Hearing on Repatriation of Foreign Earnings as a Source of Funding for the Highway Trust Fund

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Hearing on Repatriation of Foreign Earnings as a Source of Funding for the Highway Trust Fund

U.S. House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The subcommittee met, pursuant to call, at 2:26 p.m., in Room 1100, Longworth House Office Building, Hon. Dave Reichert [chairman of the subcommittee] presiding.

Chairman Reichert. Good afternoon. The subcommittee will come to order. Thank you all for being here, especially the witnesses.

Today we have the opportunity to follow up on last week's hearing where we discussed long-term funding solutions to the Highway Trust Fund. Like many of my colleagues, I too believe we should secure a long-term funding source, but we need time to develop a solution.

As we continue these conversations on both sides of the Capitol, it is hard to ignore a topic often tied to these discussions: The repatriation of overseas earnings as a source of funding for a multiyear highway bill.

However, as you will hear today, current repatriation proposals are not that simple, nor are they without serious policy implications. That is why we are here today having this hearing -- to drill down on what people mean when they say repatriation and how different forms of repatriation work. A key but often overlooked part of this discussion is that repatriation includes taxing earnings that have been reinvested abroad.

What we know to be true is that repatriation cannot be done as stand-alone policy. It must be a part of a transition to a more competitive system. I expect to hear today that, taken outside of the context of a transition, mandatory repatriation would be a tax increase, a tax increase that American companies would be forced to pay, unlike their foreign competitors.

Therefore, this hearing also provides a chance to talk about our current international tax system and how it should be modernized to boost the competitiveness of American companies. This is timely, timely because outside of our discussions the OECD BEPS project is moving forward and impacting the decisions of American companies operating globally today.

Thank you again to our witnesses, and I look forward to hearing from you about the key differences between current repatriation proposals.

Mr. Neal, you are recognized for your opening statement.

Mr. Neal. Thank you, Mr. Chairman. And let me thank you for calling today's hearing.

The Highway Trust Fund's longstanding tradition has been based on a user-pays principle. We have long matched the cost, a gas tax, with the benefits of improved infrastructure. It is my hope that we will continue this long-held position and once again not let the lure of repatriated earnings distract us.

This is not the first time that Congress has debated using repatriation as a cure to fix our economy. Back in 2004, there are some of us on the committee that still remember that debate as it played out. We were promised that if the cut in taxes for corporations' foreign earnings, those dollars would be brought back for the purpose of creating thousands of new jobs.

However, rather than invest the collective $362 billion that these companies brought back, they reduced their American workforces, devoted less money for R&D and business investment. Instead, companies increased executive pay, purchased shares, and paid dividends.

Interesting that we are here again just 11 years later discussing how this new and improved version of repatriation will fix our ailing infrastructure. I hope that we are going to learn from the history of how this was handled, and also to point out that if we are not careful with the discussion of repatriation and we present another tax holiday, we will never get tax reform.

Last comment, that is not part of the official opening statement, but as you cited OECD, I had a chance to review some statistical data over the weekend and once again presented with the interesting argument that as our NATO allies rushed to the bottom with corporate taxes, they simultaneously are reneging on their commitment to spend more on national defense, because in large measure they have had the best argument for national defense. It is called the American taxpayer.

Recall that even during the height of the Reagan years 6 percent of GDP was used for defense in America while our European allies were struggling to get to 1 or 2 percent. And if we are now reviewing the idea that it is still the American taxpayer and the American soldier that is going to pay for the national defense of our European friends, then they do have the opportunity to cut taxes.

So thanks for calling the hearing. And I hope that this will offer us an opportunity to discuss many of these measures.

Chairman Reichert. Thank you, Mr. Neal.

Before I introduce today's witnesses, I ask unanimous consent that all members' written statements be included in the record. Without objection, so ordered.

Chairman Reichert. We will now turn to our panel of distinguished witnesses. I would like to welcome first Mr. Tom Barthold, chief of staff, Joint Committee on Taxation. And second, Mr. Curtis Dubay, tax and economic policy research fellow, The Heritage Foundation. And third, Mr. Dirk Suringa, partner, Covington and Burling LLP. And fourth, Ms. Jane Gravelle, senior specialist in economic policy, Congressional Research Service.

Thank you all for joining us today. You will each have 5 minutes to present your oral testimony. Your full written testimony has been submitted for the record.

And, Mr. Barthold, you are recognized first.

STATEMENT OF MR. TOM BARTHOLD, CHIEF OF STAFF, JOINT COMMITTEE ON TAXATION

Mr. Barthold. Well, thank you, Mr. Chairman and Mr. Neal. As you said, my name is Thomas Barthold, and I am the chief of staff of the Joint Committee on Taxation.

The chairman asked me to provide an overview of three recent proposals to tax one time at reduced rates untaxed foreign earnings of foreign subsidiaries of U.S. parent companies. Just by way of background, the United States under present law taxes both the U.S. and foreign earnings of U.S. businesses. A U.S. multinational firm generally may delay or defer U.S. taxation of business earnings of its foreign subsidiaries by reinvesting those earnings rather than distributing those earnings.

The earnings, however, are subject to tax when a dividend is paid back or repatriated to the parent with a foreign tax credit allowed for any foreign taxes incurred on the foreign source income. Under special rules, as the committee members know, subpart F of the Code defines certain situations in which the earnings of a CFC are taxed on a current basis and for which foreign tax credits are already allowed.

So let me turn to three recent proposals to impose a one-time tax at reduced rates on untaxed foreign income of controlled foreign corporations. Two of these proposals were included as part of larger international tax reform initiatives, and the third is really a stand-alone targeted at directing funds to the Highway Trust Fund.

I will start first with H.R. 1 as introduced in the last Congress. That was the initiative of former Chairman Camp, his Tax Reform Act of 2014. Chairman Camp's international tax reform, which applies to earnings derived after the reform takes effect, has two broad features.

On one hand, it largely eliminates U.S. residual taxation of repatriations of untaxed CFC earnings by allowing a 95 percent deduction for dividends received by the U.S. parent company from their CFC. No foreign tax credit would be allowed. Consequently, the reform replaces the current U.S. credit system for eliminating double taxation.

On the other hand, former Chairman Camp's reform provided broad new rules intended to address shifting of profits out of the United States, in part by creating a new category of subpart

F income, foreign-based company intangible income. H.R. 1 also proposed other changes in the international rules.

As a consequence, U.S. multinational corporations would be subject to a substantially different U.S. scheme for taxing cross-border income than under current law. And it was in this context that transition provisions were proposed to address the question of what should be the treatment of untaxed earnings that were derived before the tax reform were to take effect.

The proposal for the transition tax generally requires that for the last taxable year prior to when the participation exemption system comes into effect, that a U.S. shareholder of a foreign corporation must include a pro rata share of nonpreviously taxed, post-1986 foreign earnings of the corporation.

That inclusion was to occur in such a way that the shareholder was allowed a 90 percent deduction for noncash earnings and a 75 percent deduction for those earnings that were deemed to be held in cash or liquid form. The effect of that is that the effective maximum residual tax rate on the noncash earnings would be 3.5 percent, on the cash earnings, 8.75 percent.

The transition tax had special rules for inclusion of losses of CFCs, provided for a 10-year installment payment of the liabilities that were deemed to be incurred under the transition tax with a special rule for S corporation shareholding. Funds from the deemed repatriation tax were to be directed to the Highway Trust Fund.

Another proposal has recently been put forward by the administration. The administration has a broad set of international tax reform proposals as part of their 2016 budget. These include a mandatory 14 percent tax on foreign earnings.

Again, the administration's reform starts by imposing a 19 percent minimum tax on CFC earnings and removes residual taxation of repatriations that are subject to that minimum tax. This minimum tax therefore also provides a partial exemption system for relief of double taxation. On the other hand, somewhat as in Chairman Camp's proposal, the administration would strengthen certain anti-profit-shifting rules applicable to multinational corporations.

So as with former Chairman Camp's proposed reform, the 14 percent tax on untaxed foreign earnings answers the question of how historic earnings of the CFC should be treated in a transition to the new set of rules. In short, the proposal uses a different base of prior earnings than does Chairman Camp, all earnings prior to the date of enactment, as opposed to just 1986 earnings.

There are certain open questions not described by the administration. But of some interest, the administration, somewhat like Chairman Camp, would provide a 5-year installment period. The administration said the intent was to direct those funds to Highway Trust Fund or other infrastructure purposes.

I realize I have run over. If you would grant me an additional 45 seconds, I wanted to briefly make note of the third proposal that the chairman asked me about, and that is the Invest in Transportation Act introduced by Senator Paul and cosponsored by Senator Boxer.

Unlike the prior two proposals, this proposal would have a voluntary repatriation. The Invest in Transportation Act's voluntary repatriation is somewhat like that which the Congress enacted in 2004 as part of section 965. It differed in terms of measuring the base upon which the beneficial tax rate, which I should note is an effective residual tax rate of 6.5 percent, would apply; it also had some different provisions in terms of plan requirements for reinvestment of the earnings and would not permit the deduction for any company that was deemed to be an inverted corporation.

I provided, as you have before you, additional detail related to both of these proposals and the estimated revenue effects that that my colleagues have estimated for those proposals, and I would be happy to answer any questions that the members might have.

Chairman Reichert. Thank you.

Mr. Dubay, you are recognized for 5 minutes.

STATEMENT OF MR. CURTIS DUBAY, TAX & ECONOMIC POLICY RESEARCH FELLOW, THE HERITAGE FOUNDATION

Mr. Dubay. Good afternoon, Chairman Reichert, Ranking Member Neal, distinguished members of the committee. Thank you for inviting me here today. My name is Curtis Dubay. I am research fellow in tax and economic policy at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

Changes to repatriation policy have been spoken about often as a way to fill the hole in the Highway Trust Fund, but details have been scant. There may be confusion caused by this because there are usually two distinct policy options discussed when it comes to using changes to repatriation as a way to fill up the gap in the Highway Trust Fund. It is important to differentiate between those two options, because they would have distinctly different ramifications.

