

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

HEARING
BEFORE THE
COMMITTEE ON WAYS AND MEANS
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[Advisory of February 11, 2016 announcing the hearing](#)

WITNESSES

The Honorable Jacob J. Lew

Secretary of the Treasury, U.S. Department of the Treasury
Witness Statement [[PDF](#)]

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

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

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

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

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

[Laughter.]

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

Margaret, congratulations on the job well done.

[Applause.]

*Chairman Brady. Mr. Secretary, we are not fans of the budget the President proposed. I do want to begin by saying thank you for the collaborative work and

successful work in making permanent a number of the temporary tax provisions at the end of last year. I think that both creates certainty for our economy and our businesses, and I think lays the foundation for pro-growth tax reform, going forward. So thank you for that work with this Committee.

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

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

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

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

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

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

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

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

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

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

We simply can't ignore the broad ramifications of our outdated international tax rules a minute longer. If we can seize the opportunity to move forward in this critical area, I am confident we can keep the ball rolling. I am hopeful we can count on working with you, Mr. Secretary, to take some important steps toward the pro-growth economy every American wants and needs.

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

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

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

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

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

But I think it is a lame excuse to talk about tax reform as a reason not to take any steps to address present tax problems. And one of them relates to inversions. And, Mr. Secretary, I am going to be asking you about this, and I think others will. What has been happening here while the Republican Majority has been essentially asleep, in terms of

action on tax reform, is that more and more companies are moving overseas in name only, in order to avoid paying taxation, taxes.

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

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

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

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

Welcome, Mr. Secretary.

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

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

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

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

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

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

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

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

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

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

Despite this progress, we have much more to do to fully address the challenges associated with our new economy. The President's Fiscal Year 2017 budget puts forward the building blocks of a social compact for the 21st century, creating the conditions for sustained economic growth, while upholding the basic American belief that everyone who works hard should get a fair shot at success.

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

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

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

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

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

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

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

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

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

Of course, we must also work together to respond to more immediate events. For example, Puerto Rico, where unemployment remains above 12 percent, is experiencing an unsustainable debt crisis. The Administration proposed a comprehensive plan to address the commonwealth's financial challenges, and I encourage Congress to act with the speed this crisis requires. This must begin with legislation to permit a financial restructuring, along with new oversight, neither of which cost any taxpayer dollars.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Secretary Lew. Correct.

*Chairman Brady. -- if we don't act to stop this from going forward.

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

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

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

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

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

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

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

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

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

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

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

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

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

*Chairman Brady. Thank you, Secretary.

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

*Secretary Lew. I seem to be invited to testify wherever I am sitting.

[Laughter.]

*Chairman Brady. That doesn't seem to be a problem.

Mr. Levin, you are recognized.

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

*Chairman Brady. We are the Ways and Means Committee.

[Laughter.]

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

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

[Laughter.]

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

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

*Mr. Levin. Mr. Price? Where is --

*Mr. Price. Will the gentleman yield?

*Mr. Levin. I will yield.

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

*Mr. Levin. All right.

*Mr. Price. And as a matter of fact --

*Mr. Levin. I will take back my time

*Mr. Price. -- when the President's budget came to the floor, only two Democrats voted for it out of the entire Congress in --

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

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

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

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

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

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

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

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

*Secretary Lew. Congressman, I think if you look at the --

*Mr. Levin. Describe it so everybody understands what happens.

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

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

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

*Mr. Levin. Thank you. I yield back.

*Chairman Brady. Thank you. Mr. Johnson, you are recognized.

*Mr. Johnson. Thank you, Mr. Chairman.

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

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

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

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

*Secretary Lew. Well --

*Mr. Johnson. -- yes or no?

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

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

*Mr. Johnson. I hear you.

*Secretary Lew. -- so it can be there when they retire.

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

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

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

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

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

[Slide]

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

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

[No response.]

*Chairman Brady. Without objection.

[The information follows: [The Honorable Sam Johnson](#)]

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

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

*Mr. Johnson. I know you have.

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

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

*Mr. Johnson. Well, I --

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

*Mr. Johnson. Well, I think --

*Secretary Lew. The reality is --

*Mr. Johnson. -- some of them do. And you know, we needs to get to work today, and I think you agree.

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

*Secretary Lew. Yes, I agree. I think Americans deserve to count on their Social Security. And the thing that we just have to tell Americans is that the shortfall that we look at over the next 75 years, even at its worst, leaves their Social Security 75 percent funded. We have a gap, we have time to deal with it. It has to be dealt with on a balanced, even-handed basis.

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

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

*Chairman Brady. Thank you. Mr. Rangel, you are recognized.

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

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

*Secretary Lew. No, that -- what I have written to them --

*Mr. Rangel. What are you asking?

