227.6	44.9	182.7	7,143.8	1,151.8
2062	-6,174.3	224.7	44.4	180.3	7,324.2	1,149.9
2063	-6,356.0	221.9	43.9	178.0	7,502.1	1,146.1
2064	-6,537.2	219.1	43.5	175.7	7,677.8	1,140.6
2065	-6,717.8	216.4	43.0	173.4	7,851.1	1,133.3
2066	-6,898.0	213.6	42.5	171.1	8,022.2	1,124.2
2067	-7,077.8	211.0	42.1	168.9	8,191.1	1,113.3
2068	-7,257.0	208.3	41.7	166.7	8,357.7	1,100.7
2069	-7,435.7	205.7	41.2	164.5	8,522.3	1,086.6
2070	-7,613.7	203.2	40.8	162.4	8,684.7	1,071.0
2071	-7,791.0	200.7	40.3	160.3	8,845.0	1,054.0
2072	-7,967.3	198.2	39.9	158.3	9,003.3	1,036.1
2073	-8,142.2	195.8	39.5	156.3	9,159.7	1,017.5
2074	-8,315.6	193.4	39.0	154.4	9,314.0	998.4
2075	-8,487.3	191.0	38.5	152.4	9,466.5	979.1
2076	-8,657.0	188.6	38.1	150.5	9,617.0	960.0
2077	-8,824.7	186.3	37.8	148.7	9,765.7	941.0
2078	-8,990.2	184.0	37.2	146.9	9,912.5	922.4
2079	-9,153.5	181.7	36.7	145.1	10,057.6	904.0
2080	-9,315.0	180.2	36.2	147.9	10,204.5	889.5
2081	-9,474.8	184.8	35.8	149.0	10,353.5	878.7
2082	-9,633.2	186.3	35.3	150.9	10,504.5	871.2
2083	-9,790.5	187.7	34.9	152.8	10,657.2	866.8
2084	-9,946.7	189.0	34.5	154.5	10,811.7	865.0
2085	-10,102.3	186.8	34.1	152.7	10,964.4	862.2
2086	-10,257.1	184.4	33.7	150.7	11,115.1	858.0
2087	-10,411.4	182.1	33.4	148.7	11,263.8	852.4
2088	-10,565.1	179.7	33.0	146.7	11,410.6	845.4
Total 2014-2088		14,497.4	3,086.9	11,410.6		

Based on Intermediate Assumptions of the 2014 Trustees Report.

Ultimate Real Trust Fund Yield of 2.9%.

Office of the Chief Actuary
Social Security Administration
March 18, 2015

Chairman BRADY. Mr. Paulsen, you are recognized.

Mr. PAULSEN. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for being here. I am going to start my first question on trade, actually.

Like my colleagues, I am very concerned about the exclusion of financial services-related data from the TPP's data flows obligations. And, as you negotiate now with TTIP, right, with our European allies, I would really urge you don't make the same mistake.

In addition, I would urge you not to exclude financial services from the regulatory cooperation provisions. And I know that the Administration disagrees with some of us about the interplay between financial services regulatory issues and TTIP. However, a specific exclusion will actually do nothing more than diminish the outcome in a very all-important financial services market access outcome.

So, I would just really strongly urge and encourage you to reconsider if you want our support. And can you commit to working with us a little bit on this language? This has been a tension point, I know.

Secretary LEW. Yes, I—on the data localization, I would very much be open to working together. We are working with all the parties.

On the question of TTIP, let's separate the question of data localization from whether financial regulation should be included. Hopefully, we can get to a place where, going forward, we figure out how to manage the data localization issue so that we are in a place that there is broader comfort with, going forward.

On the inclusion of the financial regulatory issues, we may just have a disagreement. I have been very clear with my European counterparts that we do not believe that regulatory issues should be governed by a trade agreement in the area of financial regulation. We have many mechanisms to coordinate, which I think are working effectively. Just yesterday we saw in the commodities trading area an important agreement reached, many years in development.

So I think we need to use the channels that exist, but I would not put them into a trade agreement.

Mr. PAULSEN. Well again, and you have met with some of our European colleagues, actually just yesterday. And if we want to have a good outcome in the market access area, I think we have got to make sure we are having ongoing conversations in this regulatory framework topic, as well.

Let me get on to one other question before I run out of time. The highway bill that we just passed this last fall, the FAST Act, there was a provision that would facilitate the collection of taxes that are already owed to the government but are not being actively pursued by the IRS, while also pursuing and protecting taxpayer rights and privacy.

So now, pursuant to the new law, how is Treasury going to comply with congressional intent? What efforts are underway now to ensure that Treasury has the appropriate resources in the way of collection contractors and debt collection centers to actually carry out the goals of this expeditious tax collection and protecting tax-

payer rights? Because this was a paid-for, used-for in the highway bill that just passed.

Secretary LEW. Congressman, the IRS is now working on implementing that provision of the highway bill. And as they go forward, they are going to be making sure that, while they implement the provision, they also protect the taxpayer rights and the privacy of taxpayers as a high priority. Turns out to be more complicated in the implementation than in the conception. And I would look forward to following up with you on that.

Mr. PAULSEN. Okay, that would be great. I mean is it a separate—are we expanding the number of collection—qualified collection agencies, then, or are we using the existing list that is on the table? Because there is an approved list right now that can be used. Or are we using more RFPs in searching out more collection agencies? Or what is the delay, I guess, because——

Secretary LEW. Yes, I think the challenge is how do we do it in a way that we make sure we protect taxpayers, particularly their privacy rights. And I would have to get back to you on which contracts are being used.

Mr. PAULSEN. Thank you, Mr. Chairman. I yield back.

Chairman BRADY. Thank you. Mr. Marchant, you are recognized.

Mr. MARCHANT. Thank you, Mr. Chairman.

Thank you, Secretary Lew. One of the Treasury's important roles is to help administer and oversee the Committee on Foreign Investment in the United States, particularly determining the effect of these foreign transactions on our national security.

Last year global cross-border mergers and acquisitions reached a six-year high, with Chinese firms investing 15.7 billion in the United States, a new record. And already this year it looks like there will be the same kind of activity. Already we have seen several deals announced this year, early this year, the China—including Zoomlion's $3.3 billion acquisition of Connecticut-based Terex; Chinese conglomerate Dalian Wanda's group of Hollywood legendary entertainment; and then the proposed sale of the Chicago stock exchange to an investor group led by China's Kaisen Enterprise. And lastly, Chem China has proposed a $43 billion takeover of Switzerland's Syngenta, which has a major, major presence in the United States.

Secretary, can you talk to us about what activity you are engaged in in ensuring that these mergers and acquisitions are not going to affect our national security?

Secretary LEW. Congressman, we take our responsibilities as the chair of CFIUS very seriously. And we have a process where the national security agencies do an assessment and offer their views as to whether or not there are national security issues. If there are national security issues, there is an effort made to look at is there a path to mitigation that would be appropriate. And I could tell you these are not easy decisions.

In general, we believe in—you know, that legitimate transactions shouldn't be blocked; only things that are really covered by the statute that present a national security risk should be. It is a very challenging area, because of highly confidential review. We have information provided to us by the firms that are proprietary informa-

tion. Even the fact of some of the things is something we can't talk publicly about.

So, it is one of the more difficult areas where it is kind of—looks—it is very difficult to explain, since I can't talk transaction by transaction. What I can tell you is that, you know, we are criticized by some overseas for using a standard that they think is too tough, that we are not focusing on national security issues. What I tell them is the same as what I will tell you, that this is truly a national security process.

If they are not national security issues—we don't stop a transaction because we don't like it or for any other reason. So there has never been a case that I am aware of where there has been any issue, other than a national security issue, nor am I aware of any national security issue that hasn't been addressed, either in a satisfactory way to permit a transaction to go forward or, if not, for the message to be sent that it wouldn't be. And in most cases the applications are withdrawn, if they are not going to be approved.

So, it is a challenging area, but we take it very seriously. And it is one that I think we have to be very fair about, because we don't want to see barriers raised to U.S. companies in the name of national security when it is not. We have been very critical of other countries when they say we are not—you know, "We are going to put standards in place that are national security standards," when they are really just trade barriers or barriers to acquisition.

So, I am very comfortable with the way we approach it. A lot of deference is paid to the security agencies in the process. And it takes up a lot of people's time to go through these reviews. There have been more of them recently, just because there are more transactions.

Mr. MARCHANT. Thank you, yield back.

Chairman BRADY. Thank you. Mr. Lewis, you are recognized.

Mr. LEWIS. Thank you very much, Mr. Chairman, and thank you for your courtesy.

Thank you, Mr. Secretary, for being here. Thank you for your years of service, for your leadership. You are so calm and so cool. I don't know whether you take it from the President, or he takes it from you. But thank you.

Last year, Mr. Secretary, the taxpayer advocate noted that the 2015 filing season was like a Tale of Two Cities. For those who did not need IRS assistance, there was very few problems. But for those who did need help, it was, "by far, the worst in memory." I am quoting the advocate, it is not my quote.

As the ranking member of the Oversight Subcommittee, I have fought long and hard for the IRS to have the resources and support it needs to serve American taxpayers. I believe the Administration shares these goals.

Mr. Secretary, will you—how will the President's budget move the IRS toward being able to provide the direct, personal, and timely assistance that American taxpayers deserve and expect? Now, other side for years—I have been around for a while—had tried to cut—in essence, destroy the IRS. Tell me. How would the President's budget support and strengthen?

Secretary LEW. Well, Congressman, I couldn't agree with you more. The American people deserve to have an IRS with the re-

sources so that, when you pick up the phone and call the IRS, there is a person at the other end to answer it. Last year the answer rates were in the thirties, like 37 percent, something like that. Outrageous.

You know, I am outraged when I can't get my phone calls answered if I call a business or a government agency. Americans have the right to have their phone calls answered. It is not magic, it takes people answering the phones. We didn't have the appropriation to hire the people to answer the phones, so the phones couldn't be answered.

At the end of the year, there was a slight increase in the IRS budget for three purposes, one of which was to staff the hiring of people for tax season. Now, that was passed in December, and tax season began in January. We have hired a lot of people, but they have to be trained. We are hoping to get close to 70 percent, in terms of the answer rate, but we didn't get full funding, even with the increase last year.

So there is no mystery to service; service is people. I give a lot of credit to the IRS team for working really well to make the online services very accessible. And a lot of the calls are falling off, because people are doing things online with the IRS, like they do with other agencies and other businesses. But that doesn't eliminate the need for people to actually ask questions in difficult cases. And when they call, they should get an answer.

So the simple answer is we have requested more money for people to answer the phone. You know, it is much broader than just customer service. In order for us to enforce the Tax Code effectively, we need more people in the enforcement operations, and we are losing money, leaving money on the table if we don't have enforcers to go and say, "We have audited you, you owe more taxes."

Apart from losing money, I don't think people like it if they think that other people get away with cheating. One of the ways a voluntary tax system works is you have confidence that everyone is treated the same way, and if you follow the rules it is fine, if you don't you get caught. We shouldn't let people who cheat get off the hook, because that undermines confidence in the tax system.

So it just boils down to money. Obviously, we have got to do the work well, and we look forward to continuing to work with this Committee and others in Congress to make sure that we put the money to good use. But there is just a need for more funding.

Mr. LEWIS. Mr. Secretary, when the government was closed down for a little while——

Secretary LEW. Yes.

Mr. LEWIS [continuing]. I went back to Atlanta and visited a federal building. And many of the federal employees, including IRS employees, heard that I was coming. And they met me, thanking me for coming by. And some was very glad and pleased to be able to go back to work. What effect do you think closing down the government have on federal employees?

Secretary LEW. Well, Mr. Lewis, first, I visited the Atlanta field office just a few weeks ago, and it was a dedicated group of people who care deeply about their country, and who care deeply about doing their job, as well. The only concerns I heard them raise were, "How can we do better protecting people's identity? How can we do

better at providing better service?" And they said, "Will you get us the resources to do it, so that we can get this job done well?"

I think, if you look at the impact of the government closure and where the furloughs were deepest, the IRS got one of the worst burdens in government, because it is all people. And I think it was terribly demoralizing to people. I give a lot of credit to the people of the IRS, that they pick themselves up and they come back determined to do a good job.

They have also been through a difficult period where a few people behaved badly, and we have all agreed that they needed to be held accountable. But the vast majority of people didn't deserve the criticism that they got, because they——

Chairman BRADY. Thank you, Mr.——

Secretary LEW [continuing]. Didn't do anything wrong.

Chairman BRADY. Thank you, Mr. Secretary.