The first option would be Congress either granting a repatriation holiday on the untaxed overseas earnings of U.S. businesses at a lower rate than under current law or deeming those earnings repatriated and taxing them at a lower rate. In this option, repatriation would be a stand-alone policy to fund the Highway Trust Fund.

The second option would be to establish a territorial system in place of our current worldwide one and deem the foreign earnings repatriated to help facilitate the transition to that better system.

The stand-alone option would not be sound policy. A territorial system would strongly boost economic growth. It is badly needed because the current worldwide system is one of the biggest inhibitors of growth for the U.S. economy today.

Moving to a territorial system, no matter in the context of fundamental tax reform, business-owing tax reform, or as an independent policy improvement, would be a boon for job creation and wage growth for American families.

Under the current worldwide system, with deferral, businesses understandably delay paying U.S. tax on their earnings because paying it would make them highly uncompetitive compared to their foreign competition.

Regardless of how Congress proceeds on tax reform, changes to the repatriation policy should always be handled in conjunction with international reform that switches from the worldwide system to a territorial one. After all, the worldwide system has caused businesses to compile those earnings abroad. It only makes sense that changes to how they are taxed be used to repair the harm that it caused.

Deeming those earnings repatriated and taxing them at a lower rate than under current law would make moving to a territorial system easier. The revenue can be used to offset the tax cut that JCT is likely to score a territorial system as. And the revenue can also be used to compensate those businesses that stand to lose because of the devaluation of deferred tax assets. This is not a tax hike because it would be part of a broader reform.

Making changes to repatriation policy within tax reform that establishes a territorial system stands in stark contrast to using repatriation changes to fund the Highway Trust Fund without moving to a territorial system. Taxing the overseas earnings of U.S. businesses to fund the Highway Trust Fund would break the sensible user-pay principle that has long underpinned the Highway Trust Fund.

There is no connection between U.S. multinational businesses and domestic highway use. A repatriation holiday, one of the policies offered by some under the stand-alone option, is unlikely to raise revenue in the traditional 10-year budget window. To counteract this some have floated a stand-alone deemed repatriation because it would unambiguously raise revenue.

As a stand-alone measure, deemed repatriation is a tax hike, even though the rate applied to the overseas income would likely be less than under current law. This makes a stand-alone deemed repatriation yet another tax-and-spend scheme. In addition to that, it is also more troubling than a holiday because it is compulsory rather than voluntary.

Either a repatriation holiday or a stand-alone deemed repatriation would be a temporary fix. Congress should instead focus on other reforms to the highway program that would be sustainable, would not break the user-pays principle, and would not raise taxes.

Thank you, again, and I look forward to your questions.

Chairman Reichert. Thank you.

Mr. Suringa, you are recognized.

STATEMENT OF MR. DIRK SURINGA, PARTNER, COVINGTON & BURLING LLP

Mr. Suringa. Chairman Reichert, Ranking Member Neal, and members of the committee, my name is Dirk Suringa. I am a partner with the law firm of Covington and Burling. I appreciate very much the opportunity to testify today before you. I appear before you on my own behalf and not on behalf of my firm or any firm client.

I would like to make three basic points. My first point is that international tax reform is needed now to address the increased risk of double taxation faced by U.S. companies operating abroad. Reform also is needed to address new foreign tax incentives, so-called patent boxes, that are intended to lure U.S. researchers and innovators to relocate abroad.

You may have heard of the OECD's BEPS, Base Erosion and Profit Shifting Project. This is a think tank project that was started in 2013 to try to come up with ways to tax so-called stateless income or income that is not subject to tax anywhere. The project is still ongoing, but the results to date are disturbing. The main result so far has been to encourage foreign countries to come up with new and creative ways to tax U.S. companies operating abroad. This has led to increased double taxation of their foreign income.

At the same time, many foreign countries have started to adopt patent box tax incentives over recent years. These are incentives for intangible income arising out of research activities performed in their country. These incentives, combined with threats of increased taxation under BEPS, are putting more and more pressure on U.S. companies to move themselves and their high-skilled jobs outside this country.

My second point is that adopting an innovation-friendly exemption system and our own version of an innovation box would help to address these problems. Of course, the best way to address these problems would be to adopt comprehensive tax reform, including rate reductions. But these specific problems also can be addressed in sequence by first adopting an exemption system and a U.S. innovation regime and then moving on to broader reform. Countries like the United Kingdom, Japan, Spain, and others have shown that this can be done. Each of those countries adopted an exemption system and then in subsequent years reduced corporate tax rates.

The adoption of an exemption system would help reduce the immediate risk of double taxation caused by BEPS. Under current law, active foreign income is subject to tax at 35 percent when repatriated and a foreign tax credit is allowed for foreign taxes imposed on that income. But the foreign tax credit is subject to many limitations under current law, and U.S. companies, as a practical matter, are not able to credit all of the taxes asserted by countries under BEPS.

Under an exemption system, active foreign income would simply be exempt from U.S. tax. There would be no threat of current or residual U.S. tax on the same income. An exemption system also would end the lockout effect on foreign earnings and level the playing field in foreign markets for U.S. companies.

The adoption of a U.S. innovation box would help to counteract the incentive to move U.S. research activity abroad. The innovation box would be broad in terms of the technology covered and the returns to IP covered, but it could be narrow, and I think it should be narrow, in requiring the underlying research to be performed in the United States.

My third point is that any tax revenue raised by changing to an exemption system should be used in the design of that system to encourage U.S. job growth and innovation. Active foreign earnings are currently subject to tax at 35 percent when they are brought home. Under an exemption system, active foreign earnings going forward would be largely exempt from tax when they are brought home. Rather than requiring companies to trace which pools of earnings are exempt and which are still subject to the deferred taxation, it would make sense to have a transition rule to tax those earnings at a low rate over an extended period of time.

The reason for the low rate and the extended time period is because a majority of those earnings are invested in foreign operating assets that cannot readily be sold to pay the tax. Most importantly, however, any tax revenue generated by the transition tax should be used to design an exemption system and an innovation regime that favor U.S. job creation and U.S. research.

There are many different ways to design an exemption system, including ways that increase taxes on the very same companies that are now confronting BEPS and foreign tax incentives to relocate. At the same time, there has been a discussion of imposing a one-time tax on foreign earnings that have been permanently reinvested abroad -- again, a tax on the same companies that are confronting these foreign tax pressures.

From a policy perspective, it would make the most sense to use any revenue generated from taxing those earnings to provide tax relief to the companies that are paying those taxes. Congress can, of course, choose to credit those revenues to the Highway Trust Fund accounts upon receipt should it so desire. But the transition tax revenue should be used in designing an international tax system that solves the problems that U.S. companies are now facing.

Thank you for allowing me to testify, and I look forward to your questions.

Chairman Reichert. Thank you for your testimony.

Ms. Gravelle, you are recognized.

STATEMENT OF MS. JANE GRAVELLE, SENIOR SPECIALIST IN ECONOMIC POLICY, CONGRESSIONAL RESEARCH SERVICE

Ms. Gravelle. Thank you very much.

Traditionally, the Highway Trust Fund has been financed by user fees, primarily gasoline tax. The collections from these taxes have declined, both because they have not been adjusted for inflation -- if they were, the 18.3 cents per gallon excise tax on gasoline tax would be 31 cents now -- and because of increases in fuel economy. As a result, the Highway Trust Fund faces a shortfall in revenues relative to spending.

Proposals have been made to finance the shortfall with a repatriation holiday. To be a little repetitive with Tom, under current law firms pay taxes on worldwide income but not for foreign subsidiaries until the income is paid as a dividend to the parent, or repatriated. Firms have a substantial amount of untaxed earnings abroad that they have not returned to the United States, perhaps because of the 35 percent corporate rate and perhaps because it is reinvested in physical assets. A repatriation holiday would allow additional earnings to be returned and taxed at a lower rate.

There are several issues surrounding the use of taxes on the repatriation of accumulated earnings as a source of revenue for the Highway Trust Fund. First, even if these proposals could raise revenue, they are transitory and will not address the long-term needs of the trust fund. Voluntary repatriations or, quote, "holidays," which allow firms to choose to repatriate additional earnings, are scored as revenue losers rather than revenue gainers.

For example, the Paul-Boxer Invest in Transportation Act would tax these voluntary repatriations at a rate of 6.5 percent by allowing an 81.4 percent exclusion. The Joint Committee on Taxation estimated that the proposal, while gaining $30 billion in the first 3 years, loses $148 billion over the next 8 years for a total loss of $117.9 billion from fiscal year 2015 to fiscal year 2025. All of the other estimates of repatriation holidays have projected an overall revenue loss in the budget horizon.

A different type of repatriation, called deemed repatriation, has also been proposed to be used for infrastructure spending. A deemed repatriation would impose a tax on the stock of untaxed overseas earnings, and it is normally part of a transition in an international tax reform. The Tax Reform Act of 2014, introduced in the 113th Congress by then Chairman of the Ways and Means Committee Dave Camp, would have transferred $126.5 billion of taxes to the Trust Fund through a deemed repatriation. That would have left the remainder of that revenue bill at a revenue loss over the 10-year period.

The administration's fiscal year 2016 budget proposals also include a deemed repatriation as a transition to a new international system allocating $205 billion to surface transportation.

Deemed repatriations subject to a mandatory tax have never been suggested as stand-alone policy. If they were, they might also lose revenue, and they raise important policy concerns. Estimates indicate that over half of the $2.1 trillion of untaxed income abroad is invested in physical assets, such as plant and equipment. These earnings cannot be returned and imposing a tax on them is just a lump sum tax on assets.

A deemed repatriation could be imposed on cash. However, depending on the tax rate, a deemed repatriation of either type could lose revenue -- could lose revenue -- because it would allow firms to reduce future repatriations, which would have been subject to a higher tax rate.