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

*Mr. Rangel. We have to --

*Secretary Lew. We have to do that.

*Mr. Rangel. What are you asking --

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

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

*Secretary Lew. Well --

*Mr. Rangel. -- refuse to reform our tax code to get the income?

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

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

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

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

*Mr. Rangel. What progress --

*Secretary Lew. -- would actually help a lot.

*Mr. Rangel. -- are we making?

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

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

*Secretary Lew. I agree with that. I mean, I --

*Mr. Rangel. Okay. Well, listen. I -- the search now has to be for common ground. I don't think any Republican believes that General Electric, who in 2013 paid 4 percent

taxes, last year 10 percent taxes, they have \$36 billion overseas, that we should not have that money. These corporations that are going overseas take advantage of our research, our infrastructure, our -- everything, and they go overseas.

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

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

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

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

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

*Mr. Rangel. I would like to take down his words --

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

*Mr. Rangel. Thank you.

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

I appreciate the letter that you sent, because what the EU is doing -- now there is going beyond simply addressing income shifting. It is a money grab targeted on U.S. companies in a variety of ways, not just to generate revenue, but to make it more uncompetitive for U.S. companies to compete around the world. That is why we need not

just treat the symptoms of what we are seeing, but the real problems around it. And that is the tax code. In that area we share, I think, common ground, Mr. Secretary.

Mr. Tiberi?

*Mr. Tiberi. Thank you.

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

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

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

[Chart]

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

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

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

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

So, how could the Administration continue to cling to the same basic economic policy, Mr. Lew, of more taxes, more debt, bigger government, more spending, more regulation? Isn't it time to reconsider a new way forward?

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

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

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

*Secretary Lew. So --

*Mr. Tiberi. In fact, you were director at one point.

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

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

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

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

*Mr. Tiberi. Well, I would argue --

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

*Mr. Tiberi. Thank you.

*Chairman Brady. Thank you. Dr. McDermott, you are recognized.

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

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

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

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

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

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

*Mr. McDermott. Well, that is what I wanted --

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

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

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

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

*Mr. McDermott. Does the budget reflect that?

*Secretary Lew. Yes, the budget reflects that. I mean it maintains stability in this 10-year window. It -- we will leave office with a manageable situation. We inherited what was an economy and a budget that was in complete meltdown, so I think we have made huge progress over the last seven years.

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

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

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

*Mr. McDermott. What happened to it?

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

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

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

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

*Chairman Brady. Thank you, Mr. Secretary. All time has expired.

Mr. Reichert?

*Mr. Reichert. Thank you, Mr. Chairman.

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

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

*Secretary Lew. Congressman, I will work on it. This is a complicated issue. There is a lot of memories of what happened in the financial crisis when there was a problem getting access to information overseas, and it contributed to the inability of some of our regulators to respond, because they couldn't see what was going on.

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

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

*Mr. Reichert. So I will take that as a yes, that you are --

*Secretary Lew. Yes, I --

*Mr. Reichert. -- working --

*Secretary Lew. We are working hard to try to come to a place where people --

*Mr. Reichert. Okay.

*Secretary Lew. -- can be more comfortable.

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

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

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

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

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

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

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

*Mr. Reichert. We went through this last year --

*Secretary Lew. -- small business.

*Mr. Reichert. -- and your numbers don't add up.

*Secretary Lew. Well, I am happy to go through it with you more than I can do in --

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

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

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

*Secretary Lew. -- and we --

*Chairman Brady. The time has expired.

*Mr. Reichert. I yield back.

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

*Chairman Brady. Thank you.

Mr. Neal, you are recognized.

*Mr. Neal. Thank you, Mr. Chairman.

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

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

an acceptance that there is going to have to be, perhaps, a -- if I might use the example of a control board put in place.

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

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

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

*Mr. Neal. Thank you, Mr. Secretary.

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

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

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

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

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

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

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

*Chairman Brady. Thank you. Dr. Boustany, you are recognized.

*Mr. Boustany. Thank you, Mr. Chairman. Welcome, Secretary Lew.

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

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

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

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

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

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

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

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

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

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

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

*Mr. Boustany. We have to make sure that these things are applied fairly, and --

*Secretary Lew. That is exactly where I was going.

*Mr. Boustany. Right.

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

*Mr. Boustany. They are going beyond Action 13 now, with --

*Secretary Lew. Yes.

*Mr. Boustany. -- these country-by-country reports. So I am glad you are doing this. But I want to give you more --

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

*Mr. Boustany. That is why we need tax reform --

*Secretary Lew. Right.

*Mr. Boustany. -- and not punitive measures directed at American business. We need positive measures, going forward.

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

*Secretary Lew. I look forward to working with you --

*Mr. Boustany. -- and our committee on this. Thank you, I yield back.

*Chairman Brady. Thank you. Mr. Becerra, you are recognized.