Mr. LEWIS. Thank you, Mr. Secretary.

Chairman BRADY. Mrs. Black, you are recognized.

Mrs. BLACK. Thank you, Mr. Chairman and Secretary Lew. It is always good to have you here with us. I really am not sure—there is so much to say, I am not sure where to start. But let me start by saying that I would love for us to work on simplifying the code, because I really do believe that that would help some economic growth.

I would say that that economic growth would hopefully be better than what we have continued to see. And this chart has already been shown about the economic growth that has occurred, and the GDP growth in the years that the President has been in office. And I even had to draw in here over at the end another column, because the projected growth for this upcoming year is 1.8 percent. And I want to note in your remarks you said economic growth continues on a solid path. I don't consider this a solid path.

And then, in the proposal by the President we see an increase in taxes on oil, taxes on savings and investment. None of that really helps economic growth.

But I want to go in another direction, because we can talk about adding more money to the treasury, but where I am concerned about is the money that perhaps is being wasted and not being used, and using hardworking taxpayer dollars. And I want to pull up a report when Secretary Burwell was here yesterday. This is a report that came out of the Senate. And this report—"Illegal Immigrants Benefitted by up to $750 million in Obamacare Subsidies."

Now, we can't talk about raising taxes until we get our office straight, our house straight, on what we are doing. We have to protect our taxpayer dollars. Hardworking taxpayer dollars don't like to read this kind of thing in the mail, or on their iPads.

This is a failure. This is a failure of being sure that you verify before someone gets these tax credits and these subsidies. And we see that as not happening. We have known for several years in the Affordable Care Act that is not happening.

Now, I know it is law that if they cannot verify their legal status, that for 90 days they are going to receive the subsidies. I happen to believe you shouldn't even give it out for 90 days, because now there is a pay-and-chase. And we have seen this in other programs, like the EITC. We are also seeing this in the education tax credits.

We don't even really know how many dollars—this is one situation, but we really don't even know how many dollars we are trying to chase that were given out on self-attestation, where there wasn't verification of income in those other programs like auto-renewal, where we didn't even say, "Has there been a change in your income."

So, there are dollars going out the door that we are not sure that they are really going properly out the door. And then chasing them is a real problem. So there is a disconnect between HHS and the IRS in giving out these tax credits. And what I want to hear from you, as the treasurer who is in charge of all the dollars in this country, is that there is going to be something done about making sure that these dollars don't go out the door without there being verification.

As a matter of fact, I have a bill, and have had it for a number of years now. I would like all my colleagues to sign on to this bill with me. It is called "No Subsidies Without Verification," because if I apply for something in the private industry, and I don't have all of the paperwork to show that I qualify for whatever it is that I am applying for, I don't get whatever it is that I would like to have, just because I say that, "Well, I don't have to prove it," or, "There is 90 days that can go by. By the way, give me that money bank, but I haven't given you all of my qualifications."

Can I get some assurances from you that this is something that is going to be taken care of, and we won't continue to see this happening?

Secretary LEW. Congresswoman, first, let me acknowledge that we are committed to protecting taxpayer dollars and implementing the Affordable Care Act and the Tax Code, generally. So, in principle, you are not going to get any disagreement on that.

In the Affordable Care Act, you know, our implementing guidance is clear that the premium tax credit is not allowed for individuals who are not lawfully present in the United States, and that such individuals who receive the advance premium tax credit must repay it when they file their tax return.

Mrs. BLACK. So can you tell me, Mr. Lew, how much money is coming back? Of this——

Secretary LEW. I would have to get back to you, yes.

Mrs. BLACK. Could you get back to me on that?

Secretary LEW. I——

Mrs. BLACK. Can you get back and tell me, in the previous years of the money that has gone out the door, how much money has come back? Because we have had testimony from the OIG here in this Committee about all of these other programs, where the money goes out the door, about how much money that they are able to get back. And that number is——

Secretary LEW. I will get——

Mrs. BLACK [continuing]. Minuscule, compared to what goes out the door.

Secretary LEW. I will get back to you, but I just want to assure you the IRS is using all of its standard enforcement tools, including——

Mrs. BLACK. Well, it is not working.

Secretary LEW [continuing]. Offsetting future refunds when it comes to——

Mrs. BLACK. It is not working.

Secretary LEW [continuing]. Anyone who fails to reconcile.

Mrs. BLACK. We need to change policy, because it is not working.

Chairman BRADY. Thank you. Mr. Young, you are recognized.

Mr. YOUNG. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here before the committee. I wanted to speak to you about the President's corporate tax reform proposal, specifically its impact on many of our multinational corporations, like those in my home state of Indiana, the impact it could have on their liquidity.

You will recall under the former Chairman Camp's draft reform proposal that he had sort of a two-tiered structure for dealing with overseas earnings, for the subsidiaries of multinational corporations. He applied one rate, 8.75 percent, to cash earnings and a second rate, 3.5 percent, on non-cash earnings. This was done purposely, to recognize there is a difference between what these earnings are spent on, what they are invested in, where they are left. We don't have $2 trillion—I know you understand—that is sitting in some back account overseas. Much of that is invested or reinvested in equipment, infrastructure, and other things.

And so, I have concerns that applying a single rate will require businesses in some instances to borrow in order to pay this tax that has been proposed. It will certainly lower domestic investment, reinvestment here in the United States, and investment in these businesses that are important to all Americans.

So my question is why does the President take this single-tier approach, in terms of taxing these overseas earnings? So we will just start with that.

Secretary LEW. So, in principle, we—I think we might even agree that there is not a difference between a dollar earned and invested and a dollar earned and put in a bank account.

Mr. YOUNG. Right.

Secretary LEW. It is subject to taxation. So the basic principle is, you know, that all corporate earnings should be taxed on a comparable basis.

I understand the question you are asking, and the liquidity—the cashflow issues. It is not a liquidity issue if firms have a capital structure where they are able to finance it or to manage it. It is only a liquidity issue if they can't. If there are real liquidity issues——

Mr. YOUNG. Have you prepared for that contingency within the President's proposal——

Secretary LEW. Well, look, I mean, to tell you the truth, we have not gotten into a level of detail on working through the differences between our proposal and proposals from the Hill.

Mr. YOUNG. I am asking about your proposal, not the contrast.

Secretary LEW. I think we provide some time for——

Mr. YOUNG. Time to adjust?

Secretary LEW. It is a five-year period to pay the taxes that are due. So that is an attempt to make it not become kind of a sudden

burden that would stress a firm's cashflow. If that is not sufficient, we are obviously open to a discussion about how to deal with it.

I don't think the two-tier rate is really fair, in terms of treating one dollar earned a different way than another. But it is not the goal to create tax bills that can't be paid. I actually think in most cases it wouldn't present that kind of a problem. But, you know, if we can get into that level of detail, we would have made a lot of progress. So I would look forward to, you know, kind of working that through.

Mr. YOUNG. Well, I look forward to working it through, as well. And I would like to play a constructive role in that conversation. My thought is I know you have an incredible amount of internal expertise over there at Treasury. We, in contrast, were able to come up with a reform proposal with Ways and Means Committee staff and Member input, which, my understanding, is very different than the——

Secretary LEW. Yes.

Mr. YOUNG [continuing]. Way in the 1980s the tax reform proposal was done. So I am surprised you haven't been able——

Secretary LEW. Well, no, we have——

Mr. YOUNG [continuing]. To get down to that level of detail, candidly.

Secretary LEW. We provided technical support to Chairman Camp at the time.

Mr. YOUNG. And we were grateful for that.

Secretary LEW. Yes. So it is not that we are unfamiliar with it.

Mr. YOUNG. Right.

Secretary LEW. We have one approach, you have another approach. The reason we haven't gotten to that level of detail is we haven't had a real negotiation over what would the middle grounds look like. I would welcome being in that kind of conversation.

Mr. YOUNG. Right, and just so, you know, some of my constituents who may be watching, or others who might be watching, I mean, what we are talking about here is, you know, there may be some company that has, you know, invested in a bunch of buildings, brick and mortar, and we are actually talking about taxing the monies that were used to invest in that brick and mortar, which, you know, seems a bit off.

But again, you have conceded—if that term strikes you as loaded, I will allow you to recharacterize it—but you certainly indicated that there—this perhaps is not optimal, and we can improve upon it.

Secretary LEW. Yes, and I do think that we have to keep our eye focused on what I think we all agree on, which is that——

Mr. YOUNG. Right.

Secretary LEW [continuing]. There are companies sitting on huge amounts of cash overseas, some of them borrowing against them to be able to bring money home because of low interest rates, and never paying taxes until that money is actually, you know, physically moved. And that is wrong. I mean the system has to be fixed.

Mr. YOUNG. Thank you.

Chairman BRADY. Thank you. Mr. Blumenauer, you are recognized.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Mr. Secretary, thank you again for visiting with us. I appreciate the President staking out a bolder vision, in terms of what we should be looking at in a year, when lots of people are talking about what the future is. And there is lots of continued debate about what we have done. And I think the record that is set forth that you have been involved with is a very strong one, in terms of a very impressive recovery, compared to what the President inherited, very strong growth, which happened in terms of health care.

The catastrophe that was suggested actually hasn't happened. And when I talk to people in the health care industry in my community, whether they are doctors, hospitals, insurance people, it has been a rather remarkable five years dealing with something, despite the fact that Congress wasn't willing to fine-tune it, they were just sort of chipping away at it.

So, I appreciate a bold statement. I appreciate laying out a vision for the future. I appreciate being able to engage with what we have done and what we can do, going forward.

I noted with interest the President included in his proposal a $10.25 fee on—per barrel of oil to be invested in infrastructure, especially green infrastructure. And, as you and I know, we have had a number of conversations, how much I support the President's commitment to infrastructure, although we have had some modest disagreement about how to go forward.

I hearken back to your days with Tip O'Neill, when Speaker O'Neill and President Reagan were able to raise the gas tax on a bipartisan basis——

Secretary LEW. I remember it——

Mr. BLUMENAUER [continuing]. A nickel a gallon, back when that was real money, and had tremendous impact on our country.

I noted—I am pleased that the President appears to have changed his position about whether—about having people who make under $250,000 a year paying more to be able to support infrastructure. I commend that. The estimates I have seen is that a $10.25-per-barrel charge would translate maybe $.20, $.25 a gallon at the pump. It also has other impacts that I am not certain have been fully vetted with the President's proposal, things like school buses and home heating oil. But I am assuming people will work to deal with making sure that it—if it were enacted, that it would work in a smooth and equitable fashion.

But my question to you, Mr. Secretary, is why should we go through the machinations of the barrel charge that gets the petroleum industry moving from neutral to opposed? I didn't see vast numbers of people lining up supporting it, like they did with our gas tax increase. Why don't we just—is there opportunity for us to work with the Administration to just do it directly now, and raise the gas tax to meet these objectives on a sustainable basis, going forward, rather than a proposal that actually would cost more, and has more negative consequences?

Secretary LEW. Well, Congressman, I appreciate the kind words for our policy, but I just want to be clear. We have imposed no direct tax on consumers. I understand that there are different analyses of what the pass-through rate would be, but I don't think——

Mr. BLUMENAUER. You don't think that a $10-a-barrel increase——

Secretary LEW. I don't think——

Mr. BLUMENAUER [continuing]. Is going to be reflected in higher gasoline——

Secretary LEW. I don't think——

Mr. BLUMENAUER [continuing]. Prices at the pump?

Secretary LEW [continuing]. You can just divide it by the 42 gallons in a barrel.

Mr. BLUMENAUER. No, I am not suggesting, but——

Secretary LEW. So the—there is a range of possible amounts that will be passed through. But there is—no, this is not a direct tax on consumers, this is a tax on oil industry.

[Laughter.]

Secretary LEW. As I have said to you in many conversations in the past, we remain open to working with you and others in Congress on anything we can get a majority for to——

Mr. BLUMENAUER. Okay.

Secretary LEW [continuing]. Increase funding for highways.

Mr. BLUMENAUER. Great. Well, reclaiming 20 seconds, I think there may be some debate whether it is $.15, $.20, $.25, or $.30. You and I will agree that it is going to be a significant increase at the pump, and probably less than the gas tax I proposed.

I would hope—and I appreciate your offer to do something that is bipartisan—I hope that we can use this as an opening. I have got some colleagues on the committee that are interested in a long-term solution. And I would hope at some point we could have that conversation before the year is out.

Thank you. Thank you very much for your courtesy.

Chairman BRADY. Thank you. Mr. Kelly, you are recognized.

Mr. KELLY. Thank you, Chairman.