It is important to note that the revenue gain in the Camp proposal is not a guide to the revenue effect of a deemed repatriation, because it is estimated under the assumption and other provisions of the bill that future dividends would be taxed at close to a zero rate rather than a 35 percent rate. When you look at revenue estimates, it is very important to look at where they are stacked in order of estimation.

Deemed repatriations as a transition rule for a shift to a new type of international tax system would lead to numerous contentious and difficult issues that are currently far from agreed upon and that are unrelated to the more narrow concern about the Highway Trust Fund.

In addition, much of the interest in international tax reform has been associated with the proposal to lower the corporate rate, which introduces some further issues, and that in turn with an overall individual and corporate tax reform.

If there is a desire to link spending on transportation infrastructure with increased revenue from foreign source income, however, there are numerous proposals that have been advanced to address profit shifting and other issues in the international system. Some of them are in the President's budget proposals.

Thank you.

Chairman Reichert. Well, thank you all for your testimony. And now members of the panel, I am sure, would like to ask some questions regarding your testimony to drill down a little bit on some of the information you provided. It also gives us an opportunity to learn a little bit.

So, Mr. Barthold, in our full committee hearing last week on the Highway Trust Fund some of the witnesses testified that a permanent solution to the Trust Fund shortfall would take several years to implement. I believe we need to get there and that we will eventually, but it seems we are in need of an interim option.

Mr. Barthold, can a deemed repatriation of foreign earnings that is used as a transition rule or moving to an exemption system in a pro-growth revenue-neutral package help us get to an interim option?

Mr. Barthold. Well, thank you, Mr. Chairman.

Perhaps the best model to look at to answer your question is to return back to former Chairman Camp's H.R. 1. In his comprehensive reform bill, the legislation itself would have directed revenues from the deemed repatriation to the Highway Trust Fund. His plan had payments directed to the Highway Trust Fund. Taxpayers themselves had up to 10 years to pay.

So if you are asking a question about cash flow and what cash goes to the Trust Fund as opposed to a unified budget, it would seem that if the Congress chose to use funds from a repatriation in the way that Chairman Camp did, that you could direct that in pretty much any scale and over any time period that you would choose to the Highway Trust Fund.

Chairman Reichert. So to any scale or any timeframe, do you think that we can design it to provide a specific amount of revenue to the Highway Trust Fund on an annual basis for the duration of a multiyear highway authorization?

Mr. Barthold. Well, that would depend upon, as I think your question anticipates, the design. Former Chairman Camp's proposal provided for a 10-year installment payment. Now, that was at the election of the taxpayer. Some taxpayers might choose to accelerate their payments, depending upon their business situation. Others might choose the full 10 years. So if you were trying to think of the payments that the taxpayers made and link them up on a year-by-year basis, you might want to revisit the design.

Chairman Reichert. Thank you.

Mr. Suringa, I hear concerns that if we reform our uncompetitive international tax rules now, we will lose momentum for the very important goal, which I share and am committed to achieving, of reducing the corporate rate.

In your testimony you describe how the U.K. and Japan, the two most recent major economies to shift from a worldwide system to an exemption system, first enacted legislation transitioning systems in 2009. Shortly thereafter, both countries reduced their corporate rates by about 8 points.

Mr. Suringa, should the experience of the U.K. and Japan reassure us to some degree that if we act now to reform our international tax rules to meet risks, such as OECD BEPS Project, there will be still sufficient political momentum, not to mention economic need, to reduce our high corporate rate in the next couple of years?

Mr. Suringa. Thank you, Mr. Chairman.

I do think there is going to be continued momentum to get the corporate rate down regardless of what is done with respect to this particular issue. I think in terms of transitioning to an exemption system, that is probably the most important thing to do to relieve double taxation of U.S. companies operating abroad and to end the lockout effect, to bring that money, the untaxed foreign earnings home and also to level the playing field in foreign markets between U.S. companies and their competitors.

I think that is a narrow enough reform that the domestic reform push in terms of lowering the rate and the other measures that have been suggested in Chairman Camp's draft and the other proposals will continue to face a lot of pressure to be taken up in the near term. My testimony is really focused on the pressures in the international sphere that companies are now facing. I think these are measures that are appropriate to take in the short term.

Chairman Reichert. Thank you.

Mr. Neal.

Mr. Neal. Thank you, Mr. Chairman.

We have heard a number of times -- this is a point of clarification for some of our panelists -- we have heard a number of times that there are a huge amount of earnings stashed overseas by multinational companies. In fact, a recent report by Credit Suisse claims that as much as $2.1 trillion in foreign earnings is invested overseas.

Now, some of that is reported on company statements as permanently reinvested overseas -- that is, in actual buildings, brick and mortar, or in operations -- while some in cash is being held overseas and not being taxed under current deferral rules until that cash is repatriated.

Ms. Gravelle, could you discuss what portion of that approximately $2.1 trillion in cash and easy to repatriate it, what portion is permanently invested overseas and more difficult to liquidate?

Ms. Gravelle. Well, according to the Credit Suisse report, they based their analysis on financial reports, for the companies that reported cash holdings, they found that about 45 percent of the assets abroad were held in cash. So a little over half was in plant and equipment. Now, they really don't know for sure how to extrapolate to other firms, but that should be sort of a reasonable measure of how much of those assets.

They also had some very interesting data on which firms had these cash holdings with actually a handful of firms, about five or six firms, I believe, had about half of it.

Mr. Neal. Okay. And, Mr. Barthold, I assume that you and your colleagues at the Joint Committee have done estimates of the makeup of the overseas earnings. Can you elaborate for us on those findings?

Mr. Barthold. Thank you, Mr. Neal. I believe you are, again, referring to our estimates of former Chairman Camp's proposal, since he would have applied a differential tax rate to the unrepatriated earnings of foreign corporations based upon whether it is cash, liquid assets, or nonliquid assets.

I can't actually give you the details of our breakdown on the estimate on that partly just because one of my colleagues is currently in Scotland attending the commencement of his son from the University of Glasgow and he was the primary economist working on that. But I can tell you that from our background work, we looked at some of the work that Ms. Gravelle reported. There is also some academic work based on 10 years of data by Blouin, Krull, and Robinson which suggests that perhaps maybe 45 percent of retained earnings are held in cash or liquid forms.

In terms of doing our estimate, and in terms of your potential policy design, there are a number of difficult questions to think about. Do you treat working capital the same as nonworking capital? How do you treat some of the portfolio investments that a business might have in a related enterprise, where in order to gain partial control of an entity that is in your line of business, you are perhaps a 25 percent shareholder in an otherwise public corporation, would that be considered invested in a business, bricks and mortar, or would that be considered a portfolio holding?

Those are some of the issues that we looked at in terms of analyzing Chairman Camp's proposal.

Mr. Neal. Could you provide the members of the subcommittee with a breakdown of the estimated $2.1 trillion that is overseas and at that point let us know what is liquid, what is illiquid, and some further detail on the financial industry's holdings overseas given that oftentimes the local sovereign reserve requirements really make holding cash overseas a lot more comfortable to something permanently invested more in the nature of brick and mortar?

And I call that question up, Mr. Chairman, because I think that that number, $2.1 trillion, is easily thrown around. When you have a chance to drill down on the statistical data, you come to a very different conclusion. And I hope that with Mr. Barthold and his staff, that they can provide us some of that information. I think it would be helpful to the totality of the conversation.

Mr. Barthold. Mr. Neal, Mr. Chairman, I mean, my colleagues and I will provide some additional information of the sort you mentioned. If I could indulge you for an additional minute, we have done some work based -- and I should note that the reported $2.1 trillion and in our testimony we reported $2.3 trillion of indefinitely reinvested earnings, remember, that is a financial statement concept and that is different than what we look at in terms of tax returns.

Some U.S. businesses may invest funds abroad but do not list them for financial statement purposes as indefinitely reinvested, which means that they don't have to carry a deferred tax liability on their income statement. But if they were to pay a dividend back, there would still be a cash tax liability in the United States. To look at some of the cash tax liabilities, we have looked at in detail a lot of the reported controlled foreign corporation returns that the parent companies must provide to the IRS.

And to go a little bit to your question about the insurance, banking, and other financial sector, looking at industries that report themselves to be in insurance, banking, other foreign services, we found in the 2010 data that approximately 10 percent of total untaxed unrepatriated foreign earnings were in the banking, insurance, and other financial services sector. So about 10 percent of whatever the total might be.

But my colleagues and I will provide a little bit more detailed discussion in a written response.

Chairman Reichert. The gentleman's time has expired.

Mr. Neal. Thank you.

Chairman Reichert. I appreciate the detailed answer. I let you go a little bit longer than usual. This is a highly interesting, complicated, and important topic. So I appreciate that. But if you could provide the additional information in writing.

Mr. Barthold. I will.

Chairman Reichert. Thank you.

Mr. Tiberi.

Mr. Tiberi. Thank you, Mr. Chairman. Thank you for holding this hearing as we try to come up with a long-term solution to fund our country's roads and infrastructure, and also urgently try to fix our international tax system to make U.S. multinationals more competitive in today's global marketplace and hopefully not taken over by a foreign competitor.

And it seems, Mr. Chairman, we have an opportunity to address both of these policies in the coming year, in the coming months, and hopefully the issues that we are discussing today at this hearing, including repatriation, will move us one step closer toward those goals.

If the only thing that you understand today is one thing from these panelists, I hope it is that not all forms of repatriation are created equally.

Mr. Dubay and Mr. Suringa, thank you. Thank you for explaining that precisely to the point. Two significant pieces of Camp's draft, one is that repatriation is done as a transition from a worldwide system to an exemption system -- we have to put a dollar in a bowl, Mr. Dubay, if we say territorial system -- so exemption system. That was a joke, no one laughed. I guess not. I should keep my day job.