*Mr. Becerra. Thank you, Mr. Chairman.

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

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

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

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

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

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

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

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

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

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

*Chairman Brady. Thank you. All time is expired.

*Mr. Becerra. Yield back my time.

*Chairman Brady. Mr. Roskam, you are recognized.

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

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

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

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

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

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

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

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

*Secretary Lew. Yes.

*Mr. Roskam. Time is short, so let me urge you to reconsider this OFAC question, because I think it is a problem. It is a problem vis a vis the Iranians, it is going to be a problem vis a vis any other bad actor who basically says, "Hey, we are able to take this

money and by doing bookkeeping manipulations, we are able to keep this outside of the jurisdiction." That is a problem.

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

*Secretary Lew. So I am going to have to get back to you on 901. I --

*Mr. Roskam. It is the foreign tax treatment for the Iranians.

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

*Mr. Roskam. And does the accountability mean they don't get any -- they don't get waiver --

*Secretary Lew. Well --

*Mr. Roskam. -- so long as they are continuing to finance Hezbollah, Hamas, and these other terror organizations, which --

*Secretary Lew. Well --

*Mr. Roskam. -- the Administration admits they are doing?

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

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

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

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

*Chairman Brady. Thank you.

Mr. Doggett, you are recognized.

*Mr. Doggett. Thank you, Mr. Chairman. And thank you, Mr. Secretary.

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

Earnings stripping, in simple form, is two corporations next door to each other competing for the same American customers, and one of them comes up with the bright idea with their accountants and tax lawyers that they will shift some of their profits and not be taxed like their competitor to some sham offshore operation. And they do that, and we have permitted them to do that, and they gained a competitive advantage over an American company that is here, doing its fair share.

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

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

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

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

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

But I think also, Mr. Secretary, this is where we have some disagreement. Because of the failure of this Congress to act, and the fact that it is very improbable that it will act, you need to be more completely using existing administrative authority. The actions that

you have taken to try to discourage inversions haven't worked very well. The inversions have continued. In fact, in size they may well have increased.

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

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

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

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

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

*Chairman Brady. Thank you.

Dr. Price, you are recognized.

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

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

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

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

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

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

Mr. Secretary, that doesn't appear to be a movement in the right direction, and it appears to be the result of some choices that the Federal Government is making. So I would ask you why do you believe the projections are -- have dropped over 30 percent, 30 percent in the past 4 years?

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

*Mr. Price. That is not the question.

*Secretary Lew. So --

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

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

*Mr. Price. Let me ask you --

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

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

What is our corporate tax rate right now?

*Secretary Lew. Our statutory rate is 39.5 percent.

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

*Secretary Lew. Look, there is no doubt our --

*Mr. Price. The list of industrialized countries -- you are familiar with the industrialized countries?

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

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

*Secretary Lew. We have proposed taking it to 28 percent.

*Mr. Price. And Canada's rate is?

*Secretary Lew. I would have to look --

*Mr. Price. Fifteen.

*Secretary Lew. -- to get the exact --

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

*Secretary Lew. Yes.

*Mr. Price. And the United Kingdom's rate is --

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

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

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

*Mr. Price. Is it illegal?

*Secretary Lew. No, we have to change the law. Congress has to change the law --

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

*Secretary Lew. That doesn't make it right.

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

*Secretary Lew. Yes, look at --

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

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

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

*Secretary Lew. Well, if you are interested in working on fixing business tax --

*Mr. Price. Look forward to it.

*Secretary Lew. -- the business tax code so we can lower the statutory rate and be competitive in the world, that is what we are advocating, so --

*Chairman Brady. Time has expired. Thank you.

Mr. Thompson, you are recognized.

*Mr. Thompson. Thank you, Mr. Chairman.

Mr. Secretary, thank you very much for being here. I want to commend the President's budget in regard to the new market tax credits. I think that is extremely important. And I want to commend you and your team for working with my office on

improving that program. We came to you with an issue regarding closed military bases, and tried to put a BRAC component.

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

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

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

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

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

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

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

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

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

*Mr. Thompson. I don't disagree --

*Secretary Lew. -- lower than the statutory --

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

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

*Secretary Lew. I appreciate the concern.

*Chairman Brady. Thank you. For the Members' information, let me ruin Mr. Larson's day by noting we will be going two-to-one questioning at this point to ensure all of our Members get a chance to question the Secretary.

So, Mr. Smith, you are recognized.

*Mr. Smith of Nebraska. Thank you, Mr. Chairman and thank you, Mr. Secretary, for your presence here today.

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

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

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

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

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

*Mr. Smith of Nebraska. But no rate reform for --

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

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

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

*Mr. Smith of Nebraska. But in the same vein, I mean, corporate tax reform would include General Electric. Wouldn't that be accurate?