Mr. Lew, good to see you again. I am fascinated because you come here every year, and it must be very difficult, from your background. And I look at what the mission statement is for Treasury. If we just put that up for a minute.

[Slide]

Mr. KELLY. And I think sometimes we become confused as to who it is we work for. I don't really view you as working for the Administration, I view you as working for the American people.

Secretary LEW. That is exactly how I view myself.

Mr. KELLY. Yes, and I think we are the same way.

Secretary LEW. Yes.

Mr. KELLY. But sometimes the conversation drifts——

Secretary LEW. He works for the American people, too.

Mr. KELLY. Yes, yes. And it drifts into something else.

But I just wanted to read this, so—because I know people at home, where I am coming from, if they were watching this, they would have fallen into this coma because of the Washingtonese, where nobody understands what is actually being said, so they just kind of nod and then they walk off and do something else.

But the mission statement for the Treasury is to maintain a strong economy and create economic and job opportunities by promoting the conditions that enable economic growth and stability at home and abroad, strengthen national security by combating

threats and protecting the integrity of the financial system, and manage the U.S. Government's finances and resources effectively.

Now, I have looked at your background, it is very impressive. A lot of it has been spent in the public sector, not the private sector. And I think that is where the disconnect—for somebody who has been in the private sector all his life, and has understood that a budget is something that is kind of—not kind of, but exactly where you are going, it is a road map. And we may call it visionary, where we would like things to go. But where I am from, in western Pennsylvania, it is more kitchen table economics, where a husband and a wife sit down to figure out what do they have to work with, revenue-wise, and that dictates what they can spend.

In Washington, we dictate what we are going to spend, and then we don't come anywhere close to being able to pay for that. Now we are going to have to do something else, and the something else is usually borrowing. And we continue year after year after year with deficit spending. And we are really proud right now that we have actually reduced deficit spending. We are actually below a half-a-trillion dollars a year. We are feeling pretty good about it.

And I keep thinking about this, a husband and a wife sitting down. And the wife says, "You know, honey, this is the best year—since we have gotten married. You brought home $32,500 last year." And he goes, "Yes, I know. I had a lot of overtime, and I was able to work a little bit harder."

And she says, "That is great. It is okay if I go out and spend $37,000 or $38,000, then, right?"

And he is, "No, no, let's get together on this, because the math just doesn't work, going forward."

Now, I look at these things, and I start to wonder, myself. If people at home can get it, and we tell them to tighten their belt, and we tell them they are going to have to do more with less—and a lot of it falls down to a broken Tax Code, and the reason we need a bigger IRS is because the code is too big, and the people call in because they don't understand it and, more importantly, they are scared to death of the penalties for not abiding by it.

Where you are, and where you have been—and you advise the President on this—has there ever been a serious conversation—and I mean this sincerely, and this is Republicans and Democrats—has there ever been a serious conversation about where is it that we are going with this? Do we really look at this and say, "This is sustainable"?

And then the other—the conversation on inversions, I mean, honestly, we need to put that poster up as the beatings will continue until moral improves. We keep accusing these people—tax cheats? These people are horrible?

I pay wage taxes, by the way. Anybody that looks at the Tax Code understands that, when it comes to Social Security, yes, the person, the associate, puts the money in. So does the employer. It is a matching fund. When we talk about these people going overseas, they don't go overseas because they hate America. They go overseas because we are making it impossible for them to be profitable here. By the way, everybody that works for them is paying wage taxes, and they are matching it to a great degree, and they are paying a lot of other taxes.

My question to you, as you start the end of a career, where is it that you see this going? Because I don't see it. At 19 trillion in the red and climbing, and this President's budget takes it way over the cliff, could you possibly be able to sit down and say, "You know, what, Mr. President? Looks good to me." I mean it doesn't. This is a very bleak future. But we have assets, we could turn this around with a proper Tax Code, regulation reform, and really make it easier for people in America to be successful. They pay a high portion of whatever it is they make in taxes.

So just—you only have a couple seconds left, and you only have a couple months left, too, but what would you do differently? Because I just don't see it changing.

Secretary LEW. Well, I will do the best I can in 30 seconds.

Mr. KELLY. Yes, I know, and this could take three or four hours for us talk, but——

Secretary LEW. Look, the truth is it is hard to compare a kitchen table and a federal budget. There is a fundamental difference between a government, a sovereign that goes on forever, and a household that has, you know, the years that it manages. So there are big differences between the two.

But even at the household kitchen table, I mean, how many of us have sat down with our spouse and said, "Can we afford this house, can we borrow X amount and have the next 30 years to pay it back," and reach the decision that you could? Now, I——

Mr. KELLY. Just to interrupt you, please, listen, you can't borrow your way out of debt. And we are continuing to build this debt that is going to—it is going to capsize this entire country. There is no difference between kitchen table and what we are talking about. The only difference is here you don't—we can raise taxes so we can print our own money. You can't do that at home.

Secretary LEW. Right, that——

Mr. KELLY. And that is where the big separation is. I must tell you the American people have lost confidence in the way we run this company.

Chairman BRADY. Thank you. All time is expired.

Mr. Renacci, you are recognized.

Mr. RENACCI. Thank you, Mr. Chairman, and thank you, Secretary Lew, for being here.

I, like Mr. Kelly, came from the private sector. So it is interesting as I listened here. You know, we talk about Social Security, it is okay. We talk about inversions, yes, we have to fix it. We talked about debt, you said it is stable, you will leave office with a manageable situation. We talk about economic growth is reasonable. The problem is we have no sense of urgency. That is the real problem.

So, last week I was at a high school. I talked to juniors and seniors. I had them put up red cards or green cards. One of the questions I asked them, "Is our country going in the right direction?" It was a sea of red, 95 percent no, it is not going in the right direction. These are the people who have to deal with this debt.

I asked them if our debt is too high. A sea of green. Yes, our debt is too high. I asked them if our government is working together to solve problems. It was a sea of red, absolutely no, we are just not. Now, these are kids 19, 20, 21, 22. These are voters, these are peo-

ple who are going to have to live with what we are saying is okay, manageable. This isn't manageable. This debt, if it continues, it grows, is not manageable.

And it is not that hard to compare. The real difference is when a husband and wife realize that they can't pay their bills they have a sense of urgency. When the Federal Government realizes that its debt is growing, you know what they say? "It is manageable." That is a problem. That is a real problem. And that is the issue that I think we have to get past.

And it is amazing. You know, my colleague, Mr. Larson, spoke about working together. We have to work together. You have an opportunity last eight, nine months of your career. I will guarantee you, if you were talking to Tip O'Neill today, he would not say $19 trillion is a good number. I am sure he wouldn't. You may say different, but I will bet you if you and I were sitting at a bar, having a drink, you probably would say a little different if there was just two of us.

Secretary LEW. I don't think any of us would have imagined the size of the economy or anything else, so the numbers reflect economic growth. But he believed in the role of government and the need for us to have a willingness to finance things that were critical.

Mr. RENACCI. But I will bet you he would have been shocked at 19 trillion. We will leave it at that.

But—so we have to be able to figure out a way to work together, and that has got to be the issue. And hopefully, that can be—something can be done. It would be great if the President would say, "I want to work with Republicans to try and get this done. This debt is growing too much." And I think that is what is frustrating for me. I have been here five years, and I just keep hearing the same thing.

And Mr. Kelly talked about Washingtonese. The people back home, they are saying, "I don't understand what they are talking about. I know one thing, the debt is growing too high."

But let's just talk about some specifics. I did want to get into some details on the budget. You know, I constantly hear from my constituents how the Federal Government needs to cut down fraud, waste, and abuse. And you know, unfortunately, the Administration budget did expand refundable tax credit programs without proposing any meaningful safeguards.

I agree, the EITC has a laudable policy goal of encouraging rewarding work by low-income Americans to increase labor workforce participation. However, this program, in its current form, is rife with fraud and improper payments. I understand that the EITC program has the highest improper payment rate of any Federal Government program: over 27 percent in Fiscal Year 2014. Over the last 10 years, the—issued an estimated 134 billion in improper payments.

One of the issues that—again, I am a CPA, a business guy. One of the primary causes of the high improper payment rate is the EITC program relies more directly on self-reported income of individuals, without regarding any verification. This stands in contrast to the means-tested cash welfare programs that require income

verification. In other words, individuals flat out invent fictitious incomes to maximize their EITC cash bonus.

Mr. Lew, do you believe—I am going to give you three questions—that the fraud and improper payment rate of over 25 percent is acceptable? That is question one.

Do you believe that the budget that has any proposal would make a serious effort to combat this?

And lastly, do you agree this is a serious problem?

Secretary LEW. Look, I would begin where I hope we agree, that the earned income tax credit is one of the most effective programs we have had, both to reduce poverty and to get people——

Mr. RENACCI. I agree with that.

Secretary LEW. That is why it has had bipartisan support.

Each year the IRS recovers or prevents about $2 billion in improper EITC claims.

Mr. RENACCI. But is an improper payment rate of 25 percent acceptable?

Secretary LEW. And—no, we have been working hard to bring it down. One of the things we have put in this year's budget is proposals that would simplify the EITC and improve compliance. One of the—I mean I am not sure I agree with you on attributing where most of the errors occur. Some of it is just because it is complicated, and we have to simplify it so people could comply.

Mr. RENACCI. And I know we are running out of time, but wouldn't verification of income be the simplest way of——

Secretary LEW. Well, that—our tax system is one where you file, and then we look at it afterwards. I think it would be a pretty dramatic change, and one that, if you did it on a broad basis, would make our tax system even more cumbersome. But we can have further discussions——

Chairman BRADY. Thank you. All right, Mr. Pascrell, you are recognized.

Mr. PASCRELL. Thank you. Thank you, Secretary Lew. We have never really explained what was the real effect of the tax cuts of 2001 and 2003 on budget and debt, coupled with the plan for prescription drugs, and then not paying for two wars. When you look at the charts about what affects the debt and what affects the deficit, these are major, major areas. But let's—that is yesterday's chapter.

I am pleased to see that the budget includes over 600 million in allotments to extend the earned income tax credit—we were just talking about that—for Puerto Rico. The EITC is already available to Americans living in the 50 states and the District of Columbia. Introducing the EITC in Puerto Rico would encourage work and encourage workers to come out of the shadows into the formal economy.

We have introduced legislation, H.R. 4213, Tax Equity and Prosperity for Puerto Rican Families Act, along with Mr. Pierluisi of Puerto Rico, to extent this important income and work support to the residents of Puerto Rico.

Secretary Lew, we have heard a lot about the need for Puerto Rico to have a mechanism to restructure its debt. In fact, that is all we have been occupied with. But should we also be considering economic development? Very briefly, give us your take on that.

Secretary LEW. Absolutely. I think that the immediate and urgent is the ability for them to restructure their debt and to get the kind of oversight that would give everyone comfort.

But the real goal is not to restructure the debt. The real goal is to get back to economic growth. And one of the things that the EITC proposal does is it helps to get them back to economic growth by making it easier to bring people back into the workforce. And I think it would be very important, if we could do it.

I have, you know, reluctantly said on a number of occasions that if we can't do everything, we have to at least do restructuring and oversight right away, because we just don't have time to put that off. But that doesn't at all diminish the importance of dealing with both the question of getting the economy back, which the EITC is part of, and the real unfairness that their reimbursement for Medicaid is so much lower than other jurisdictions get.

Mr. PASCRELL. Yes, we have a couple quick questions. How would the EITC in Puerto Rico impact economic development? And why, in your opinion, is it so important to include these citizens in this refundable credit? And I will—and——

Secretary LEW. Well, Puerto Rico is no different than any other part of our economy. If—the rationale for the EITC is to make work pay, so people will come back to work and be productive. If you go to work and have the EITC to make it so that you don't get excessively taxed because of going back to work, because of loss of benefits and other things, you get the EITC instead, that will be good for the economy. It will create more productive labor and it will reduce reliance on benefit programs.

Mr. PASCRELL. The budget does not——

Secretary LEW. Which is the same as the rationale around—for the EITC nationally. It is not different in Puerto Rico.

Mr. PASCRELL. I would hope not.

Secretary LEW. Yes. It is part of the United States, and there are 3.5 million American citizens.

Mr. PASCRELL. What the budget does not address is expanding the child tax credit in Puerto Rico. Why are their children treated any different than the children on the mainland? Even though it has previously endorsed the idea—if you remember in the 2011 task force report, it was endorsed and nothing ever happened after that. Could you explain why this was left out of the budget——

Secretary LEW. Well, we obviously looked at what could we do that would make the most dramatic difference in Puerto Rico. We put our plan together. In general, in our budget we put a lot of emphasis on the EITC. That is why we have the childless worker provisions in our budget.