But the other point is, is that illiquid assets are treated differently than liquid assets. Liquid assets are taxed at a higher rate than illiquid. So anyhow, a really good point.

One thing is clear that a highway bill is urgently needed. Just this morning a markup in the Senate occurred on the Inhofe-Boxer 6-year bill that requires 107 billion with a "B" dollars for the Highway Trust Fund. Others have said they prefer to extend it through the election, which is about a $25 billion nut for the Trust Fund. We have to come up with that. They don't.

Another thing that is clear, Speaker Boehner has made this clear, a gas tax is not going to happen. Chairman Ryan made that clear last week. And I think most of us agree that a user-pay system is the way to go funding our highways and our infrastructure.

At last week's hearing we heard about different alternatives. We also heard from witnesses that a vehicle miles traveled tax would take years to implement. So we want to continue to look at those issues, but nothing is imminent in terms of user pays this year.

So we have a couple other options to come up with $25 billion to $100 billion. We can cobble together a bunch of revenue raisers, either $25 billion through the election or $100 billion. We have done that in the past. People in this room up here usually aren't unanimously happy. I wouldn't be happy with a number of random pay-fors. The low-hanging fruit is gone.

So we have really two options as I see it. We can cobble together a bunch of things or we can explore this option that Chairman Camp had in his draft. And by doing that, by the way, we transition our U.S. multinationals to an exemption system that makes them more competitive. That is the key. Reporters and others throw around repatriation like it is all the same stuff. It is not all the same stuff. Policy matters. How it is done matters. Going to an exemption system is critically important to making this work.

So, Mr. Suringa, Mr. Dubay, based upon your testimony, what do you think? Is it better policy to cobble together a bunch of revenue raisers or to do repatriation the right way, which we clearly did not do in 2004, going to an exemption system treating illiquid assets different than liquid assets?

Mr. Suringa.

Mr. Suringa. Thank you, Congress Tiberi.

I think doing a 6-year repatriation-related funding measure would make most sense to give Congress the opportunity to look for more a permanent solution that we can all get behind, and repatriation is a good way to do it, particularly and really only if it can be used as a way to transition to a new system for taxing foreign income of U.S. multinationals.

Mr. Tiberi. Mr. Dubay.

Mr. Dubay. Thank you. As long as you are transitioning to an exemption system and using repatriation to help grease the skids for that improvement, I think it could be doable. I would just say that you can't spend the same dollar twice, although I don't want to discount Congress' ability to do that.

Mr. Tiberi. That was a joke, right?

Mr. Dubay. Yes, that was a joke.

So you have to have some revenue to pay for the tax cut that Mr. Barthold and JCT will score moving to an exemption system rule. And in tax reform there is always winners and losers, so just keep in mind when doing that, that there are other needs for the revenue that pertain specifically to tax reform.

Chairman Reichert. Thank you.

Mr. Thompson.

Mr. Thompson. Thank you, Mr. Chairman. Thank you for holding the hearing.

And, witnesses, thank you all very, very much for being here.

I just wanted to reiterate something that Mr. Neal said in his opening testimony, and I just want to make sure that everybody got the full gravity of that. He basically pointed out that we, American taxpayers, are subsidizing the European tax rates in large part because of our defense budget. I think that is really important to have that understanding when we look at how we are dealing with this issue, probably as important as the explanation from the witnesses today that the previously thought of $1.2 trillion, if you recognize the fact that some of those assets aren't liquid, you are really talking about a trillion dollars. And those are just some basic facts that we ought to have at hand while we are doing this hearing.

Much has been said about Chairman Camp's previous draft, and I think it has been pointed out by a number of folks that there was a little budget trickery or double counting that went into that too. So I think we would be much better off if we all were working with the same set of facts rather than what we may perceive as the bottom line, and I just think that is critically important.

Ms. Gravelle, if a tax holiday loses the government money, a mandatory repatriation is politically unpopular and the revenue effects are unknown because it depends on the rate, and that leaves repatriation as part of international or business tax reform. However, if we use the revenue to fund lower corporate rates and/or make other international reforms, where does that leave funding for the Highway Trust Fund?

Ms. Gravelle. Well, I think that is the problem with this discussion of the Camp transition. The $126 billion is supposed to go to the Trust Fund, but then it is supposed to go to offset the revenue losses in the bill. If you take the $226 billion out of the bill, then you have got a $120 billion, approximately, revenue loss. So I think that is where the double counting is.

So certainly in isolation that deemed repatriation will raise revenue, particularly if it is stacked after no tax on any -- zero tax. But you can't use it -- well, maybe you can try to use it twice, but technically speaking, it is only there once. So that is a problem.

Mr. Thompson. So you can't spend the money twice?

Ms. Gravelle. Right.

Mr. Thompson. Can you think of any economically efficient way to invest in the Highway Trust Fund using repatriation?

Ms. Gravelle. Well, frankly, I am puzzled about how one is supposed to be connected with the other. I mean, I think the sort of natural thought you would have is we have traditionally always financed roads with user fees. Economists approve of those in a lot of ways, because they really mimic the private market as closely as you can for any public good. So they are viewed as they benefit the people, the people who benefit pay. So if I were a Martian coming down here I might wonder why that is not a kind of an obvious solution. But, of course, CRS never recommends anything. So --

Mr. Thompson. Could we use repatriation to both fund the Trust Fund and do business tax reform and do it effectively?

Ms. Gravelle. Well, you can't -- I mean, if you wanted to make true revenue-neutral tax reform, say, for the Camp proposal, and you want to use that money for the Highway Trust Fund, then you need to set it up so it raises, if you want to make it neutral with the budget, so it raises $126 billion. And I think adding to that is the fact that outside of the budget window, it is actually going to lose a lot of revenue.

Mr. Thompson. Mr. Barthold, is this double counting, budget trickery? Can we spend the money twice?

Mr. Barthold. Let me tell you what we estimated. The Joint Committee estimates on a unified budget basis for the Members, and Congress decides what they do with the unified budget. I mean, there are many proposals that Congress has considered that have effects. We report, for example, an effect for excise taxes that are dedicated to the Highway Trust Fund as having offsetting effects on payroll tax and income tax receipts, but we report to the Congress in a unified basis. What we reported for Chairman Camp's bill was on a unified basis.

Mr. Thompson. If we can spend it twice, we can solve a lot of problems. It would be good to get an answer on that.

Chairman Reichert. Could you provide that in writing for us, Mr. Barthold? Thank you.

Mr. Barthold. I will provide our scoring in writing, yes, sir.

Mr. Thompson. Thank you.

Chairman Reichert. Mr. Paulsen.

Mr. Paulsen. Thank you, Mr. Chairman, for calling this hearing. It is obviously sort of a combination hearing, right? I mean, we have had the components of the transportation funding and then you have got the issue of fixing the international tax code.

If you look back, I think there is a reason that Chairman Camp, when he did his three different drafts of different white papers that came out on how to adjust the Tax Code, I mean, I think there is a reason that the international tax component was the first one that he looked at, right, and it is this issue of making sure that we are competitive vis-a-vis the rest the world. The Tax Code has clearly not kept pace with the modern economy, and certainly not with the international tax code.

So if you look at 1960 where you have 17 of the top 20 companies in the world were U.S. companies, and then by 1985 there were only 13, and then today we are in the single digits, and so there is a reason, again, that Chairman Camp, I think, wanted to focus on this, rightfully so. And this modernization is needed now to stop the Tax Code from causing our companies here in the United States to be acquired by foreign companies.

Let me just ask you, Mr. Suringa, there have been a lot of additional news reports about U.S. companies that are being acquired by foreign companies with substantial tax savings as a part of that, and that is being cited as the driving factor for those acquisitions. Do our tax rules provide incentives currently for foreign competitors to acquire U.S. companies?

Mr. Suringa. Yes, I think they do. I think the way that the current rules are structured places U.S. companies that have competitors that have inverted at a competitive disadvantage, and that is what tax departments in a lot of cases are ending up looking at. Their competitors have moved to Ireland and now are paying tax at 12% or less, and management is saying: Can we compete with these people now that they are paying so much less, and the investors are looking to us to say, hey, why haven't you guys done this too.

It is very disturbing, and I think the foreign tax incentives for research are going to make it more disturbing, because historically you would think of an inversion as having two main benefits. One benefit is that the inverted company can try to extract earnings from the offshore subsidiaries at the former U.S. parent without paying the residual tax, they would distribute it up to the foreign parent and not pay the U.S. tax in the middle.

The second benefit was and continues to be base erosion, which is putting deductible payments in the U.S. system and making those deductible payments deductible at 35 percent and includable at the foreign parent at some lower tax rate to get a net tax benefit. But historically, there wasn't as much of a concern that the U.S. activities would be, other then through base erosion, that the U.S. activities would not have a reduced rate of taxation. They would still be taxed at the full 35 percent rate.

The concern with the foreign tax research tax incentives is now you have a foreign tax incentive to actually move the people who are doing the work, the high-skilled jobs that are creating innovation in the U.S., to move that offshore as well. And that is something that is new and particularly disturbing.

Mr. Paulsen. So since it is new, should our tax rules provide such incentives as well?

Mr. Suringa. Well, I think as a part of a change to a new system we should put that on the table, because that is where 28 out of the 34 countries in the OECD are using exemption systems. It used to be that it was sort of half and half, but over the last few years more and more countries have gone to exemption systems for relieving double taxation.

Now you have got 15-plus countries that have introduced patent box regimes. I think that is the trend of where corporate international taxation is going and our companies are at a competitive disadvantage when they deal with our rules instead of their rules.

Mr. Paulsen. And it seems like, of course, as the headquarters move overseas, the jobs move overseas as well.

Mr. Dubay, would you say that this illustrates more of an immediate need as well for the modernization of our antiquated international tax regime?