*Secretary Lew. Correct.

*Mr. Smith of Nebraska. And --

*Secretary Lew. Anyone organized on the corporate side.

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

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

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

*Mr. Smith of Nebraska. Right. And I am glad we can agree on that.

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

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

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

*Mr. Smith of Nebraska. What would be the mechanism that would require them to bring that back?

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

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

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

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

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

*Mr. Smith of Nebraska. Thank you.

*Chairman Brady. Thank you.

Ms. Jenkins, you are recognized.

*Ms. Jenkins. Thank you, Mr. Chairman.

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

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

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

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

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

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

*Ms. Jenkins. Well then, why don't you budget --

*Secretary Lew. -- the only three years we had a balanced budget.

*Ms. Jenkins. Why don't you balance the budget?

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

*Ms. Jenkins. You are talking about --

*Secretary Lew. We had the deepest --

*Ms. Jenkins. -- about 2022.

*Secretary Lew. Yes, so --

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

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

*Ms. Jenkins. So you are just not being honest with people --

*Secretary Lew. No --

*Ms. Jenkins. -- you really intend to raise taxes --

*Secretary Lew. No --

*Ms. Jenkins. -- a whole lot more than the budget reflects, you just don't want to tell them that

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

*Ms. Jenkins. Why can't you do that again?

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

*Ms. Jenkins. And we will agree on that --

*Secretary Lew. And we have proposed a balanced approach --

*Ms. Jenkins. So what year does your --

*Secretary Lew. -- to get to a stable budget.

*Ms. Jenkins. -- your budget balance?

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

*Ms. Jenkins. That is because it never does.

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

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

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

See, the problem here is --

*Secretary Lew. And I suspect there will be policy there --

*Ms. Jenkins. Excuse me. The problem here is --

*Secretary Lew. -- that we have real disagreements over.

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

*Chairman Brady. Thank you. Mr. Larson, you are recognized.

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

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

I want to thank the chairman, as well, for his comments about the kind of cooperation that we saw at the end of the session. I think we ought to build on that, as a committee. You know, above the chamber it was Webster who famously said, "Let us develop our resources of our land, call forth its powers, build up its institutions, promote all of its great interests, and see whether we also, in our day, in generation, may not

perform something worthy to be remembered." I think that is what the American people want. They are tired of this back-and-forth. You see that, we see it on both sides with respect to our presidential races.

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

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

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

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

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

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

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

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

We have an opportunity to do this. We have a proposal that will do this that will not increase the national debt but, in fact, will provide an opportunity that will not only

expand benefits, but -- how about this, and I hope my colleagues will join me with this -- provide a tax cut for working seniors, because we have never adjusted since 1983, when Mr. Lew and others did the work on this Committee to make sure we put there -- we placed there, and did not make the change for our working seniors to have a tax break.

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

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

[The information follows: [The Honorable John Larson](#)]

*Chairman Brady. Mr. Paulsen, you are recognized.

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

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

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

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

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

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

On the inclusion of the financial regulatory issues, we may just have a disagreement. I have been very clear with my European counterparts that we do not believe that regulatory issues should be governed by a trade agreement in the area of financial

regulation. We have many mechanisms to coordinate, which I think are working effectively. Just yesterday we saw in the commodities trading area an important agreement reached, many years in development.

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

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

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

So now, pursuant to the new law, how is Treasury going to comply with congressional intent? What efforts are underway now to ensure that Treasury has the appropriate resources in the way of collection contractors and debt collection centers to actually carry out the goals of this expeditious tax collection and protecting taxpayer rights? Because this was a paid-for, used-for in the highway bill that just passed.

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

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

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

*Mr. Paulsen. Thank you, Mr. Chairman. I yield back.

*Chairman Brady. Thank you. Mr. Marchant, you are recognized.

*Mr. Marchant. Thank you, Mr. Chairman.

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

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

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

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

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

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

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

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

that are national security standards," when they are really just trade barriers or barriers to acquisition.

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

*Mr. Marchant. Thank you, yield back.

*Chairman Brady. Thank you. Mr. Lewis, you are recognized.

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

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

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

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

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

*Secretary Lew. Well, Congressman, I couldn't agree with you more. The American people deserve to have an IRS with the resources so that, when you pick up the phone and call the IRS, there is a person at the other end to answer it. Last year the answer rates were in the thirties, like 37 percent, something like that. Outrageous.

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

At the end of the year, there was a slight increase in the IRS budget for three purposes, one of which was to staff the hiring of people for tax season. Now, that was passed in December, and tax season began in January. We have hired a lot of people, but they have

to be trained. We are hoping to get close to 70 percent, in terms of the answer rate, but we didn't get full funding, even with the increase last year.