You know, we are also supportive of the child credit, and I am happy to discuss issues related to that, you know, nationally, or with regard to Puerto Rico.

Mr. PASCRELL. And something we have been struggling with, Mr. Secretary, about our underground infrastructure, in terms of pure water, and we know that—the challenges. And, unfortunately, we got to be hit with—on the side of the head with a two-by-four to understand what the heck is going on. It is not a sexy subject to talk about when it is underground, but it is there.

I really advocate and continue to advocate—and this is a bipartisan thing—private activity bonds in the water infrastructure. We should be emphasizing this. We need $500 billion to replace and upgrade our water supply. We are not doing anything, really, about this, just as we neglected our roads. You have seen the picture of the encased pipe that is corroded. It could be applied to any agency in the government, when we neglect things and think they are going to heal themselves.

Secretary LEW. We do have the state revolving fund, where we do try and support——

Mr. PASCRELL. I want that cap to be raised, so that a lot of other people——

Chairman BRADY. Thank you——

Mr. PASCRELL [continuing]. A lot of municipalities—thank you, Mr. Chairman.

Chairman BRADY. You bet. Mr. Meehan, you are recognized.

Mr. MEEHAN. I want to thank you, Mr. Chairman.

And, Mr. Secretary, thanks again for being with us. The issue of Iran sanctions was raised earlier. About a decade ago, the previous administration engaged the Libyan Government and Mr. Gaddafi in sanctions relief and, as a condition of that sanctions relief, required the Libyan Government to make whole certain victims of terrorism, including those who were victims of the Lockerbie bombing.

Recently, this Administration has made a decision to—send $100 billion to Iran. As a former prosecutor, I looked at the question of those who had been victims of Iranian terror, and appreciated that the United States itself actually encouraged those victims to seek compensation for those damages in American courts. I also discovered that there are some $43.5 billion which has been awarded by United States courts against Iran to those victims of terror.

These are Marines at barracks that have been blown up. These are American citizens sitting in a café in Tel Aviv. Why did the Administration allow $100 billion to flow to Iran, in light of this precedent, before requiring that they pay the obligations that they owe to the victims of Iranian terror?

Secretary LEW. Congressman, obviously, the—it—concerns that you have about the victims of terror are concerns that we share. And I will defer to my colleagues in the Justice Department, some of the details——

Mr. MEEHAN. Well, these weren't decisions made by the Justice Department.

Secretary LEW [continuing]. Of addressing the—those——

Mr. MEEHAN. This was a determination made by the President that was——

Secretary LEW. Let—to respond in terms of the policy behind the nuclear agreement, as we had extensive debate over the summer, it is critically important for the peace of the world and the United States that Iran not get nuclear weapons. We negotiated with Iran to successfully get them to back away from all of their pathways to a nuclear weapon. And in exchange for that, provided relief from sanctions after the performed on those commitments. They performed on those commitments, and the sanctions on nuclear issues are lifted. We have not lifted sanctions on——

Mr. MEEHAN. You lifted, but——

Secretary LEW. But we have not lifted sanctions on other issues. We continue to have sanctions——

Mr. MEEHAN. Mr. Secretary, excuse me, though. But what it has done is Iran, with new resources, turned around and purchased military equipment from countries like Russia, military equipment which is very likely going to find its way into utilization against others in the Middle East, fomenting further acts of terror.

I go back to ask that question again. If they had the millions and millions of dollars to buy military equipment, why couldn't we have required—this has nothing to do with nuclear. This is pay your bill before we give you one penny of relief.

Secretary LEW. So, Congressman, the number you used, the 100 billion, we do not believe $100 billion will be available to Iran under——

Mr. MEEHAN. Well, 43.5 billion is the sum——

Secretary LEW. Yes.

Mr. MEEHAN. I mean let's say—are they going to get 43.5 billion, or——

Secretary LEW. There is—there will be some amount. There have been different estimates, even from within Iran, that are even smaller than that. It is substantially less. We can walk it down to no more than 50 to 60, and I think it will be less than that, because there are real issues that encumber that money.

I think that the agreement is one where what Iran did in keeping its part of the bargain on dismantling the reactor at——

Mr. MEEHAN. Well, whether they have——

Secretary LEW [continuing]. Heavy water reactor, and putting the centrifuges either into storage or destroying them, shipping out the uranium, and subjecting themselves to oversight and inspection——

Mr. MEEHAN. Mr. Secretary, my time is running out——

Secretary LEW [continuing]. That is something that is of real value——

Mr. MEEHAN. Whether they have actually fulfilled the requirements is an open-ended question.

Let me just ask one other question, if I may. I have refinery workers in my district.

Secretary LEW. I couldn't hear, I am sorry.

Mr. MEEHAN. I have 3,000 refinery workers in my district. And they have already been disadvantaged by the determination to allow foreign refineries to ship oil now, refined oil, into the United States, about a $3-a-barrel differential. Can you explain to me—can you tell those workers that a $.25-a-gallon increase on oil tax will not affect their jobs?

Secretary LEW. Congressman, what I can tell you is over the last year we have seen a barrel of oil come down so much more in value than the amount of the fee we are talking about, which is $10 phased in over 5 years, that—there is a lot of disruption in the oil sector, but this is small in comparison to what they have experienced.

Mr. MEEHAN. Thank you, Mr. Secretary.

Chairman BRADY. Thank you. Mr. Rice, you are recognized. If I may, Mr. Rice, we have a bill on the floor that we have to man-

age. Please excuse me while I go over to do that. Mr. Holding will run the rest of the hearing.

But thank you again for being here today.

Secretary LEW. Thank you.

Chairman BRADY. Mr. Rice.

Mr. RICE. Secretary Lew, thank you for being here today. You know, I have heard you mention and—first time I heard it was the State of the Union, the President lamenting the bitter state of political discourse, and how—he admitted——

Secretary LEW. I am sorry, I am having trouble hearing you.

Mr. RICE. And how it got worse during his term. And I think that is an awful shame. It think it is really curious, because I think the President is a very bright man, and he is certainly very charismatic. But I have seen, throughout my limited term here of three years, that the President spends a tremendous amount of time on the bully pulpit, throwing stones and working around and even subverting Congress.

And you see Administration officials coming in here and lying and not responding to subpoenas and delaying and obfuscating and talking about how transparent the Administration is. I think it is a terrible, terrible shame. And we sit here, he has got 11 months left in his term, and now he is lamenting this discourse.

I would love the opportunity to work with the Administration to solve some of the problems, these terrible problems that face our country that we all talk about. Republicans and Democrats, we all go home and talk about the fact that Medicare and Medicaid—excuse me, Medicare and Social Security are crippled, and they are heading toward insolvency. We all talk about the sad state of our Tax Code, and how it is not competitive in the world. And what I would like to see is serious talks about how to solve some of these problems.

What specific proposals—I am not going to say it is all the Administration's fault, I think it is Congress's fault, too. But what specific proposals has the Administration made to fix Social Security? We all know it is a problem, we all know it is going to be insolvent in 15 years or so. I know of one, and that was CPI that was in the budget, what, two years ago. Is it in the budget this year?

Secretary LEW. No. But, Congressman, I would say that if you are concerned about Medicare, and you look at the results of the Affordable Care Act, we have, for the first time in a generation, turned the cost curve around, reduced the rate of growth——

Mr. RICE. So——

Secretary LEW [continuing]. Done more to help the——

Mr. RICE. So it will last three more years, right?

Secretary LEW. I can't hear you.

Mr. RICE. It will last three more years, right? Great. How do we solve the problem? We are not—we haven't solved the problem. We need to make real solutions to solve the problem. How do we get to this next step of tax reform?

You know, Dave Camp put out a detailed tax reform proposal. I haven't seen one from the President. I hear you say, "Well, there are some things in there we liked."

Secretary LEW. Well——

Mr. RICE. I mean have we sat down and tried to work through that, and tried to get to a real tax reform proposal, other than just, you know spitting at each other?

Secretary LEW. Congressman, I think in the conversations I have had with the three chairmen of this Committee that I have worked with, they all understand what the Administration's tax proposal is. We have had good conversations about where the areas of overlap are. It is not that we don't have a plan, we have a plan. We put out a white paper——

Mr. RICE. What——

Secretary LEW. We haven't had the political space to reach a consensus.

Mr. RICE. Well, doesn't the Administration—that is what confuses me. You know, the President is the leader of the country, right? Doesn't he have a role in creating that political space?

Secretary LEW. Absolutely. He has tried.

Mr. RICE. You said a little while ago, "I am willing to work with anything we can get a majority on." Well, doesn't he have a role in building that majority?

Secretary LEW. Yes, and——

Mr. RICE. I have been in Congress for three years. I have seen him engage with Congress twice. Once is when he said Assad crossed the red line in Syria, and the second is on TPA. He has been not present here at all, in my view.

Secretary LEW. Well, Congressman, if you look in the area of tax reform and—in business tax reform, we put forward a proposal over three years ago which many on our side of the aisle didn't immediately embrace. We said, "Let's reduce the statutory rate, let's cut corporate taxes, let's use closing loopholes to pay for it."

Mr. RICE. Yes.

Secretary LEW. And we proposed something to be a bridge between the parties, use the on-time revenue for infrastructure——

Mr. RICE. That is right, and Dave Camp put out——

Secretary LEW. For two years, that——

Mr. RICE. Dave Camp put out a very specific proposal that talked about very specific—you call them loopholes, I call them deductions and credits—that would meet that. And it went nowhere.

Secretary LEW. And I have had——

Mr. RICE. It is not just the fault of Congress, it is also the fault of the Administration. The Administration has a role in building that majority.

I want to ask you about one thing in particular. Under Obamacare—you know, I don't even know what the law is today, because the President—his whim changes the law. But under the premium tax credit and the cost sharing reduction provisions that—Congress appropriated money for one and not the other, and the Administration has blended the two and used the money illegally—moved money from appropriated—what was appropriated to what was not appropriated.

And this Committee has actually written letters And subpoenaed repeatedly information about this, and not one document has been provided. It has been going on for over a year. Can you tell me how we can get this resolved? Let's see this cooperation from the Administration.

Secretary LEW. Well, Congressman, we have, obviously, said what we think the law is. The House has brought a lawsuit, so that will be resolved by the courts, and we will continue to consult——

Mr. RICE. No response to the subpoenas from——

Mr. HOLDING [presiding.] Time has expired.

Secretary LEW. Our staffs have been talking.

Mr. HOLDING. Mr. Davis from Illinois is recognized for five minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman, and thank you, Mr. Secretary. And I want to compliment you on your long and distinguished career in government service.

I do believe that we have made some serious progress since passage of the Recovery Act. And I also believe that this budget would significantly continue that progress. Let me ask you. How much have we reduced the deficit since 2010?

Secretary LEW. Well, the annual deficit has gone down 75 percent, from roughly 10 percent to roughly 2.5 percent.

Mr. DAVIS. How is our current economic growth affecting the deficit?

Secretary LEW. Economic growth is good for the budget. It grows the base of income and revenues go up and automatic stabilizing spending goes down. So recovery has been good for the budget. It obviously was a very deep hole we were in, so it doesn't completely erase the deficits.

Mr. DAVIS. You know, I have heard the aspersions relative to the proposed budget. And if we were to adopt the President's budget, when would we begin to see some shrinkage in our debt?

Secretary LEW. Well, we—you know, we can see the deficit remain in the 2.5 to 3 percent range. We will see the debt stabilize at roughly 75 percent of GDP. And, you know, it will be ongoing issue that we have to work through, what the 20, 30, 40-year timeframe looks like for turning the debt around.

Mr. DAVIS. So certain kinds of investments would actually have a positive impact on the debt? Is that——

Secretary LEW. Well, I think growing the economy—if we were to do the things I think we know we need to do on infrastructure and education, and help to—on immigration reform, grow the economy through the things that we know will help, that actually helps the budget because it grows income. And therefore, revenue comes in on a natural basis.

We have done a lot to cause an economic recovery, and to encourage an economic recovery, but there is more we can do, and the budget continues to contain ideas and programs to do that.

Mr. DAVIS. Although our economy is indeed improving—and I don't think there can be any denial of that—there are still groups in America——

Secretary LEW. Absolutely.

Mr. DAVIS [continuing]. Who are not taking advantage. For example, I cite a recent study that the University of Illinois did at Chicago which showed that almost half of the African American males in the City of Chicago ages 20 to 24 are neither in school, don't have a job. Given the need to strengthen the well-being of these individuals and others, I am delighted to know that we are

advocating for expanding the earned income tax credit to help single parents.