Mr. Dubay. Thanks for the question. I think that it is important that we modernize quickly because I think our businesses do look very enticing to foreign competition. They are just more valuable as a foreign company than they are as a U.S. company because our tax rate is so out of whack and because of the worldwide system.

I think the recent wave of inversions has now ended. I don't think we are going to see another inversion. I think the next step is going to be a moderate-sized European or foreign business buying a really big U.S. business. They are not going to bother with the inversion, they are just going to buy it outright. It is going to be similar to what InBev did with Anheuser-Busch a few years ago. And as was mentioned, it is dangerous because you start losing high-skilled, high-talent people to those foreign locations.

Mr. Paulsen. Thank you, Mr. Chairman.

Chairman Reichert. Ms. Sanchez.

Ms. Sanchez. Thank you, Mr. Chairman. And I want to thank the witnesses for joining us here today.

You know, there hasn't been a whole lot of debate on how to address the insolvency in the Highway Trust Fund until last week when the Ways and Means Committee finally took up this issue. And I am sitting here wondering why, because we can't continue to use the lack of funding in the Highway Trust Fund as a political football when our infrastructure is crumbling. Our economy cannot continue to run if we don't have the infrastructure to move goods and people efficiently throughout the country.

But that is what we have been doing for quite sometime. Since 1998 there have been 24 short-term patches to the Highway Trust Fund, including one that just occurred last month. And we are watching literally our infrastructure crumble because of the inability to act, to come up with some ideas for fixing the problem. We want to talk about them, and I guess Congress is pretty good at talking, but there comes a day when you really have to put up or shut up, as my father used to say, and you have to do something about it, you can't just discuss it. We cannot continue to kick the can down the road.

I think short-term patches to our Highway Trust Fund are not the way to go. They don't provide certainty for local jurisdictions to plan their budgets and get construction projects underway, construction projects, I might add, that create millions of jobs.

But it is my belief, in having listened to the testimony, that a repatriation holiday isn't a viable solution to the problem because a one-time repatriation, which has been offered as a solution to the Highway Trust Fund issue, we have already seen in the past what a one-time repatriation does to our economy.

My colleagues have mentioned that in 2004 repatriating firms didn't reinvest that money to create U.S. jobs here in the United States. Instead, they repurchased their own stock and paid bigger dividends to their shareholders. So I am, quite honestly, a little bit baffled why we think that this is such a great panacea for fixing a very real need that we have.

Companies that have the resources to transfer profits and jobs abroad have an unfair advantage, in my opinion, over truly domestic companies that do their research here, that provide good-paying jobs here, that manufacture their products here in the U.S. And we can't, in my opinion, allow multinational corporations to avoid paying taxes on almost $2 trillion without doing something to level the playing field.

So while it is great that we can have this discussion about international tax regime, we need to have that broader discussion again, a serious one about overall comprehensive tax reform, because without that we are not going to get to a fairer, simpler solution for our tax fund, and again we are not going to really focus in on what are steps that we can take to shore up the Highway Trust Fund.

With that, I am going to ask Ms. Gravelle, we are discussing international-only reforms, which creates an advantage, a competitive advantage against our domestic manufacturers, so how can we use the Tax Code instead to help create good-paying jobs that here in the United States so that our domestic manufacturers aren't at a competitive disadvantage?

Ms. Gravelle. Well, there are some provisions that we could shift to favor lower tax rates in the United States compared to abroad. Our biggest corporate tax expenditure is deferral of foreign-source income, so we don't have to move to a territorial system, and that would probably encourage more investment abroad.

We can also look at things among the extenders. R&D tax credit might be something to think about, but there are also some international extenders that could go the other way. But I think ultimately there is a limit to how much you can do with tax provisions because taxes, corporate taxes aren't that big.

But there are a lot of spending things, one of them being infrastructure. I mean, infrastructure is crucial to productivity. If you can't move around, you can't produce. And also things like education, even health, all of those things that include the workforce, productivity of the workforce, would be beneficial to productivity and wages of workers.

Ms. Sanchez. So if I were to ask you, like, how could we specifically tailor -- the Tax Code is a system of carrots and sticks, fundamentally boiled down, and raises revenue obviously for the Federal coffers. But how could we specifically tailor the Tax Code to sort of help domestic businesses who take on the risk of doing research and development and manufacturing here in the United States?

Ms. Gravelle. Well, I think we already help them with very generous tax incentives. We could go further in encouraging the investment up-front, like with the R&D credit and the expensing of R&D. Those create negative tax rates already. We could expand those, because there is a justification for subsidizing R&D.

But I am not sure whether economic theory supports a patent box, because some economic theory actually says it is better to have the subsidy at the beginning instead of the end because the government shares in risk taking as well as returns. So there are a lot of theories that say doing up-front subsidies is better.

Chairman Reichert. The gentlelady's time has expired.

Ms. Sanchez. Thank you, Mr. Chairman.

Chairman Reichert. Mr. Reed.

Mr. Reed. Thank you, Mr. Chairman.

Thank you to our witnesses. This is an important issue and I am glad to have this conversation.

Ms. Gravelle, you just said tax extenders, maybe there is something to do on R&D. I would assume that you think the permanency of those tax extenders should be taken into consideration and therefore I would assume that you support permanent extension of those tax extenders for business planning purposes. Yes or no?

Ms. Gravelle. CRS does not support any.

Mr. Reed. All right, very good.

Ms. Gravelle. But I would say, if you give me a second, that there is a lot of evidence that the social return to R&D on average is considerably larger than the private return, which would create a reason to have very significant, potentially, incentives for R&D.

Mr. Reed. And so to make it a permanent policy, I would just assume that is a much better way for businesses to have those social returns and the benefits of such a tax policy.

Ms. Gravelle. There is just a general argument for certainty in the Tax Code so that if you are going to have it, and we have had it since 1981, there is certainly an argument for throwing the towel in and saying we are making it permanent.

Mr. Reed. I appreciate you recognizing that argument.

A question for you, just to get into the nuts and bolts and the practical effect of switching from the present system to a new system. I am very interested and concerned about the complexity of that transition, especially with the old earnings, if you would, that are trapped overseas. Because when I was in my private life, in private business cash is king. And a lot of these investments, it is my understanding, are tied up in inventory, facilities, capital investments, capital structures, equipment, et cetera.

How would you recommend -- I am going with Mr. Dubay probably -- how would you would you recommend the best way to avoid that complexity and also allow that cash flow consequence to be minimized to the extent practicable?

Mr. Dubay. Thank you. I think the best way is to give ample time for the businesses to figure out what to do with it. So like Chairman Camp did last year, give the full 10-year window and then close it off. So you give them a full decade to figure out how to unwind that. And you do give them a lower rate in the interim period, because they started to pay tax at the 35 percent with the foreign tax credit on the overseas earnings.

That stays in place, as far as I understand how the law goes, if you move to a territorial system, but it just makes sense to get everything over to the territorial system as soon as you can, but give them time to figure out on their own and not try to write too many rules.

Mr. Reed. How you would you write that legislation, essentially just say it is up to you to determine how much you are going to pay each year of that 10-year window?

Mr. Dubay. I would give them a lot of discretion as to when they bring it back during the 10-year window, but I would not allow it to go past the window.

Mr. Reed. Okay. And then how would you define what is qualifying trapped foreign earnings versus nonqualifying?

Mr. Dubay. I would have to think about it more, I haven't looked into that too much, but, I mean, I think you are looking at -- everything that has not been repatriated I think is where you start with and then you start looking at the stuff that has been permanently reinvested and figuring out and try to break that into buckets like we do with --

Mr. Reed. So does that not create an unintended consequence of those foreign earnings if someone sees the reform coming down the pipeline to immediately make those investments into capital structures, capital equipment, and other items overseas rather than what we want them to do, and that is bring the cash back and make investments on American soil?

Mr. Dubay. I think it certainly does, and I think that is something that will have to be grappled with.

Mr. Reed. I appreciate it.

Mr. Suringa, can you offer any insight into that?

Mr. Suringa. I think I would agree that a long period and a relatively low concessionary rate on the earnings are the best way to ensure that it can be done smoothly.

Mr. Reed. And then how about the unintended consequence that I potentially saw on the horizon, how would you minimize that?

Mr. Suringa. I think if that was a significant concern -- and I also would have to look at sort of exactly how it would be derived, because what you would presumably do is take a snapshot of the earnings and profits as of the date of enactment or a particularly date that is chosen by Congress and then spread that out over the period and say the tax associated with those earnings has to come back in.

So I think the way to deal with it would be to provide one rate and let people sort it out for themselves rather than try to say, well, we are going to give a concessionary rate to this piece and not to that piece, because then you have people interested in --

Mr. Reed. One rate for the old earnings and the new earnings.

Mr. Suringa. To my mind, one rate is easier. I mean, it certainly is easier to administer. There may be companies that come in and say: No, that just isn't going to work for us. But you have a lot of complexity associated with trying to categorize assets and you may have gamesmanship.

Mr. Reed. And that is one of the big concerns I have too as we go down this path. If one of our fundamental goals of tax reform is to simplify the code, both corporate and individuals, I am fully in on both, does this not generate much more complexity and isn't that a concern that has to be taken into serious consideration as we go forward?

Mr. Suringa. Well, this particular complexity would only be with respect to the transition rule, then it would be done. So the system as a whole could be much simpler going forward than it is now. It wouldn't be hard for it to be simpler than it is now.

Mr. Reed. Very good. I appreciate that.

I yield back, Mr. Chairman. Thank you.

Chairman Reichert. Mr. Larson, you are recognized.

Mr. Larson. Thank you, Mr. Chairman. Thank you and Mr. Neal for holding this hearing. Thank the witnesses.

I wish we had an opportunity to further delve into some proposals made by our colleagues, Mr. Renacci, Mr. Pascrell, and Mr. Blumenauer, to really tackle this issue. But we are talking about repatriation. Is repatriation an economic term or is it a political term of art?