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

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

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

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

*Mr. Lewis. Mr. Secretary, when the government was closed down for a little while --

*Secretary Lew. Yes.

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

*Secretary Lew. Well, Mr. Lewis, first, I visited the Atlanta field office just a few weeks ago, and it was a dedicated group of people who care deeply about their country, and who care deeply about doing their job, as well. The only concerns I heard them raise were, "How can we do better protecting people's identify? How can we do better at providing better service?" And they said, "Will you get us the resources to do it, so that we can get this job done well?"

I think, if you look at the impact of the government closure and where the furloughs were deepest, the IRS got one of the worst burdens in government, because it is all people. And I think it was terribly demoralizing to people. I give a lot of credit to the

people of the IRS, that they pick themselves up and they come back determined to do a good job.

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

*Chairman Brady. Thank you, Mr. --

*Secretary Lew. -- didn't do anything wrong.

*Chairman Brady. Thank you, Mr. Secretary.

*Mr. Lewis. Thank you, Mr. Secretary.

*Chairman Brady. Mrs. Black, you are recognized.

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

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

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

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

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

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

Now, I know it is law that if they cannot verify their legal status, that for 90 days they are going to receive the subsidies. I happen to believe you shouldn't even give it out for 90 days, because now there is a pay-and-chase. And we have seen this in other programs, like the EITC. We are also seeing this in the education tax credits. We don't even really know how many dollars -- this is one situation, but we really don't even know how many dollars we are trying to chase that were given out on self-attestation, where there wasn't verification of income in those other programs like auto-renewal, where we didn't even say, "Has there been a change in your income."

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

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

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

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

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

*Mrs. Black. So can you tell me, Mr. Lew, how much money is coming back? Of this --

*Secretary Lew. I would have to get back to you, yes.

*Mrs. Black. Could you get back to me on that?

*Secretary Lew. I --

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

*Secretary Lew. I will get --

*Mrs. Black. -- minuscule, compared to what goes out the door.

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

*Mrs. Black. Well, it is not working.

*Secretary Lew. -- offsetting future refunds when it comes to --

*Mrs. Black. It is not working.

*Secretary Lew. -- anyone who fails to reconcile.

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

*Chairman Brady. Thank you. Mr. Young, you are recognized.

*Mr. Young. Thank you, Mr. Chairman.

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

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

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

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

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

*Mr. Young. Right.

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

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

*Mr. Young. Have you prepared for that contingency within the President's proposal --

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

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

*Secretary Lew. I think we provide some time for --

*Mr. Young. Time to adjust?

*Secretary Lew. It is a five-year period to pay the taxes that are due. So that is an attempt to make it not become kind of a sudden burden that would stress a firm's cashflow. If that is not sufficient, we are obviously open to a discussion about how to deal with it.

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

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

*Secretary Lew. Yes.

*Mr. Young. -- way in the 1980s the tax reform proposal was done. So I am surprised you haven't been able --

*Secretary Lew. Well, no, we have --

*Mr. Young. -- to get down to that level of detail, candidly.

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

*Mr. Young. And we were grateful for that.

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

*Mr. Young. Right.

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

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

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

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

*Mr. Young. Right.

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

*Mr. Young. Thank you.

*Chairman Brady. Thank you. Mr. Blumenauer, you are recognized.

*Mr. Blumenauer. Thank you, Mr. Chairman.

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

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

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

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

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

*Secretary Lew. I remember it --

*Mr. Blumenauer. -- a nickel a gallon, back when that was real money, and had tremendous impact on our country.

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

But my question to you, Mr. Secretary, is why should we go through the machinations of the barrel charge that gets the petroleum industry moving from neutral to opposed? I didn't see vast numbers of people lining up supporting it, like they did with our gas tax increase. Why don't we just -- is there opportunity for us to work with the Administration to just do it directly now, and raise the gas tax to meet these objectives on

a sustainable basis, going forward, rather than a proposal that actually would cost more, and has more negative consequences?

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

*Mr. Blumenauer. You don't think that a \$10-a-barrel increase --

*Secretary Lew. I don't think --

*Mr. Blumenauer. -- is going to be reflected in higher gasoline --

*Secretary Lew. I don't think --

*Mr. Blumenauer. -- prices at the pump?

*Secretary Lew. -- you can just divide it by the 42 gallons in a barrel.

*Mr. Blumenauer. No, I am not suggesting, but --

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

[Laughter.]

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

*Mr. Blumenauer. Okay.

*Secretary Lew. -- increase funding for highways.

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

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

Thank you. Thank you very much for your courtesy.

*Chairman Brady. Thank you. Mr. Kelly, you are recognized.

*Mr. Kelly. Thank you, Chairman.

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

[Slide]

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

*Secretary Lew. That is exactly how I view myself.

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

*Secretary Lew. Yes.