In addition, given that Chicago is one of the largest beneficiaries of the new market tax credits, I am delighted that we are talking about making it permanent.

And I am really concerned about the President's proposal to provide tax credits for community colleges to try and connect, hopefully, with this group that I just mentioned. Could you expand a bit——

Secretary LEW. Yes.

Mr. DAVIS [continuing]. On what the Administration is thinking about with that?

Secretary LEW. Congressman, I couldn't agree more that we have to make sure that the benefits of economic growth offer opportunity more broadly, and are shared by all parts of our community.

You take one thing you mentioned, the childless EITC, childless earned income tax credit. It is the only part of our Tax Code, the only group in our country, that is taxed into poverty, childless people who would be eligible for the EITC. And that is just wrong. We should not have a tax that makes you go from working and staying barely above poverty to going below poverty. And I think that is why there is actually some bipartisan agreement on the childless EITC as a concept.

I hope we can work on that this year. We don't—none of us should feel like we get to take this year off. We have a year to get more things done, And that is what this budget was put out there to try and encourage.

Mr. DAVIS. Thank you very much. And I yield back, Mr. Chairman.

Mr. HOLDING. Ms. Noem, five minutes.

Mrs. NOEM. Secretary Lew, talking about poverty, I wanted to address something that is going on with my Native American tribes in South Dakota. And, as you know, the Federal Government has a trust responsibility to provide health care for Native Americans in the United States and Alaska Natives. And, because of this responsibility, they were exempted from the individual mandate of the Affordable Care Act. But tribal employers and tribal businesses were not exempted from the employer mandate that was also included in that law.

You know, tribal governments in South Dakota employ several hundred employees. They fear they could be on the hook for millions of dollars of penalties. In fact, they are often very isolated. It is difficult to have economic development in these regions. They struggle to keep people in positions, in jobs, taking care of their families. And having that kind of penalty impacting them would greatly undermine health care, education, opportunities in the future.

You know, it is some of the most impoverished counties in the country. And so, clearly, this was not the intent of the law, to jeopardize them and their opportunities to provide for their families by making them subject to the employer mandate. So I would like to know what the Department of Treasury is doing to clarify the law and finding a solution to exempt Native Americans and Alaska Na-

tives from the Affordable Care Act, and the employer mandate that is included within it.

Secretary LEW. Congresswoman, let me just begin by saying that Treasury—I personally value the government-to-government relationship between tribal governments and the Federal Government. And over the last number of months Treasury has received quite a few letters from Indian tribes, tribal leaders, and tribal organizations, raising the concerns that you are describing.

Treasury has met with tribal leaders and tribal organizations to discuss these issues, and—including during the tribal consultation call that Treasury recently held with over 200 representatives of tribes and tribal organizations. We are reviewing the issue carefully, taking into consideration the feedback that we have received. And, as you know, the statute has no exception for Indian tribal government employees. But we are committed to considering the concerns that are being raised by tribal stakeholders, and I would be happy to follow up with you.

Mrs. NOEM. Is the intention of the Administration or the Treasury Department to exempt them from the employer mandate, then, and to find a way——

Secretary LEW. Well, the statute doesn't give us the authority to exempt. So we are looking at the comments and the concerns, and looking to see what, if any, action can be taken. We can't create an exemption that doesn't——

Mrs. NOEM. Well, I have legislation that would do so. I would appreciate your support with it, as well, if we need to clarify the statute.

But clearly, because they were exempted from the individual mandate, the intent of the law is clear that Native Americans should not face this kind of penalty, especially in areas like I have, in South Dakota, where they are impoverished already, and have a difficult time with economic development. It would be a hardship that would jeopardize the little prosperity and way of life that they have today, which is little to none.

Secretary LEW. Well, I have a lot of empathy for the people in Indian Country, but—and understand the poverty there, so——

Mrs. NOEM. Well, and specifically in South Dakota even, it is worse. Out of the top 11 poorest counties in the nation, I have 5 of them in South Dakota, and they are all my Native American reservations. So this is something that is there, is constantly on their mind, it is constantly on my mind, and we need resolution, too.

So I know that you are indicating that you will work with me, but we need to find a solution, too. So let's——

Secretary LEW. Yes. Sitting here, I don't know what the solution is, but we are happy to follow up.

Mrs. NOEM. Okay, thank you. I yield back.

Secretary LEW. Thank you.

Mr. HOLDING. I recognize myself for five minutes. Secretary Lew, the Department of the Treasury and the IRS take seriously the taxpayers' obligation to preserve records, documents [sic]. Indeed, as you know, individual corporate filers who lose records, documents, face significant penalties.

The Federal Records Act that heads—that the heads of agencies quote—and I will quote this—"Make and preserve adequate and

proper documentation designated to furnish the information necessary to protect the legal and financial rights of persons directly affected by the agency's activities." So, just like taxpayers under audit, then, Treasury and the IRS are required to preserve important documents. We can agree on that.

And when the Treasury and the IRS are being investigated, or engaged in litigation with private parties, they are supposed to maintain records that may be relevant to those proceedings.

In June of 2014 the IRS announced that it had lost Lois Lerner's emails, and destroyed back-up tapes in the face of multiple subpoenas—the internal hold notices and document preservation notices from the IRS, TIGTA, and DOJ. The IRS testified before this Committee that the Lerner document destruction was just a fluke, And that the IRS would improve its systems.

But it is deja vu all over again. In the middle of an audit of a large corporation, the IRS marked documents for deletion and destroyed records that were under a litigation hold. When questioned, again, the answer is that it is not as bad as it looks. And while the IRS attempted to destroy the documents, by sheer luck not all of the records had indeed been destroyed.

So my question, Mr. Secretary. What is the Treasury's policy about employees who destroy documents that are part of a litigation or investigation?

Secretary LEW. Well, Congressman, whenever—first, we comply with the federal record retention policies, And that is the policy, and continues to be. When there is any kind of an investigation, parties are notified about retention requirements that are particular to cases with investigations.

I think that, you know, obviously, there has been a lot of discussion about the facts that are at issue. I don't think your characterization of them is one that we would agree with, in terms of whether things were destroyed or whether, because of the standard practices, there was a writing over of—on a routine basis, of storage materials.

I am happy to get back to you with more details. But it is certainly my policy that we all need to comply with the requirement.

Mr. HOLDING. So are you taking steps that would ensure that the IRS stops destroying records integral to any investigation?

Secretary LEW. I——

Mr. HOLDING. I mean can you point to any concrete steps that you are taking in light of——

Secretary LEW. I am not conceding that there was destruction. You know, there—you know, the practices of using storage materials and writing over them was driven more by budget concerns than anything else. But I do know that they are doing a lot more, and it is costing them a lot more money to not do that kind of writing over in the future, in part to respond to the inadvertent——

Mr. HOLDING. Would you agree that it undermines the confidence that the American——

Secretary LEW. Yes.

Mr. HOLDING [continuing]. People would have in the IRS, when they seem to be held to a different standard regarding the retention of documents than individual taxpayers are?

Secretary LEW. They are held to the same standard——

Mr. HOLDING. Do you think the individual taxpayer would receive a very warm welcome from the IRS if they just said, "Well, in the common practice of my business I seem to be overwriting these relevant documents on a regular basis that you would like to have for this audit"?

Secretary LEW. Look, I think the overwriting, as a general practice—this has nothing to do with a records retention issue. It was a matter of cost and efficiency——

Mr. HOLDING. So does cost and efficiency trump the record retention——

Secretary LEW. No, I am not—we are happy to get back to you, but my understanding is that they are not doing the overwriting anymore, and it is much more costly because of that. There is more storage and more devices.

Mr. HOLDING. Are they sufficiently complying with the record retention policies?

Secretary LEW. It is certainly the policy to comply. You know, I have to defer to those who oversee, you know, on a daily basis, whether there——

Mr. HOLDING. Well, Mr. Secretary, I don't think you would accept from a taxpayer the excuse that, "For efficiency and cost savings, I destroyed my relevant records that you would like for this audit."

My time has expired. I recognize Ms. Sánchez for five minutes.

Ms. SANCHEZ. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for hanging with, to the bitter end, the last few Members that are here to ask questions.

I am interested in discussing some aspects of the Administration's 2017 budget, because I think—and it has been said many times on this Committee—that budgets are a very clear reflection of what priorities we value. And our priorities, I think, should be very clear, in terms of what we need to do for the American public.

We need to create an environment for good-paying jobs that allow workers to support a family. We should offer our children an opportunity to get an education and to be able to develop their talents without the threat of crushing debt from going to pursue a higher education. We should be fostering innovative businesses and creating a business environment that allows our domestic industries to thrive.

And I am happy to see, quite frankly, that the President's budget reflects all of those priorities. I think it is a healthy road map, and a—quite a good statement about what his priorities are.

One of the issues that I would really like to drill down on in the President's—is the President's child care tax incentive proposal. As a mom who has faced the struggle to find affordable and quality health care, I know of many couples that, even though they find out they are expecting, and it should be a time of great happiness and joy, they also begin to fret. That is the moment they begin to fret and think about just exactly how are they going to be able to swing working and quality child care.

Too often, families don't find options that help them. And there are a number of examples in certain states where parents are actually paying more to send an infant to day care than they are to send children to college. And you know, that is just alarming to me.

Too many families are forced to make economic choices for their families, rather than the choices that are best for their families, and we have to stop that madness.

So I am interested in hearing a little more detail from you about the President's proposed changes to the child care tax credit, and how that provision specifically could benefit working families in this country.

Secretary LEW. Well, Congresswoman, I couldn't agree more that the issues of child care are fundamentally important to working families. And it is indeed a real challenge for many families to make ends meet. And you can't go to work if you can't get the child care. So it is an economic issue, as well as a personal family issue.

And the President's budget contains a number of policy initiatives to try and ease the burden on working families. It would provide a new simple tax credit to two-earner families. It would be a second earner credit of up to $500 per year. We would reform the child care tax incentives, raising the threshold, which begins to phase down now at 15,000, to 120,000, so that the rate reaches 20 percent of income above $148,000.

We would simplify and better target education tax benefits to improve college affordability. Child care is the first set of bills, but, you know, college bills are on the horizon. And——

Ms. SÁNCHEZ. As somebody who experiences both of those things, I definitely feel the pain.

Secretary LEW. I have been through many years of both. And finally, we would expand the earned income tax credit for workers without qualifying children, which is a different issue than you raised, but it is critically important, in terms of providing working families the ability to stay in and—get into and stay in the workforce.

Ms. SÁNCHEZ. I appreciate your response, and I am just going to add one comment onto the end of this, since I have got about 60 seconds left.

I actually was discussing the issue of trying to find affordable child care with another colleague. And a third colleague sort of overheard, somebody a little bit older than I am, and his contribution to the conversation was, "Well, can't the grandparents just watch the children?" And I wanted to—I bit my tongue, but what I wanted to say is——

Secretary LEW. The grandparents are working, also.

Ms. SÁNCHEZ. Well, no. I have a father with Alzheimer's, who is in full-time nursing care, and a mother who is retired, who can't run after a young child, due to health problems. So I think there is a lack of understanding and——

Secretary LEW. Right.

Ms. SÁNCHEZ [continuing]. Awareness of just how difficult it is for families to get that kind of support that they need.

Secretary LEW. As a proud and doting grandfather, I relish every minute I get to spend with my grandchildren. But, you know, it is just not practical to expect grandparents to leave the workforce early, in many cases. And, as you say, the responsibility for two generations creates a real sandwich generation.

Ms. SÁNCHEZ. Yes. Thank you so much for your time.

Mr. HOLDING. Mr. Crowley is recognized for five minutes.

Mr. CROWLEY. Thank you, Mr. Holding. It is appropriate, two guys from Queens.

Secretary LEW. Bringing it home.

Mr. CROWLEY. Mr. Secretary, welcome once again. Today on the House floor is a bill to compel the Administration to come to Congress and discuss the budget and the deficit. Pretty interesting, is it?

Secretary LEW. It is a little ironic.

Mr. CROWLEY. So I find it odd, like you, I think, that this week the Republicans are refusing to have the guy who writes the budget for the White House—they haven't asked him to testify. In fact, they are not inviting him to testify before Congress to discuss the budget and the deficit. And we both find that ironic.

But since he is not going to be invited to come before the Hill, maybe you could channel your best Shaun Donovan for us here and answer a few questions about the budget and the deficit, as you have been doing throughout this morning and this afternoon.