Mr. Dubay? I mean, what does it mean economically, or is it a political term of art?

Mr. Dubay. I think I am going to go with political.

Mr. Larson. Political, Mr. Suringa?

Mr. Suringa. I only see things from a tax perspective, so I view it as a tax term of art.

Mr. Larson. A tax term of art. So repatriation, what would patriation be as a tax term?

Mr. Suringa. So patriation refers to the U.S.

Mr. Larson. Oh, it is U.S.?

Mr. Suringa. Yes.

Mr. Larson. I am just trying to help out the people at Augie & Ray's who are trying to figure out when we talk about this repatriation, patriation is U.S., repatriation is --

Mr. Suringa. Bringing it back to the U.S.

Mr. Larson. Bringing it back because it went where?

Mr. Suringa. It was earned abroad and we are bringing it home.

Mr. Larson. Oh, it is earned abroad, so it is overseas. So then what would deemed repatriation be?

Mr. Suringa. Even if you didn't bring it back, we treat you as if you did.

Mr. Larson. Okay, so patriation is U.S., repatriation is bringing it back, and deemed is we deemed it so even if you didn't?

Mr. Suringa. Yes.

Mr. Larson. And those are economic policies?

Ms. Gravelle, do you agree with that or --

Ms. Gravelle. Well, there are economic concerns and considerations with repatriation because our laws limit in some ways the freedom with which you can use the money abroad, although experience with the 2004 showed that it didn't have anything to do with investment.

So without some kind of scheme, which these gentlemen or at least you may know more about than I do, to try to get that money back without paying the tax, you are not supposed to use it for investment in your own firm or for paying dividends to your shareholders. So it does matter.

Mr. Larson. Mr. Barthold, deemed, what does that mean when we say it is deemed? Because, again, I am trying to just help out the people back home, trying to figure out this policy, because we are dealing with infrastructure, and yet we are dealing with patriated, repatriated, deemed repatriated, and it is kind of confusing, I would daresay even to Members of Congress.

Mr. Barthold. Well, as Mr. Suringa pointed out, when we talk about a proposal about deemed repatriation, we are first of all talking about subjecting to current U.S. tax foreign-source earnings. We permit under present law the tax on foreign-source earnings to be deferred until you repatriate or bring the money back to the parent corporation. Deemed repatriation says, regardless of what you actually do with that money, we are going to pretend that you bring it back and subject it to taxes.

Mr. Larson. I think that that phrase, "regardless of what we do," I think that is the operative phrase.

Mr. Barthold. Regardless of what the business does.

Mr. Larson. And so this hearing, while I wish it was delving into the very substantive proposals that our colleagues on both sides of the aisle have addressed, we are going to deem every kicking the can down the road because it is politically not safe to make decisions, whether it relates to a gas tax, whether it relates to a carbon tax, whether it relates to any of the solid proposals that are out here, because you are never going to get profiles in courage when the country is crumbling around us. We have these faux hearings on a complicated set of terms when all American citizens want us to do is reinvest and rebuild the country as it is crumbling around us.

And deeming it so doesn't make it so. And I think this Congress and this committee has to face up to its responsibility, and that is to make sure that in order for commerce to travel, as a number of you have pointed out, we need to make those very investments which will continue to help our economy flourish.

Mr. Chairman, I do thank you for this opportunity. I do hope we get to our colleagues' proposals. But let's all be clear about this. This is all punting until after the session, deeming until after this session is over to an opportunity politically to maybe put a big bow around an omnibus bill. And I have said this before and I will say it again, that the House of Representatives and this committee shouldn't be a sophisticated messaging body. We should actually legislate.

And with that, I will yield back my time.

Chairman Reichert. Thank you, Mr. Larson.

Mr. Young.

Mr. Young. Well, I thank the chairman, and I will begin the same way I began last week as we discuss the Highway Trust Fund and the need to invest in infrastructure. I think it is important, Mr. Chairman, that we are focusing on this issue and I thank our witnesses.

So start beyond that by acknowledging there are things beyond direct funding that we can be doing to help solve our longer-term infrastructure problems, and some of that pertains to tax policy that encourages the development of public-private partnerships, and I think we need to do more of that. I also want to be clear that I understand the need to safeguard the Highway Trust Fund so it can fund more of these infrastructure improvement projects.

I am opposed to the enactment, as are so many of my colleagues and for so many of the same reasons, of a one-time repatriation. So go on record with that, but not rehash the same questions.

I think if a repatriation is done, it is going to have to be done in conjunction with broader improvements in our own competitive international tax system. That is really where I want to go with my line of questioning.

Companies are being forced in my home State of Indiana and across this country to move their operations overseas. And so many foreign countries are getting a jump on us with respect to changing their tax rules in a way that will cause more U.S. companies to leave unless we act fairly quickly here.

Indiana on a per capita basis is the biggest U.S. manufacturing State we have, and we have a robust life sciences industry. So research and development on both the manufacturing side and the life sciences side is quite important. Some countries have already changed their tax rules, so it will effectively force these types of companies to move operations overseas.

And I want to get your sense, Mr. Dubay and Mr. Suringa, as to why this is happening, just from a very basic standpoint. Why are they locating operations from our manufacturing and life science companies in Indiana overseas?

Mr. Dubay. Thank you for the question.

I think there are two reasons why. First is nontax, and that is that overseas markets are growing, that is where the growth markets are, so you will see businesses opening up operations there to meet those growing demands. And as I always point out when the issue of jobs overseas and outsourcing comes up, is let's not lose sight of the fact that if a U.S. business' products are in more demand around the world, that is a good thing for the business and for the U.S. Let's not denigrate that.

There also is certainly a tax aspect to it. It is just more advantageous, it is more profitable to locate overseas. Tax rates are lower, there are other issues besides just the tax rate that go into it. But it just is more profitable to invest overseas right now than it is here in the U.S. because of our high rate.

Mr. Young. Mr. Suringa, focusing not on the demand-related reasons, but specifically the tax-related component, please.

Mr. Suringa. So I think it is a combination of lower rates, it is an increasing prevalence of tax incentives, and it is also pressure to make those tax incentives specifically focus on moving people. So part of BEPS is that tax policy should follow where the people are. And so countries that have these -- historically the patent box regime was you just register a patent in a tax haven, it doesn't matter where it was created, you get a special tax rate. Now you have to move the people there.

Mr. Young. So, Mr. Dubay, I know you work at Heritage, you are here representing yourself. Heritage, as someone who worked there for a very short period of time, I know is not just a think tank, but you also take into account political factors when it comes time to making policy recommendations. So I would ask you if you could factor in what is realistic, what can Congress do between now and, say, the end of the year to help address some of these dynamics that are hurting Indiana workers?

Mr. Dubay. Sure. Thanks again for the question.

So recently I released a paper that hit on this very topic. I don't think there is time left in this year for broad fundamental tax reform. I think the window is closing on business owner reform, but I thought for a while there was a window with President Obama and Congress where there was interest on both sides for business or corporate tax reform. I think that is less likely as time goes on.

But I see no problem with not only breaking down to business individual, but breaking down business into its component parts, which would be a lower rate or fixing the cumbersome and outdated depreciation rules or moving to international. Any of those three pieces would be tremendously beneficial. You could also do things like make bonus depreciation permanent, and that is a big step in the right direction on depreciation.

Mr. Young. Thank you. I yield back.

Chairman Reichert. Mr. Doggett.

I might point out that Mr. Doggett and Mr. Blumenauer and Mr. Pascrell, who just disappeared, are not subcommittee members, but they are part of the full Ways and Means Committee and are invited here.

And we are pleased to have you.

And they will be asking questions.

Mr. Doggett. Thank you, Mr. Chairman. I am just following you from our last subcommittee working together.

I want to begin by commending the National Association of Manufacturers, the Business Roundtable, the Alliance for Competitive Taxation, the National Retail Federation for speaking out this week against repatriation as a means of financing the highway system which needs not only moneys, but it needs certainty. These groups have noted that this is not the way to go either for our highway system or for our tax system.

These various repatriation proposals are certainly a loser for the United States Treasury. And the suggestion that, well, we are going to have repatriation and it is only a step to moving toward a territorial system that we can't get this year, but maybe we will get it after the election, or maybe we will get it in 5 or 6 years, is really misleading. All we are really doing is just repeating the failure of 2004, the so-called American Jobs Creation Act, when it came through this committee and the floor of the House.

And I think it is understandable why this approach is being advanced. Indeed, one of the members of this subcommittee is quoted this afternoon in Politico as saying that repatriation is the only thing the Republicans can agree on as a means of financing our highway system. And it is extremely appealing. You have got a handful of multinational companies that benefited in 2004, that really got away with highway robbery in paying a nickel on the dollar, a deal that any American working family would love to have as their tax rate on all their earnings, 5, 6 cents, less whatever credit they might have had overseas.

And they are out there saying we would love the government to tax this, just don't tax us more than a nickel, a dime would be extortion, don't tax us more than a nickel on a dollar of our earnings. And all this money is available right now, we are begging you to take it, so we can bring back our earnings as we did in 2004 and pay our executives more and give more stock buybacks and dividends, but not create jobs with it as we promised we would do.

That kind of system is extremely appealing when the only other alternatives which could be initiated immediately and should have been initiated years ago are to provide reliance on a user-pay system, which built our highway system beginning with President Eisenhower and which has been the means of bipartisan support for transportation infrastructure in the past.

The cost of moving to repatriation in any form is very, very real. That is one of the reasons as far as any kind of temporary system that Senator Grassley with the Senate Finance Committee promised that it would be one time only when it was done in 2004, because he realized what a costly approach it was. Of course, it is not one time only because ever since then there have been those whose appetite was whetted by this one-time opportunity and what they got away with, and so they are asking it be done again, and they will ask that it be done again if this is permitted.

These profits that are allegedly trapped offshore are often at work right here in America. They can be invested in Treasury bills here, they can be invested in a hedge fund, they can be invested elsewhere. They just can't be used to pay executives more money or stockholders more dividends.