*Mr. Kelly. But sometimes the conversation drifts --

*Secretary Lew. He works for the American people, too.

*Mr. Kelly. Yes, yes. And it drifts into something else.

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

But the mission statement for the Treasury is to maintain a strong economy and create economic and job opportunities by promoting the conditions that enable economic growth and stability at home and abroad, strengthen national security by combating threats and protecting the integrity of the financial system, and manage the U.S. Government's finances and resources effectively.

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

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

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

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

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

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

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

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

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

My question to you, as you start the end of a career, where is it that you see this going? Because I don't see it. At 19 trillion in the red and climbing, and this President's budget takes it way over the cliff, could you possibly be able to sit down and say, "You know, what, Mr. President? Looks good to me." I mean it doesn't. This is a very bleak

future. But we have assets, we could turn this around with a proper tax code, regulation reform, and really make it easier for people in America to be successful. They pay a high portion of whatever it is they make in taxes.

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

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

*Mr. Kelly. Yes, I know, and this could take three or four hours for us talk, but --

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

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

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

*Secretary Lew. Right, that --

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

*Chairman Brady. Thank you. All time is expired.

Mr. Renacci, you are recognized.

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

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

So, last week I was at a high school. I talked to juniors and seniors. I had them put up red cards or green cards. One of the questions I asked them, "Is our country going in the

right direction?" It was a sea of red, 95 percent no, it is not going in the right direction. These are the people who have to deal with this debt.

I asked them if our debt is too high. A sea of green. Yes, our debt is too high. I asked them if our government is working together to solve problems. It was a sea of red, absolutely no, we are just not. Now, these are kids 19, 20, 21, 22. These are voters, these are people who are going to have to live with what we are saying is okay, manageable. This isn't manageable. This debt, if it continues, it grows, is not manageable.

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

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

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

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

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

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

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

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

One of the issues that -- again, I am a CPA, a business guy. One of the primary causes of the high improper payment rate is the EITC program relies more directly on self-reported income of individuals, without regarding any verification. This stands in contrast to the means-tested cash welfare programs that require income verification. In other words, individuals flat out invent fictitious incomes to maximize their EITC cash bonus.

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

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

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

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

*Mr. Renacci. I agree with that.

*Secretary Lew. That is why it has had bipartisan support.

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

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

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

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

*Secretary Lew. Well, that -- our tax system is one where you file, and then we look at it afterwards. I think it would be a pretty dramatic change, and one that, if you did it

on a broad basis, would make our tax system even more cumbersome. But we can have further discussions --

*Chairman Brady. Thank you. All right, Mr. Pascrell, you are recognized.

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

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

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

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

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

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

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

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

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

*Mr. Pascrell. The budget does not --

*Secretary Lew. Which is the same as the rationale around -- for the EITC nationally. It is not different in Puerto Rico.

*Mr. Pascrell. I would hope not.

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

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

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

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

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

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

*Secretary Lew. We do have the state revolving fund, where we do try and support --

*Mr. Pascrell. I want that cap to be raised, so that a lot of other people --

*Chairman Brady. Thank you --

*Mr. Pascrell. -- a lot of municipalities -- thank you, Mr. Chairman.

*Chairman Brady. You bet. Mr. Meehan, you are recognized.

*Mr. Meehan. I want to thank you, Mr. Chairman.

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

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

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

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

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

*Secretary Lew. -- of addressing the -- those --

*Mr. Meehan. This was a determination made by the President that was --

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

*Mr. Meehan. You lifted, but --

*Secretary Lew. But we have not lifted sanctions on other issues. We continue to have sanctions --

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

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

*Secretary Lew. So, Congressman, the number you used, the 100 billion, we do not believe \$100 billion will be available to Iran under --

*Mr. Meehan. Well, 43.5 billion is the sum --

*Secretary Lew. Yes.

*Mr. Meehan. I mean let's say -- are they going to get 43.5 billion, or --

*Secretary Lew. There is -- there will be some amount. There have been different estimates, even from within Iran, that are even smaller than that. It is substantially less. We can walk it down to no more than 50 to 60, and I think it will be less than that, because there are real issues that encumber that money.

I think that the agreement is one where what Iran did in keeping its part of the bargain on dismantling the reactor at --

*Mr. Meehan. Well, whether they have --

*Secretary Lew. -- heavy water reactor, and putting the centrifuges either into storage or destroying them, shipping out the uranium, and subjecting themselves to oversight and inspection --

*Mr. Meehan. Mr. Secretary, my time is running out --

*Secretary Lew. -- that is something that is of real value --

*Mr. Meehan. Whether they have actually fulfilled the requirements is an open-ended question.

Let me just ask one other question, if I may. I have refinery workers in my district.

*Secretary Lew. I couldn't hear, I am sorry.