Earlier this week the President issued his budget for the year, and it outlined ways to cut $2.9 trillion from the debt. Is that correct?

Secretary LEW. Correct.

Mr. CROWLEY. Now, this is on top of about $4 trillion in previously enacted deficit reduction by the President, mostly in spending cuts, though some in closing tax loopholes and increasing the taxes paid by millionaires, as well as the economic policies put in place by this Administration, and carried out by Democrats also helped to improve the economy. Is that not correct?

Secretary LEW. Correct.

Mr. CROWLEY. Would saving the auto industry, which Republicans bragged they wanted to let go bankrupt, or investing in clean, renewable energy manufacturing, which is revitalizing our nation—including in places like Buffalo, New York, for instance—be some of the economic policies put in place by this Administration and carried out by Democrats also, has it helped to improve the economy? And maybe you can add a few others, if you can think of them.

Secretary LEW. Look, I think, if you look at the auto industry, saving the—we have had months—several months of record, historic record auto sales by the U.S. auto industry that could have easily been out of business——

Mr. CROWLEY. In fact——

Secretary LEW [continuing]. If not for the actions we took——

Mr. CROWLEY. In fact, Mr. Secretary, under the—President Obama, the U.S. auto industry has created 645,000 American jobs.

Secretary LEW. Right.

Mr. CROWLEY. When, again, my Republican colleagues wanted to let Detroit go bankrupt. Is that not correct?

Secretary LEW. Yes. I mean I think that it is an enormous recovery, rebound for the auto industry. And it very much proves the wisdom of not losing that critical industry.

Mr. CROWLEY. One of those pesky tax loopholes we closed without Republican support was to prohibit Americans from hiding their money offshore in foreign bank accounts. Is that not correct?

Secretary LEW. Mm-hmm.

Mr. CROWLEY. It is odd the Republicans opposed that common-sense action, but maybe they represent a lot of folks with Swiss bank accounts. No one that I know in Queens fits that bill, nor did anyone complain about the closing of that giant loophole, that giant billion-dollar loophole.

A simple fact is that the first trillion-dollar annual deficit was created when President Bush was president, in the final year of his presidency. Have those trillion-dollar deficits been stopped by this Administration?

Secretary LEW. We have been reducing the deficit by a faster rate than any time since the end of World War II. There is still a deficit, because we started in such a deep recession and such a——

Mr. CROWLEY. They are no longer a trillion——

Secretary LEW. No, it has been dramatically reduced.

Mr. CROWLEY. Mr. Secretary, the Affordable Care Act, or Obamacare, was slated to save taxpayers $100 billion in the first 10 years. How much has it saved to date, being only in its first five years of law?

Secretary LEW. I should have—if I were the budget director, I would have those numbers at my disposal, but I will have to go back and a——

Mr. CROWLEY. Well, I am told that, by the numbers we have from OMB, compared with the 2011 mid-session review, projected federal health care spending for 2020 will have decreased by $185 billion, not $100 billion, based on current budget estimates, saving above and beyond—way above and beyond—the deficit reduction directly attributed to the Affordable Care Act. So we can put that in your quiver.

And the private sector has created new jobs in every month since the Affordable Care Act, that dreaded job killer, was enacted into law. Is that not correct?

Secretary LEW. Not only have we created more jobs, but we have seen jobs created at a pretty rapid rate in the small business part of the economy, which was where a lot of the biggest concerns were raised.

Mr. CROWLEY. So the only thing sent to the so-called death panels were the Republican lies about the health care law, and how it would hurt our economy.

So let me close by saying that I do not think we need to make America great again, as we already are the greatest nation on earth. And I pity those that need to spin untruths and lies to tear down the greatest nation on this planet. Thank you, Mr. Secretary, for being here today.

Secretary LEW. Thank you.

Mr. HOLDING. I would like to thank the Secretary for appearing before us today.

Please be advised that Members may submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record.

And, with that, the committee stands adjourned.

[Whereupon, at 1:14 p.m., the committee was adjourned.]

Questions for the Record

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

Question from Chairman Brady

Question 1:

The President's FY 2017 budget proposal included a $10 per barrel tax on oil that would be phased in over a 6-year period. The Chief Actuary at the Social Security Administration has estimated that the tax would result in a cumulative increase of 1 percent in Social Security Cost of Living Adjustments from 2017 through 2022. The cost increase would worsen Social Security's 75-year actuarial deficit by 0.03 percent of payroll and move the date of Social Security insolvency forward by one year. Was this impact on Social Security considered when developing this tax on oil? Does the administration have a plan for addressing concerns about the long-term solvency of the Social Security Trust Fund?

Answer:

The SSA Actuary was asked to look at thisprovision from the FY 2017 Budget in isolation and estimate its indirct effect on the Social Security Trust Funds. That analysis estimates that the proposed oil fee would have the indirect effect of increasing Social Security benefits by a very small percentage (0.5 percent) over the next decade, for a total of $50 billion over 10 years. However, a full analysis of all of the provisions in our FY 2017 Budget proposal would show that it has a *positive* impact on the long term fiscal health of Social Security. That is because comprehensive immigration reform, program integrity proposals, and other revenue proposals in the Budget would improve Social Security's fiscal outlook. The Social Security Actuary previously estimated that the bipartisan Senate immigration reform bill would reduce the Social Security shortfall by $300 billion over the first 10 years and would close 8 percent of the 75-year Social Security shortfall (reduce the long range actuarial deficit by 0.21 percent of payroll). In addition, the Actuary scored the provision in the FY 2017 Budget for modifying the windfall elimination provision, and the government pension offset, which is estimated to reduce the long range social security actuarial deficit by an additional 0.08 percent of payroll. Finally, it is important to note that our Budget estimates fully account for the impact of the oil fee on all parts of government finances, including Social Security. The indirect impacts of the oil fee are reflected in the revenue estimate for the fee itself, which is the scoring convention adopted by both OMB and CBO, and in our economic assumptions, which incorporate the impact of all of the Administration's policy proposals.

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

Questions from Rep. Boustany

TAX

Question 1:

According to this article (see attached), the EU is going to try and force public disclosure of country-by-country information related to earnings and taxes.

What does this mean for the Action 13 Country-by-country reports that Treasury worked so hard at the OECD to have go through information exchange to protect confidentiality?

Answer:

Implementation of Action 13 is being undertaken by many countries around the world, including the United States. As is clear pursuant to our tax treaties and tax information exchange agreements, the United States will not exchange taxpayer information, including any country-by-country reports, with any country that fails to protect the confidentiality of that information. The article you reference relates to separate legislation about which, according to the article, more information will be available in April. Once that legislation is made public we will be happy to provide to you our views on how consistent it is with the agreed G20/OECD deliverables.

Question 2:

The Administration actively participated in the BEPS project. Lew and Obama, through the G20 process, fully endorsed the output. Additionally, as Bob Stack said at the (12/1) hearing, the US has "... a stake in ensuring that companies and countries face tax rules that are clear and administrable ..." and "... failure in the BEPS project will result in countries taking unilateral, inconsistent actions, thereby increasing double taxation, the cost to the US treasury of granting foreign tax credits ..."

Don't the EU actions related to public country-by-country reporting and the use of state aid to unilaterally and retroactively tax deferred foreign earning of US multinationals undermine the BEPS multilateral efforts generally, and US interests more specifically?

Has the Treasury Department raised these concerns with the OECD?

Answer:

As noted above, we will await the public release of any EU legislation before assessing its conformity with the BEPS objectives. With respect to the state aid investigations, as Secretary Lew wrote to Commissioner Juncker in his February 11, letter:

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

"The United States shares the EC's strong interest in preventing major multinational companies from shifting income from higher-tax countries to low- or no-tax jurisdictions. President Obama has proposed a robust business tax reform plan that would address this problem, and he repeatedly has urged our Congress to enact it into law as soon as possible. Moreover, the United States has played a leading role in the G-20 and the OECD Base Erosion and Profit Shifting (BEPS) project. The BEPS project has produced a broad set of measures to prevent and deter international corporate tax avoidance. Countries and companies around the world are responding by reforming their policies and behavior.

In this context, the United States is disappointed that DG COMP appears to be pursuing enforcement actions that are inconsistent with, and likely contrary to, the BEPS project."

We are aware of the issues you raise and share similar concerns. Our representative to the OECD, Deputy Assistant Secretary Robert Stack, has raised concerns about the State Aid investigations at the OECD.

HEALTH CARE

Question 3:

Health Reimbursement Accounts (HR 2911) - Secretary Lew, the Administration issued guidance in 2013 penalizing employers who offer financial assistance to employees for the purchase of health care coverage and related expenses through HRAs at a rate of $100 per day, per employee, and I will note that the temporary relief from these astronomical fines provided last year through the Administration's guidance was appreciated. Unfortunately, that relief has since lapsed and fines are again accruing.

A friend and small business owner from Louisiana, Randy Noelle, recently communicated his serious concern over having been instructed to pay the entirety of the fines owed to Treasury for these accounts when he files his taxes this year; this could put him and a lot of other business owners out of business!

Mr. Lew, does the IRS plan to enforce collection of the $100 per day, per employee fines currently accruing while congress continues to pursue the legislative fix through H.R. 2911, which Treasury has reviewed and provided technical assistance on?

Answer:

The health reimbursement arrangements (or "HRAs") you refer to typically involve an employer's promise to reimburse employees' medical expenses – including premiums employees pay for health coverage not provided by the employer – but only up to a stated dollar amount. The arrangements are employer-provided health plans under the Affordable Care Act (ACA) and are therefore subject to the ACA market reforms that protect employees and consumers. Those

market reforms prohibit annual dollar limits on employer-provided health plans and require these plans to pay for certain preventive services without cost to employees. Because HRAs have dollar limits on the amount they pay or reimburse, they cannot, by definition, satisfy the market reforms under the statute.

ENERGY

Question 4:

Secretary Lew, during the IMF conference in October 2015, your message was clear – urging countries to "use all available policy tools" to boost global growth. Your comments suggested that the U.S. was hoping to get more countries to implement the necessary fiscal and monetary policies that could re-energize the global economy.

Yet, when we received President Obama's FY20 17 budget yesterday, I was disappointed to see that while the Administration may talk the talk, you definitely aren't walking the walk. I would argue this budget fails to strengthen America's global energy leadership. Instead your proposal creates new, unnecessary taxes for industry and energy consumers alike.

Specifically, I'd like to talk about the new "oil fee" or as many are referring to it, the $10 per barrel tax.

So if I put all the pieces together, this new fee is aimed at an already struggling industry, one that has cut over 100,000 jobs already in the last year, over 5,000 in my hometown of Lafayette, Louisiana alone. In fact, the impact has been felt throughout the country as every lost oil and gas job leads to an additional 3.43 jobs cut in other sectors. That means the 114,000 job losses in the oil and gas sector wiped out an additional 391,000 jobs in other sectors last year and sliced economic growth to about 2.1 percent from 2.6 percent.

Last year, when you came up to discuss the Presidents FY 2016 budget, you told us that you "want to make it easier for companies to grow, invest and create good, stable, well paying jobs here in the U.S." If that statement is in fact true, can you please explain the rationale behind this tax?

Answer:

The American Society of Civil Engineers has given the country's highways, roads and bridges a failing grade year after year, and it is very clear that the nation needs hundreds of billions of dollars of increased infrastructure investment. While the FAST Act, passed in 2015, is a step in the right direction, more sustained investment is needed. Over the decades ahead, the nation's population and economy will continue to grow – we need to start making investments now to meet the growing demand. This fee provides an appropriate basis for funding these investments.

This proposal is also part of a broader Budget that makes the necessary investments to grow the economy and lift middle-class incomes while providing significant tax cuts for middle-class and working families. In addition, the U.S. oil industry competes in a global market, and will do so to

an even greater degree now that the crude oil export ban has been lifted. The fee will have little effect on global oil prices and therefore it will have little impact on U.S. crude oil production or employment. Moreover, the fee would be phased in over five years, so the annual increment in the fee imposed on oil companies would be quite modest, especially when compared to the magnitude of recent oil price fluctuations.

Question 5:

To quote a resolution I introduced yesterday, "believing that oil companies will pay the fee with no effect on consumer prices requires also believing that the producers won't pass their increased cost on to refiners, who won't in turn pass their costs on to the public; in other words, requires suspending belief in basic economics."

As I'm sure you already know, API came out saying that this new tax would increase the cost of a gallon of gas by approximately 25 cents. And if we use history as a barometer, we know that this tax could also have an impact on food prices along with everything that relies on transportation to get to consumers. As IER economist Robert Murphy said, "you don't make it faster, easier, and cheaper to move products by imposing a huge tax on the thing that moves them - oil."