The deemed repatriation approach, Dr. Gravelle, that you talked about, isn't it true that even if the -- they call it deemed, it is really forced repatriation, and in the case of some businesses it really amounts to tax on wealth as held abroad, a concept that hasn't been a principle of our taxation system here in the United States. But isn't the effect really revenue-wise likely to be a loss for the Treasury, whether you call it forced mandatory repatriation or voluntary repatriation?

Ms. Gravelle. Well, it depends on the rate and whether, of course, if you have a large rate on this fixed wealth amount or the stuff that can't be brought back anyway. So it would depend. But the point is at the rates, for example, in the Camp bill, there would probably be a revenue loss at those low rates because it will still allow you, if you had it within our current system, that is a stand-alone, because it would still say that you don't then have in the future to repatriate at 35 percent. You have already done it, you already got that money to send back without paying tax. And plus you again have this moral hazard sort of problem, this incentive to say: Well, they gave us a great deal here, so maybe we will get one in the future, so better to stash your money abroad.

Chairman Reichert. The gentleman's time has expired.

Mr. Doggett. Thank you.

Chairman Reichert. Thank you.

Mr. Renacci.

Mr. Renacci. Thank you, Mr. Chairman. It is really clear -- and I appreciate you having this hearing and I appreciate what I have heard from the witnesses -- but it is really clear that our international tax system is outdated and anticompetitive, our current rules discourage domestic investment and make U.S. companies vulnerable to foreign takeovers.

I also recognize the urgency for reform. I am aware that actions resulting from the BEPS Project will not only further erode the U.S. tax base, but also force U.S. multinationals to consider relocating their skilled professionals abroad. I think I heard one of the witnesses say that. That is why I really believe reforming our international tax rules to make the U.S. companies more competitive in the global marketplace is one of the most important things this Congress can do this year.

We need to stabilize our tax base, to ensure that we still have that tax base when we actually have an administration that is serious about engaging in comprehensive tax reform.

What I have heard so far, though, I think there is a consensus at least with Mr. Dubay and Suringa, is that there is consensus that in conjunction with moving to a territorial-based dividend exemption system, some form of deemed repatriation is acceptable.

Mr. Dubay, do you agree with that?

Mr. Dubay. Yes, I agree.

Mr. Renacci. Mr. Suringa, do you agree with that?

Mr. Suringa. Yes, sir.

Mr. Renacci. The purpose, though, is not really to talk about good repatriation, bad repatriation. And one of the things that is important to me -- and I do have a bill out there with several colleagues and it really says we need it look at all these options, and repatriation is one of the options we should look at. But bad repatriation or good repatriation in my mind wasn't the purpose of this hearing. This hearing is really to understand better repatriation of foreign earnings as a source of funding for the Highway Trust Fund.

So I was trying to make some notes. Mr. Suringa, you said actually in your testimony: "The best use of any revenue generated by the move to an exemption system would be to design the system in a way that provides meaningful tax relief to the companies paying the tax and encourages job creation and creation of intellectual property in the United States." I assume you agree with that comment.

Mr. Suringa. I do.

Mr. Renacci. You also made a comment earlier, though, to Mr. Tiberi that the use of the revenue could be used for the Highway Trust Fund.

Mr. Suringa. I think that is more of a -- that is a government accounting issue. I am not an expert on government accounting, but it seems the money comes in and how it is allocated from the general fund to the Highway Trust Fund is a matter Congress can decide.

Mr. Renacci. But you would agree the best use would be to design the system in a way that provides meaningful tax relief to those individuals --

Mr. Suringa. Yes, sir.

Mr. Renacci. I am trying to really again better understand repatriation and what some of your thoughts are.

Mr. Barthold, do you have the expertise on whether repatriation -- and, again, this just gets back to, is repatriation a good idea for the Highway Trust Fund? I am looking for that answer. Do you have the expertise on whether repatriation of foreign earnings is a viable source of funding for the Highway Trust Fund?

Mr. Barthold. Mr. Renacci, that really isn't a question for me representing the Joint Committee to answer. We try and provide the Members with information about technical policy aspects, economic aspects of different proposals that you consider, but I wasn't elected to make a tough decision like that one.

Mr. Renacci. Okay, I appreciate that answer, that is why I am asking it.

Mr. Suringa, do you have the expertise on whether repatriation of foreign earnings is a viable source of funding for the Highway Trust Fund?

Mr. Suringa. My focus is international tax, but what I guess I could say is, look, it is 6 years' worth of revenue and it gives you time to think of a long-term funding solution, which I think we all agree is necessary for the Highway Trust Fund. So to the extent it scores like that, I think it is worth thinking about, it is worth putting it on table.

Mr. Renacci. So if it all went to the Highway Trust Fund --

Mr. Suringa. That is right.

Mr. Renacci. -- but you have also said that the best use is to lower the tax rates for --

Mr. Suringa. That is right, that is right, sir.

Mr. Renacci. Mr. Dubay, do you have the expertise to tell me whether repatriation of foreign earnings is a viable source of funding for the Highway Trust Fund?

Mr. Dubay. Partially. As long as enough revenue is available to facilitate the change to the territorial system or a dividend exemption regime from the worldwide system, how the rest of the revenue is used I will leave to the budget experts to decide whether that is good or bad policy. Enough revenue needs to be used to make sure that you can get to a good and proper dividend exemption regime, and that does require a portion of the money that would be raised from deemed repatriation.

Mr. Renacci. Thank you.

I do believe it is important for Congress to act this year to make our international tax rules more competitive, although I do have concerns on whether international tax reform can truly be a source of funding. I appreciate your comments. I do know that we need to address a long-term, sustainable Highway Trust Fund. And we cannot continue to pass this on to our children and grandchildren.

Mr. Chairman, I yield back.

Chairman Reichert. Thank you, Mr. Renacci.

Mr. Blumenauer is recognized.

Mr. Blumenauer. Thank you, Mr. Chairman. I appreciate your courtesy and Mr. Neal allowing us to sit in on the proceedings. It has been fascinating. I appreciate the big picture that is being asked. There are those who float repatriation as sort of a Holy Grail, that it is a painless way to somehow weave our way through the minefield that has eluded us for 22 years with the Transportation Trust Fund.

And I think the breadth of testimony indicates that there are some complexities here. There are policy questions, there are severe questions about tradeoffs, cost to the general fund. As has been pointed out, this is not free money, depending on how it is structured. It may well just be deferred money that ultimately will have a cost. And that there are competing interests.

Because I think all of us who have worked on the Ways and Means Committee for more than 15 seconds agree that we need to make significant adjustments to the corporate tax scheme. And we appreciate our colleague, Chairman Camp, working hard on that in a number of sessions that we were involved. I thought some progress was made.

And I think it is important to approach it in the way that you have done. And this for me, I think, points out that this, even if it meets the criteria that I think are necessary for meeting the needs of the Highway Trust Fund, that is, it has got to be enough money, it has got to be dedicated, and it has got to be sustainable, so that we are not back in the same pickle in 2 years, or 4 years, or 6 years. And so I think what I am hearing is there are some questions about that based on the give and take that we have had at this point.

I would just make one point, and I won't take my full 3 minutes, but I do think that it is important to note that we are making this slightly more complex than it needs to be. There is an action that this committee could take 1 week after we come back from the 4th of July recess.

The gas tax is not complex. It is extraordinarily simple, it is a one-page bill. The gas tax is not something that is expensive to administer, the mechanism is right there. I have had extensive conversations, as I know others have, with our friend the chairman of the T&I Committee, Mr. Shuster, and Ranking Member DeFazio, who are chomping at the bit to be able to come forward with reauthorization. But the key is they have got to have a number, they have got to know what they are working with.

And if Congress in its wisdom, with the Ways and Means Committee following regular order, with men and women who have been in this hearing room over the last 10 days, really dove in with this for 2 or 3 days of extensive hearings like we used to do, I mean, real work sessions, a markup, we could answer the questions that people have about the economic impact, the burden, the costs, and consequences. And before the month of July is out, we could give them a number, and they could give us a transportation bill before the end of the fiscal year, September 30. They can do this.

The other thing that I am struck with, and I really like how our leadership, Mr. Boehner, Mrs. Pelosi, the three committees of jurisdiction, came together on the SGR fix. That kind of felt good. We had, I don't know, 290 votes or whatever it was, we jammed the Senate for a change. And did something that eluded us for over 15 years.

And I just as I think that we could have at this dais at the next hearing the president of the AFL-CIO, the president of the U.S. Chamber, we could have truckers and AAA, local government, we could have bicyclists and people who care about transit and the people who build and maintain roads, we could have this room filled with experts who were all on the same page, supporting what has happened already this year in six Republican States, raising the gas tax.

So I think this is helpful to provide the context. I appreciate the role this subcommittee has played in the past. And I hope that we would consider maybe having a couple, 3 days someday doing a deeper dive on the gas tax, because we can provide Mr. Shuster what he wants in 2 weeks.

Thank you. I am sorry, I did take the 3 minutes. I apologize.

Chairman Reichert. Yes, you did.

Mr. Blumenauer. Thank you for your courtesy.

Chairman Reichert. I thank the gentlemen for his comments.

We are going to go to Mr. Pascrell next. Mr. Kelly wanted to be present for your comments.

Mr. Pascrell. I am glad he is here. Kelly and I, Kelly and Pascrell will end on a very docile note, I am sure peaceful.

Mr. Barthold, thank you, by the way, for your service. Can you explain briefly why a repatriation holiday would create revenue at first, but then add billions to the deficit in subsequent years? Can you explain that?

Mr. Barthold. I will try for a brief version, Mr. Pascrell.

Mr. Pascrell. Thank you.