*Mr. Meehan. I have 3,000 refinery workers in my district. And they have already been disadvantaged by the determination to allow foreign refineries to ship oil now, refined oil, into the United States, about a \$3-a-barrel differential. Can you explain to me -- can you tell those workers that a \$.25-a-gallon increase on oil tax will not affect their jobs?

*Secretary Lew. Congressman, what I can tell you is over the last year we have seen a barrel of oil come down so much more in value than the amount of the fee we are talking about, which is \$10 phased in over 5 years, that -- there is a lot of disruption in the oil sector, but this is small in comparison to what they have experienced.

*Mr. Meehan. Thank you, Mr. Secretary.

*Chairman Brady. Thank you. Mr. Rice, you are recognized. If I may, Mr. Rice, we have a bill on the floor that we have to manage. Please excuse me while I go over to do that. Mr. Holding will run the rest of the hearing.

But thank you again for being here today.

*Secretary Lew. Thank you.

*Chairman Brady. Mr. Rice?

*Mr. Rice. Secretary Lew, thank you for being here today. You know, I have heard you mention and -- first time I heard it was the State of the Union, the President lamenting the bitter state of political discourse, and how -- he admitted --

*Secretary Lew. I am sorry, I am having trouble hearing you.

*Mr. Rice. And how it got worse during his term. And I think that is an awful shame. It think it is really curious, because I think the President is a very bright man, and he is certainly very charismatic. But I have seen, throughout my limited term here of three years, that the President spends a tremendous amount of time on the bully pulpit, throwing stones and working around and even subverting Congress.

And you see Administration officials coming in here and lying and not responding to subpoenas and delaying and obfuscating and talking about how transparent the Administration is. I think it is a terrible, terrible shame. And we sit here, he has got 11 months left in his term, and now he is lamenting this discourse.

I would love the opportunity to work with the Administration to solve some of the problems, these terrible problems that face our country that we all talk about. Republicans and Democrats, we all go home and talk about the fact that Medicare and Medicaid -- excuse me, Medicare and Social Security are crippled, and they are

heading toward insolvency. We all talk about the sad state of our tax code, and how it is not competitive in the world. And what I would like to see is serious talks about how to solve some of these problems.

What specific proposals -- I am not going to say it is all the Administration's fault, I think it is Congress's fault, too. But what specific proposals has the Administration made to fix Social Security? We all know it is a problem, we all know it is going to be insolvent in 15 years or so. I know of one, and that was CPI that was in the budget, what, two years ago. Is it in the budget this year?

*Secretary Lew. No. But, Congressman, I would say that if you are concerned about Medicare, and you look at the results of the Affordable Care Act, we have, for the first time in a generation, turned the cost curve around, reduced the rate of growth --

*Mr. Rice. So --

*Secretary Lew. -- done more to help the --

*Mr. Rice. So it will last three more years, right?

*Secretary Lew. I can't hear you.

*Mr. Rice. It will last three more years, right? Great. How do we solve the problem? We are not -- we haven't solved the problem. We need to make real solutions to solve the problem. How do we get to this next step of tax reform?

You know, Dave Camp put out a detailed tax reform proposal. I haven't seen one from the President. I hear you say, "Well, there are some things in there we liked."

*Secretary Lew. Well --

*Mr. Rice. I mean have we sat down and tried to work through that, and tried to get to a real tax reform proposal, other than just, you know spitting at each other?

*Secretary Lew. Congressman, I think in the conversations I have had with the three chairmen of this Committee that I have worked with, they all understand what the Administration's tax proposal is. We have had good conversations about where the areas of overlap are. It is not that we don't have a plan, we have a plan. We put out a white paper --

*Mr. Rice. What --

*Secretary Lew. We haven't had the political space to reach a consensus.

*Mr. Rice. Well, doesn't the Administration -- that is what confuses me. You know, the President is the leader of the country, right? Doesn't he have a role in creating that political space?

*Secretary Lew. Absolutely. He has tried.

*Mr. Rice. You said a little while ago, "I am willing to work with anything we can get a majority on." Well, doesn't he have a role in building that majority?

*Secretary Lew. Yes, and --

*Mr. Rice. I have been in Congress for three years. I have seen him engage with Congress twice. Once is when he said Assad crossed the red line in Syria, and the second is on TPA. He has been not present here at all, in my view.

*Secretary Lew. Well, Congressman, if you look in the area of tax reform and -- in business tax reform, we put forward a proposal over three years ago which many on our side of the aisle didn't immediately embrace. We said, "Let's reduce the statutory rate, let's cut corporate taxes, let's use closing loopholes to pay for it."

*Mr. Rice. Yes.