In fact, Congressional Research Service released a report to the Senate Energy and Natural Resources Committee yesterday shortly after the President's budget was released. To quote that report:

"Since it is likely that the oil fee would be shifted forward by the oil companies, and since petroleum products enter into many products, consumers will likely see higher prices, not only directly for gasoline and other consumer products, but, in general, for many products to varying degrees."

And maybe even more impactful:

"In general, the fee would likely result in decreased discretionary consumer purchasing power which may translate into lower expected economic growth."

I think you would agree with me that history has shown that the people most hurt by higher taxes that increase the cost of energy production are lower-income and middle class Americans.

So tell me, Mr. Lew, why does the Obama Administration want to make life more difficult for the average American ... to get to work, to be able to afford groceries?

Answer:

Over the last few decades, our infrastructure investments have fallen short by hundreds of billions of dollars. As a result, our crumbling infrastructure imposes a huge cost on American families from reduced competitiveness and its impact on wages, from the lost time and fuel costs

caused by traffic congestion, and from diminished prospects for workers who are unable to access job opportunities. To give one example, Americans spend 7 billion hours a year in traffic – costing our economy $160 billion per year, or $960 per commuter. The infrastructure investments financed by the oil fee, particularly those in clean transportation, will improve the efficiency of shipping and travel, delivering cost savings and a stronger economy for American businesses and households.

Moreover, this oil fee proposal is part of a broader Budget that makes the necessary investments to grow the economy and lift middle-class incomes while providing significant tax cuts for middle-class and working families. The Budget includes tax cuts for working and middle-class families that would make paychecks go further in covering the cost of child care, college, and a secure retirement; a tax credit for two-earner couples; and an expansion of the Earned Income Tax Credit for workers without dependent children. All of these investments are paid for in the context of the Administration's Budget.

Finally, the President's plan would allocate 15 percent of revenues from the new oil fee to provide targeted assistance to households with particularly burdensome energy costs. Some of this revenue would fund the creation of a Household Clean Energy Transition Program to help American households lower their energy bills while using cleaner forms of energy. A particular focus would be on supporting households in the Northeast as they transition from fuel oil for heating to cleaner forms of energy.

Question 6:

Mr. Lew, it is no secret that the oil and gas industry are critical to the state of Louisiana's economic stability. In fact, Louisiana loses about $12 million every time the price of oil drops $1. This has been felt more so in recent months as the price for a barrel of oil fell below $27 a barrel for the first time since December 2003.

As you know, unlike other energy producing countries, the U.S. oil and gas industry is made up of thousands of individual companies that compete here against each other but, now, are in a life and death fight against other countries, like Iran, Russia and Saudi Arabia, that have government-owned energy companies.

I would argue that most countries with such rich energy resources would ensure the health of this strategic asset base. But in this country, the president's budget attacks the U.S. oil and natural gas industry, threatening our nation's rank as one of the world's energy leaders, and passes this cost and insecurity onto every American energy consumer.

A strong American oil and natural gas industry secures our place as a world leader in energy production. It provides jobs and lower transportation costs.

With this in mind, could you please elaborate on why the Administration is proposing a targeted repeal of Sec. 199 for only oil and natural gas companies? Repealing this

deduction for only the oil and gas industry places hundreds of thousands of jobs at risk and undermines efforts to reduce our dependence on foreign oil.

Answer:

This Administration has been focused on building an economy in the United States that is cleaner as well as more efficient and secure. As part of that effort, the Administration proposes to repeal a number of tax preferences available for fossil fuels. One of these tax preferences is the Domestic Production Activities Deduction which effectively provides a lower rate of tax for income from certain activities, including the production of fossil fuels. The extension of this deduction to fossil fuel production distorts markets by encouraging more investment in the oil and natural gas industry than would occur under a neutral tax system. This market distortion is detrimental to our long-term energy security and is also inconsistent with the Administration's policy of supporting a clean energy economy, reducing our reliance on oil, and cutting greenhouse gas emissions. Moreover, this market distortion leads to underinvestment in other, potentially more productive, areas of the economy.

Question 7:

Drilling for oil and natural gas involves expenses such as site preparation and labor, representing 60 to 80 percent of the cost of the well. This is particularly important to highlight right now since the number of rigs drilling for oil and gas has fallen from over 1,900 in October, 2014, to 744 at the end of November, 2015, and just 619 at the end of January, 2016, according to oilfield services firm Baker Hughes; due to the fact that the price of a barrel of oil is currently around $30, less than a third of the $90-plus it was selling for 18 months ago.

Since 1913, companies have been able to expense these costs, much like the R&D deduction enjoyed by other industries. Cost recove1y is an essential part of all business models and IDC, just like R&D, serves identical policy goals: innovation, development, and growth.

Yet, the President's FY 2016 budget proposes a full repeal of expensing intangible drilling costs (IDC). Eliminating the IDC deduction would discourage innovation in the energy sector, jeopardizing additional valuable advances in oil and gas exploration, high paying jobs, and America's energy security. Again, could you please provide an explanation on why the Administration believes this is a good idea?

Answer:

This Administration has been focused on building an economy in the United States that is cleaner as well as more efficient and secure. As part of that effort, the Administration proposes to repeal a number of tax preferences available for fossil fuels. The expensing, rather than capitalization, of IDCs provides a tax preference to the oil and natural gas industry and thus distorts markets by encouraging more investment in the oil and natural gas industry than would occur under a neutral tax system. This market distortion is detrimental to our long-term energy security. It is also inconsistent with the Administration's policy of supporting a clean energy

economy, reducing our reliance on oil, and cutting carbon pollution. Moreover, this market distortion leads to underinvestment in other, potentially more productive, areas of the economy.

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

Questions from Rep. Dold

Question 1:

Secretary Lew, in thinking about the recent spate of corporate inversions, it is clear that in the business world, companies are always looking for the economically sound thing to do. Businesses are driven by data, and will go where the data leads them.

When you see companies move their headquarters abroad, from an economic perspective, do you understand why companies do this?

Given the flight of American companies overseas, what are the lessons you have learned? Do you believe companies are doing this for economic reasons?

Answer:

We understand that there are several motivations for companies to move their headquarters and their corporate addresses abroad. Sometimes it is to improve production efficiencies or to better exploit growing markets. Other times, the shifting of a corporate address through an inversion transaction is done to reduce taxes. This is often accompanied by stripping earnings from the U.S. corporate tax base through the use of related-party debt and finding ways to avoid the residual U.S. tax on unrepatriated foreign earnings. So, there are a variety of reasons why U.S.-based multinational firms seek to move their corporate address (and sometimes headquarters) abroad, including both tax-related and non-tax reasons.

Regardless of what motivates inversions, however, these transactions point to a basic unfairness where corporations take advantage of the many benefits of operating in the United States—including reliable rule of law, intellectual property protection, government support for basic research, an educated workforce, and publicly-provided infrastructure—and then avoid paying their fair share of taxes. Treasury has used its existing authority under the tax laws to reduce the tax benefits of—and when possible, stop—inversions. Treasury's actions significantly diminish the ability of inverted companies to escape U.S. taxation. While these actions have helped slow the pace and reduce the tax benefits of inversions, only Congress can put a stop to inversions. Congress should enact legislative solutions immediately, such as the Administration's specific Budget proposals aimed at addressing earnings stripping and inversions. A larger positive step would be to accept the Administration's international tax reform proposal that would address the underlying distortions that erode the U.S. tax base.

Question 2:

When companies invest, the message that the public receives is that the company is simply moving its headquarters overseas. But when the company headquarters moves, it isn't just that the company's executives may switch locations. Potential job losses among the

employee base may result. Are you seeing evidence of job losses among working and middle class Americans as a result of these inversions?

Answer:

As a result of the enactment of an anti-inversion statute in 2004, inversions generally can occur only in the context of a merger with a foreign firm. In many merger situations, there is evidence of job losses due to consolidation by the merger partners. This generally reflects labor efficiency gains or productivity gains associated with mergers. Inversion transactions often go beyond the economic efficiencies associated with many merger transactions, however, in that aggressive tax reduction strategies are a driving force for the transactions themselves. While we do not observe large job losses immediately following corporate inversions, we are concerned about erosion of the corporate tax base and location decisions for corporate investments in the future.

Question 3:

Secretary Lew, we have seen a number of proposals that seek to penalize and block companies from moving. However, do you see these effm1s as something that ultimately leaves American companies vulnerable to foreign acquisition? Do you see foreign acquisitions and corporate inversions as two sides of the same problem, which is America's uncompetitive tax environment for multi-national companies?

Answer:

The Administration is strongly committed to making the United States an attractive place for companies to locate and invest, by developing workforce skills, investing in world-class infrastructure, and promoting a fair and efficient tax system. That is why we developed a Framework for Business Tax Reform, released by the White House and Treasury in February 2012 [and updated in April 2016]. That is why we also continue to call on Congress to enact legislative solutions, such as those proposals in the Administration's Budget to reform the business tax system, including specific proposals aimed at addressing earnings stripping and inversions and our international tax reform proposal that would address the underlying distortions that erode the U.S. tax base. These proposals, if enacted, would reduce the incentives for foreign takeovers and inversions.

Administration Budgets since 2003 have advocated tightening earnings stripping rules, which would discourage both inversions by, and foreign acquisitions of, U.S. companies. Congress has not acted on these particular recommendations. However, in 2004 Congress enacted an anti-inversion statute which attempts to penalize or block companies from moving abroad. The anti-inversion statute slowed inversions by generally requiring a merger with a foreign firm in order to shift a firm's corporate address from the United States to another country. However, corporate inversion activity has accelerated in recent years as corporations have adapted to the statutory constraints. Recent Administration Budget proposals have advocated strengthening the anti-inversion statute to deny inversions if the shareholders of the U.S. company maintain control of the combined entity, as well as restrict deductions for excessive interest to curb "earnings stripping."

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

Questions from Rep. Kelly

Question 1:

Mr. Secretary, the Administration's proposals would push the top capital gains rate from around 20 percent to 24.2 percent, or 28 percent if you include the net investment income tax. Of course, it could be even higher if you took the nominal rate of 24.2% and layered on the ACA 3.8% tax and the 1.2% Pease limitation.

As a small business owner, I don't support this higher rate because of the negative effects it would have on investment and jobs, but I would like to explore the Administration's policy decision on this point.

It is my understanding is that the weight of economic opinion would view that rate as the revenue maximizing rate. This economic opinion informed, in part, the 28% rate in the Tax Reform Act of 1986. Anything above the top capital gains rate would in fact yield revenue losses.

My question to you, as the top economic policy official in the Administration, is where does the Administration believe the revenue maximizing rate is on the ordinary side? In other words, at what top rate does the Administration believe revenue estimates turn negative? I ask this because there is an active debate, especially among my friends on the other side, about where that top rate ought to be.

What is the Administration's view on this matter?

Answer:

The Administration's revenue proposals would indeed restore the top rate on long-term capital gains income to the 28 percent rate set in the Tax Reform Act of 1986. However, the rate was not selected to maximize tax revenue. Instead, in conjunction with other Administration proposals that would limit opportunities for taxpayers to defer taxes on capital gains for long periods or avoid them entirely, the proposal contributes to deficit reduction, makes the tax system more progressive and economically efficient, and reduces incentives for tax planning and avoidance by treating income more similarly regardless of whether it is earned by wage earners or capital owners.

Because tax revenues depend not just on tax rates but also on breadth of the base to which the tax applies, the revenue maximizing rate is dependent on other features of the tax system and the state of the economy to which it applies. As an analytical exercise, academic researchers have estimated the revenue maximizing rate likely to have prevailed in varying circumstances, and generally have concluded that the revenue maximizing rate is well above the top rate that exists today.

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

Question 2:

Mr. Secretary, as you know the Treasury Department regularly assists Congress in crafting tax legislation to maximize its efficiency and effectiveness from a technical perspective. Since Treasury Department oversees the Internal Revenue Service (IRS) which implements the law, I seek your office's technical input on H.R. 3678 to better understand how the IRS will implement proposed legislation and, accordingly, its impact on taxpayers.

Last year, I introduced bipartisan legislation, H.R. 3678, the Preserving Access to Orphan Drugs Act of 2015. The bill would exclude certain drugs that are designated for diseases affecting a limited population from the pharmaceutical fee. Under current law, the IRS is charged with collecting a certain amount of fees from the pharmaceutical industry based on market share. The exclusion of taxable drugs results in a reallocation of the fees among the remaining taxable drugs.