Mr. Barthold. Remember, we start from baseline projections. One thing to observe is that foreign-source income of U.S. persons is growing. There is repatriation under present law under the baseline on which there is residual income tax paid. And so there are multiple effects that go into our analysis of a proposal such as the Paul-Boxer proposal for a repatriation holiday.

In terms of early year pluses, we think that the attractiveness of the lower rate does mean that companies will try to pay back more dividends. Even at the low rate, if more comes back that can lead to an increase in cash receipts to the Treasury.

I should note that as part of that analysis we recognize that when companies repatriate some of the earnings, that they also have had in the past a tendency to increase dividends paid to individual shareholders or to engage in share buyback programs in lieu of dividends. Both of those are taxable events under the individual income tax, so another source of increased cash receipts to the Treasury in the early years.

As a longer-term matter, we view some of the repatriated earnings that would occur during the qualifying period -- and in the Paul-Boxer bill that is a 5-year period -- as being earnings that potentially would have been repatriated later in the budget window. And so that means what is a plus in the front of the budget period is a negative in the back of the budget period.

And then also, as has been noted, having elective repeated holidays does give an incentive to perhaps shift more of the U.S. corporate tax base abroad to affirmatively make an investment decision to invest abroad rather than the U.S., which lowers, over the long haul, the corporate tax base. That is another factor in our estimate that this loses money in the outyears.

Mr. Pascrell. Thank you very much, I appreciate that.

I don't sense a sense of urgency here on this. I mean, we only had our first hearing just recently, and now we have a second hearing thanks to the chairman. I don't sense urgency at all.

In recent years everything has changed. I am trying to change what is being changed to break through the political games that are being played here.

Our Federal Highway Trust Fund is dead broke. In the past 10 years no one has had the political courage to fix it. I have serious concerns with the proposals that we have seen both in the House and the Senate. The tax-deferred corporate income or repatriation to temporarily fund the Highway Trust Fund, that is not urgency, that is not long-term solution.

Let's look at the record. We have heard today, 2004 is the last time we did this, the repatriation holiday, and what happened? Most of that money, the top 15 corporations which combined repatriated more than $150 billion during the holiday, and then they cut their workforces by 21,000 employees between 2004 and 2007.

I also worry than enacting a tax holiday would only create incentives for corporations to keep holding cash abroad. Why would a corporation invest earnings in the United States and pay full taxes on it when they can keep it in a tax haven, then be rewarded with a lower repatriation tax and use the earnings to pay themselves? Let's talk about all of the folks that got paid themselves through that money that was available in 2004.

No, I think that the bipartisan Bridge to Sustainable Infrastructure Act, which myself and my good friend from Ohio Mr. Renacci have sponsored, I think it is a good way to do this, a bicameral commission to fund, find a way to fund the Highway Trust Fund, a long-term, sustainable way. If the commission tells us that the repatriation is part of the solution, I would have to consider it as part of the solution.

But I cannot stress enough that whatever we do, we must also reinstitute the policy of users paying for our transportation system and address the long-term revenue. The fact is that repatriation cannot and must not be just a more complicated and expensive patch which allows the Congress to avoid the hard decisionmaking on our highway system.

Today's hearing should give pause to those banking on repatriation. Our witness last week said VMT will take 10 years.

Chairman Reichert. The gentleman is over his time.

Mr. Pascrell. I will yield back to the chairman.

Chairman Reichert. Thank you, Mr. Pascrell.

Mr. Kelly.

Mr. Kelly. Thank you, Chairman.

Mr. Pascrell, always good being with you.

And, panel, thanks for being here.

Mr. Suringa, just so I have this clear you said that if we were to do the repatriation, it would be a 6-year window, depending on the percentage that we charge to bring this money back. It would provide enough money, is that correct, for the Highway Trust Fund for 6 years? Did I understand that?

Mr. Suringa. That is my understanding based on the revenue score from Chairman Camp's proposal and the estimates that I have read of the needs for the Highway Trust Fund. But I would defer to experts on the Highway Trust Fund.

Mr. Kelly. And I understand about referring to experts. I have to tell you, these hearings are oftentimes very complicated. I know Mr. Larson was trying to get down to everyday terms of what people understand and what they don't understand.

And I appreciate my friends on the other side who may talk about in 2004 we had an opportunity for repatriation, we brought the money back, and we gave the money to the people, they paid a low percentage on it, then they got to spend their money the way they wanted to. I am assuming they probably bought some other things and maybe created jobs in that market. I think there is a bounce effect with that.

But I also know that in 2009 with the American Recovery and Reinvestment Act we spent $800 billion-plus of taxpayers' future money, and with interest now it is a trillion dollars. I would have loved to have seen the same appetite then for the Highway Trust Fund, because we used about $30 billion of that 800-and-some billion to actually put into shovel-ready projects. My God, if that wasn't a jobs bill, what the hell was? That was an opportunity to change the face of this country and put us in a much better position. And the residual benefits of it would have been phenomenal.

My son just came back. I am in the automobile business. We meet quarterly, and they call it a 20 Group, and they sit down and they exchange their financial statements and they talk about best business practices.

I would just say that what we are talking about today, we don't live in a void, we know what is going on around the world, and for us to sit here with hands over both eyes and plugs in our ears and say: No, I don't want to hear what is going on overseas because, quite frankly, that doesn't appeal to me.

People are not leaving this country because they are not patriotic. They are leaving this country because they are not going to stand here and try to operate a business model where the exact people who depend on their profitability for the revenue to drive the machine make it hard for them, whether through taxes or through regulations. You all have looked at these things.

Now, Mr. Barthold, you are in a very interesting position. You are a stat guy. You can tell. If the manager for the Nats asked you, "Listen, how is my lineup doing? Pretty good? How should I change it?"

"I don't tell you how you to change it. All I can tell you is you have got about the 3, 4 and 5 hitter, they are not doing what they are supposed to do."

So I understand where you are coming from. But for the rest, you see it every day. Mr. Dubay, you see it. Mr. Suringa, you see it. Ms. Gravelle, you see it. There is no reason for this country with its assets to be sitting where it is and looking at crumbling infrastructure. It is a lack of political will to get it done.

It just doesn't seem like it should be that hard. And whether it is Mr. Pascrell's bill and Mr. Renacci's bill, it really doesn't matter to me as long as we get these things fixed.

The upside from an economic standpoint of how this country would profit from that is off the charts. The problem is how do you get the money and where do you get it from? And I will tell you this, a drowning man grasps at all straws. Right now we have an opportunity at repatriation which will help us to a certain degree, but if we don't have comprehensive tax reform, both internationally and right here at home, we are still in the middle of a really bad situation.

I want to go back to what you said. So tell me again about this. Repatriation now would supply enough revenue to do -- is it a 6-year? And not just to get us through the end of the year, but going forward, if we able to do repatriation and dedicate that money to infrastructure, would that not raise the profitability of all the people that live in this country, the companies that work in this country, wouldn't that also just by the very nature of becoming more profitable raise tax revenue?

Mr. Suringa. I think it would.

Mr. Kelly. Well, I mean, you can't say you think it would. It absolutely would. It is just math. I mean, the President says all the time do the arithmetic on it. More profitable companies pay more taxes, right? We are hoping for tax revenue, how do we get there? Roads, rivers, railways, and runways.

So why in the heck do we sit back and let it unravel on us when we do have things available? This repatriation is a very important part of an overall fix, yes or no, to all of you, just tell me. I know you can't talk Tom.

Mr. Dubay. As long as a dividend exemption regime or territorial system is established beforehand and the money is there to make sure that that gets established, I see it could possibly be a solution, yeah.

Mr. Kelly. Okay.

Mr. Suringa. I would think it also is important to consider an innovation box to keep research jobs here, high-skilled jobs here.

Mr. Kelly. Yeah. Ms. Gravelle.

Ms. Gravelle. A holiday loses money. Most deem repatriation stand-alone would lose money. And with tax reform it is used to finance other parts of tax reform. So it is hard to me to see how repatriation would play a role in financing the highways.

Mr. Kelly. No role at all?

Ms. Gravelle. It is hard to see it.

Mr. Kelly. It is hard to see it?

Ms. Gravelle. Yeah.

Mr. Kelly. Okay. So that revenue that could possibly come back in, I mean, it is part of it.

I would just say this. The other thing is when you collect this money, why not spend it on the people that put it in? I have to tell you, the people that I represent back home say: Listen, we don't mind paying more money, just don't use it for something else, keep it where it is supposed to be.

We have an excellent opportunity right now to bring this around and turn the whole country around. It is going to be through fixing our highways and our railways and our rivers and our runways. It is just that simple. This isn't magic. The old saying it is magic. Pulling a rabbit out of the hat isn't magic, it is how you get the rabbit in the hat to begin with.

So thanks for all being here.

And, Chairman, thank you.

Chairman Reichert. Thank you, Mr. Kelly.

Our last two speakers were interesting. It kind of brings me back to my old profession of police officer, hostage negotiator. We have differences of opinion that we need to smooth over, and we will continue the discussion at a later time.

But thank you all for the time that you took today to be here with us, because this is complicated. And I think as Mr. Larson said, all of us are in a learning mode and trying to understand this too and how it may help us or may not help us. There have been, as you heard last week, a lot of ideas on how we might move ahead on a permanent basis to fund our highway funding problem.

Here is what I heard today from folks on the panel. We are in agreement that we can't continue to kick the can down the road. We are in agreement that user fees are a must have in any solution as we move forward. And we are in agreement this is critical to our Nation, its productiveness, and our ability to lead in a global economy.

So once again I thank all of you for your testimony.

And I have to read one last paragraph here because it is part of the rules. That concludes today's hearing. Please be advised that members may submit written questions to the witnesses. Those questions and the witnesses' answers will be made a part of the record.

Chairman Reichert. I would also like to thank all of our witnesses for appearing today. It has been an educational discussion.

And with that, the committee is adjourned.

[Whereupon, at 4:15 p.m., the subcommittee was adjourned.]

Public Submissions for the Record