The legislation I introduced would correct this problem. Section 2(b) of the legislation provides that a drug manufacturer's total fees for a particular year cannot exceed the amount paid under the current law without the exemptions in H.R. 3678.

The language of this hold harmless provision is below:

> **(b) *Hold Harmless for Covered Entities With No or Limited Orphan Drug Sales-Subsection* (b) of section 9008 of the Patient Protection and Affordable Care Act (26 U.S.C. 4001 note prec.; Public Law 111-148) is amended by adding at the end the following new paragraph:**
>
> > **'(5) ADJUSTMENT FOR CERTAIN COVERED ENTITIES WITH NO OR LIMITED ORPHAN DRUG SALES - lf-**
> >
> > **'(A) the fee under this section for a calendar year with respect to a covered entity (determined without regard to this paragraph), exceeds**
> >
> > **'(B) the fee that would be determined under this section for such year with respect to such entity if branded prescription drug sales of all covered entities were determined without regard to clauses (ii) and (iii) of subsection (e)(3)(A),**
> >
> > **then such entity's fee under this section for such calendar year shall be determined as described in subparagraph (B).'.**

My question is, if this language was signed into law, would the hold harmless language of Section 2(b) work as intended: (1) to reduce the overall collections of the fee in that year by the amount otherwise allocable to the drugs being excluded, and (2) to ensure that manufacturers not impacted by the new exclusion would not have to pay more in fees than they would have had the legislation not been enacted?

If the answer is in the negative, then what technical changes would be required to ensure that the IRS would implement such a proposal so that companies with products that do not

meet the criteria of the new exemption would in fact be held harmless and not experience an increase in the fee owed?

Answer:

We understand that there is interest in expanding the Orphan Drug exception to the Branded Prescription Drug Fee without increasing the fee on other fee payers. As you know, Treasury staff have provided technical assistance on this issue in the past. We are open to continued discussion on this topic, particularly with respect to the efficacy and administrability of legislative proposals, including specific provisions such as the proposed hold harmless language. We look forward to working with you and your staff on this matter.

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

Question from Rep. Neal

Question 1:

Mr. Secretary, I very much appreciated your testimony at the Committee's hearing two weeks ago on the Administration's FY 2017 budget. I would like to focus more specifically on your response at the hearing to a question I asked regarding Puerto Rico's economic crisis. You may recall when I asked you to provide the Committee with your ideas for fixing Puerto Rico's economy, your response concentrated heavily on debt restructuring. I agree that providing new restructuring authority for the island's debt is the most significant and immediate action the Congress could take to alleviate Puerto Rico's current economic problems.

I also believe that the tax code should be utilized to incentivize long-term economic development on the island. Tax incentives for investment in the island's economy have worked in the past. I would like to encourage you to consider such incentives as a part of any solution you propose to the crisis – not at the expense of restructuring authority, but rather as a vitally important supplement to that authority. Would you be willing to work with me and others in the Congress to explore such proposals?

Answer:

Thank you, Representative. It is urgent that Congress act, and quickly, to provide Puerto Rico with the tools it needs to address this crisis, most urgently comprehensive restructuring and fiscal oversight. However, as you know, in the long term we must find ways to help Puerto Rico return to economic growth.

Having assessed the issue closely, it is our belief that providing Puerto Rico with access to an Earned Income Tax Credit (EITC), similar to what is already available on the mainland, is one of the single most powerful tax measures we could implement to support Puerto Rico's return to growth and reward work. The President's Budget provides $600 million per year to establish a locally-administered Earned Income Tax Credit (EITC) in Puerto Rico. An EITC administered by Puerto Rico is a well-targeted tax incentive designed to lift incomes, increase Puerto Rico's low labor force participation, encourage participation in the formal economy, and improve tax compliance.

We are open to other ways of delivering tax relief if well-targeted to Puerto Rican families or to business hiring and investment. However, we are skeptical of proposals modeled on the costly and ineffective incentives that were phased out by Congress in the past. Such proposals would risk turning Puerto Rico into a corporate tax haven, providing windfalls to corporate income earned in the mainland, but without having meaningful or sustainable impact on employment in Puerto Rico. In contrast, a well-crafted EITC is by far the single most impactful tax incentive for recovery and growth for Puerto Rico.

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

Question from Rep. Noem

Question 1:

Secretary Lew, during the hearing you stated the current Affordable Care Act statute does not allow the Department of the Treasury (Treasury) to exempt tribal governments from the shared responsibility provision of the law, otherwise known as the employer mandate. As Congress considers legislative action to correct this serious oversight, it is important for us to get a sense of the extent to which the employer mandate's penalties will harm tribal members. Has Treasury worked with any tribes to estimate the penalties?

If so, could you please provide estimated penalties under the employer mandate for tribes in the state of South Dakota?

Answer:

The Treasury Department has not developed estimates of the employer responsibility payments that might be owed by particular employers, including tribes and other governmental employers. We continue to consider the concerns raised by Indian tribal stakeholders and look forward to continuing to work with you and your staff on this matter.

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

Questions from Rep. Rangel

In October, the Federal Reserve Board (Fed) issued proposed rules requiring the largest U.S. banks and the U.S. subsidiaries of the largest foreign banks to maintain minimum levels of what is known as Total Loss Absorbing Capacity (TLAC) which must include a mandated amount of long-term unsecured debt. The purpose of the Fed's proposed rule is to reduce the likelihood that the "too big to fail" banks will need extraordinary government support during a major financial crisis. As proposed, the Fed's TLAC rule would require a contractual clause in the debt instruments of the U.S. subsidiaries of foreign banks providing that the Fed can convert the debt into equity of the bank or cancel the debt even if the bank is not in resolution proceedings. This contractual clause is not required in the debt instruments of the covered U.S. banks and, as such, would result in disparate and inequitable treatment of taxpayers and impose massive and I can only assume unintended tax increases on covered U.S. subsidiaries of foreign banks.

The Fed's mandate that the U.S. subsidiaries of the largest foreign banks include a contractual conversion clause in their TLAC long-term debt instruments would likely cause the long-term debt to be treated as equity (not debt) for tax purposes. As you well know, by being treated as equity instead of debt, the U.S. subsidiary of the foreign bank will be denied a deduction for its interest payments and incur massive unforeseen tax increases - potentially in the hundreds of millions or even billions of dollars.

Question 1:

Mr. Secretary, are you familiar with the TLAC tax issue and has anyone from the Federal Reserve Bank reached out to you or your Treasury Department about the potentially disparate and inequitable tax treatment of U.S. subsidiaries of large foreign banks versus U.S. banks under the Fed's Proposed TLAC rules?

Answer:

Treasury tax staff has not been asked to comment on the final TLAC proposal but had an informal discussion with Federal Reserve staff when the proposal was in its formative stages.

Question 2:

Assuming that the Fed retains the contractual conversion clause mandate on the U.S. subsidiaries of foreign banks, is the Treasury Department willing to issue guidance declaring that the long-term debt instruments issued under these circumstances shall be treated as debt for tax purposes?

Answer:

The tax characterization of instruments as debt or equity is generally governed by statute (the Internal Revenue Code) and a long case law history. Neither the Treasury Department nor the

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Internal Revenue Service has been approached about the feasibility of issuing guidance on the tax treatment of the instruments to which you refer.

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

Question from Rep. Roskam

Question 1:

Secretary Lew, as you are aware, there has been a significant increase of Chinese takeovers of U.S. businesses over the last few years. Last year, global cross border mergers and acquisitions (M&A) reached a six year high, with Chinese firms investing $15.7 billion in the U.S. – a new record. And, already this year, this trend (Chinese companies acquiring US businesses) is accelerating to unprecedented levels and will likely continue through 2016.

Already, we've seen several deals announced early this year, including Chinese construction company Zoomlion's $3.3 proposed acquisition of Connecticut-based Terex (announced in Jan. 2016), Chinese conglomerate Dalian Wanda Group's proposal to Hollywood's Legendary Entertainment for $3.5 billion (announced in Jan. 2016), and the sale of the Chicago Stock Exchange to an investor group led by China's Chongqing Casin Enterprise Group (announced in Feb. 2016). And, ChemChina's proposed $43 billion takeover of Switzerland's Syngenta has significant implications here, given Syngenta's major presence in the U.S. seed market.

One of Treasury's important roles is to help administer and oversee the Committee on Foreign Investment in the United States (CFIUS) process – particularly determining the effect of such foreign transactions on the national security of the United States. Could you please assure the Committee that your department is closely reviewing any transactions that involve national security implications?

Answer:

While statutory confidentiality rules limit CFIUS from disclosing publicly any information filed with the Committee, including whether or not a transaction has been filed with CFIUS, I can assure you that CFIUS, and Treasury as chair of CFIUS, share your interest in protecting the national security against threats arising from foreign investments in the United States.

CFIUS has the authority necessary to fully evaluate any foreign acquisition of a U.S. business, regardless of sector, to assess its effects on national security, and CFIUS member agencies thoroughly vet all transactions notified to the Committee to identify any such effects.

When a transaction poses a national security risk that is not adequately addressed by other provisions of law, CFIUS exercises its authority to mitigate the national security risk or, if the risk cannot be mitigated, recommends to the President that he prohibit the transaction.

Questions for the Record
For The Honorable Jacob J. Lew
House Committee on Ways and Means
Hearing held February 11, 2016

Questions from Rep. Tiberi

Question 1:

Secretary Lew, I was intrigued to read the Administration's claim that the President's FY 2017 budget and revenue proposals extend the solvency of the Medicare Hospital Insurance Trust Fund by over 15 years. As you may know, the Congressional Budget Office recently projected the HI trust fund would be exhausted in just ten short years. So, where is the money coming from to extend the solvency of the HI trust fund by fifteen years?

Answer:

The Budget proposes to broaden the tax base of Medicare's financing by reforming the Net Investment Income Tax (NIIT) to close a loophole that allows some high-income partners and S corporation shareholders to avoid the 3.8 percent Medicare tax. This proposal would ensure that high-income taxpayers pay the 3.8 tax on all their income over $200,000 (single and head of household returns) or $250,000 (joint returns), either through the NIIT or through employment taxes. All revenues from the NIIT would be directed into the Hospital Insurance Trust Fund. In addition, the Budget proposes reforms to improve the efficiency of Medicare services and reduce waste, which would generate Medicare savings of $420 billion over ten years. Together, these reforms would extend the life of the HI Trust Fund for at least 15 years.

Question 2:

On the tax side there's a $272 billion proposal to "Rationalize Net Investment Income and Self Employment Contribution Act Taxes." The Net Investment Income tax was created as one of the tax hikes included as part of the President's health care law. If the administration was concerned about HI trust fund solvency, why is this revenue being dedicated to the fund only now; why not in Obamacare?

Answer:

Directing revenues from the NIIT to the HI Trust Fund will mean that the NIIT, Medicare Tax and the Additional Medicare Tax receive the same treatment, as the revenues of the Medicare Tax and Additional Medicare Tax already go into the HI Trust Fund. The Additional Medicare Tax was passed at the same time as the NIIT and applies to high-income workers earned income at the same income thresholds—over $200,000 (single and head of household returns) or $250,000 (joint returns). Accordingly, it makes sense for these revenues to be used to support the Medicare Trust Fund.

Question 3:

In the past, this Administration supported modernizing the Medicare benefit and combining Parts A and B to extend trust fund solvency. Secretary Lew, which of these options do you think would best encourage economic growth and help put Medicare on a

sustainable path: a tax on investment income or a structural change within the Medicare program itself?

Answer:

The Administration's FY 2017 Budget includes a robust set of reforms that aim to improve the efficiency and quality of the care that Medicare provides, bolster the program's long-run sustainability, and drive reform of our health care delivery system as a whole. These proposals build on policies enacted in the Affordable Care Act (ACA), which have made substantial progress toward better aligning Medicare payments with the cost of services and moved Medicare toward payment systems that reward efficient, high-quality care, rather than a high volume of care. Thanks in part to the ACA reforms, Medicare spending per beneficiary has actually fallen in inflation-adjusted terms since 2010 and the program has seen improvements in the quality of care, such as lower hospital readmission rates.

The FY 2017 Budget includes a package of Medicare legislative proposals that will save a net $420 billion over 10 years by supporting delivery system reform to promote high-quality, efficient care, improving beneficiary access to care, addressing the rising cost of pharmaceuticals, more closely aligning payments with costs of care, and making structural changes that will reduce federal subsidies to high-income beneficiaries and create incentives for beneficiaries to seek high-value services.

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