*Secretary Lew. And we proposed something to be a bridge between the parties, use the on-time revenue for infrastructure --

*Mr. Rice. That is right, and Dave Camp put out --

*Secretary Lew. For two years, that --

*Mr. Rice. Dave Camp put out a very specific proposal that talked about very specific -- you call them loopholes, I call them deductions and credits -- that would meet that. And it went nowhere.

*Secretary Lew. And I have had --

*Mr. Rice. It is not just the fault of Congress, it is also the fault of the Administration. The Administration has a role in building that majority.

I want to ask you about one thing in particular. Under Obamacare -- you know, I don't even know what the law is today, because the President -- his whim changes the law. But under the premium tax credit and the cost sharing reduction provisions that -- Congress appropriated money for one and not the other, and the Administration has blended the two and used the money illegally -- moved money from appropriated -- what was appropriated to what was not appropriated.

And this Committee has actually written letters And subpoenaed repeatedly information about this, and not one document has been provided. It has been going on for over a year. Can you tell me how we can get this resolved? Let's see this cooperation from the Administration.

*Secretary Lew. Well, Congressman, we have, obviously, said what we think the law is. The House has brought a lawsuit, so that will be resolved by the courts, and we will continue to consult --

*Mr. Rice. No response to the subpoenas from --

*Mr. Holding. [Presiding] Time has expired.

*Secretary Lew. Our staffs have been talking.

*Mr. Holding. Mr. Davis from Illinois is recognized for five minutes.

*Mr. Davis. Thank you very much, Mr. Chairman, and thank you, Mr. Secretary. And I want to compliment you on your long and distinguished career in government service.

I do believe that we have made some serious progress since passage of the Recovery Act. And I also believe that this budget would significantly continue that progress. Let me ask you. How much have we reduced the deficit since 2010?

*Secretary Lew. Well, the annual deficit has gone down 75 percent, from roughly 10 percent to roughly 2.5 percent.

*Mr. Davis. How is our current economic growth affecting the deficit?

*Secretary Lew. Economic growth is good for the budget. It grows the base of income and revenues go up and automatic stabilizing spending goes down. So recovery has been good for the budget. It obviously was a very deep hole we were in, so it doesn't completely erase the deficits.

*Mr. Davis. You know, I have heard the aspersions relative to the proposed budget. And if we were to adopt the President's budget, when would we begin to see some shrinkage in our debt?

*Secretary Lew. Well, we -- you know, we can see the deficit remain in the 2.5 to 3 percent range. We will see the debt stabilize at roughly 75 percent of GDP. And, you know, it will be ongoing issue that we have to work through, what the 20, 30, 40-year timeframe looks like for turning the debt around.

*Mr. Davis. So certain kinds of investments would actually have a positive impact on the debt? Is that --

*Secretary Lew. Well, I think growing the economy -- if we were to do the things I think we know we need to do on infrastructure and education, and help to -- on immigration reform, grow the economy through the things that we know will help, that actually helps the budget because it grows income. And therefore, revenue comes in on a natural basis.

We have done a lot to cause an economic recovery, and to encourage an economic recovery, but there is more we can do, and the budget continues to contain ideas and programs to do that.

*Mr. Davis. Although our economy is indeed improving -- and I don't think there can be any denial of that -- there are still groups in America --

*Secretary Lew. Absolutely.

*Mr. Davis. -- who are not taking advantage. For example, I cite a recent study that the University of Illinois did at Chicago which showed that almost half of the African American males in the City of Chicago ages 20 to 24 are neither in school, don't have a job. Given the need to strengthen the well-being of these individuals and others, I am delighted to know that we are advocating for expanding the earned income tax credit to help single parents.

In addition, given that Chicago is one of the largest beneficiaries of the new market tax credits, I am delighted that we are talking about making it permanent.

And I am really concerned about the President's proposal to provide tax credits for community colleges to try and connect, hopefully, with this group that I just mentioned. Could you expand a bit --

*Secretary Lew. Yes.

*Mr. Davis. -- on what the Administration is thinking about with that?

*Secretary Lew. Congressman, I couldn't agree more that we have to make sure that the benefits of economic growth offer opportunity more broadly, and are shared by all parts of our community.

You take one thing you mentioned, the childless EITC, childless earned income tax credit. It is the only part of our tax code, the only group in our country, that is taxed into poverty, childless people who would be eligible for the EITC. And that is just wrong. We should not have a tax that makes you go from working and staying barely above poverty to going below poverty. And I think that is why there is actually some bipartisan agreement on the childless EITC as a concept.

I hope we can work on that this year. We don't -- none of us should feel like we get to take this year off. We have a year to get more things done, And that is what this budget was put out there to try and encourage.

*Mr. Davis. Thank you very much. And I yield back, Mr. Chairman.

*Mr. Holding. Ms. Noem, five minutes.

*Mrs. Noem. Secretary Lew, talking about poverty, I wanted to address something that is going on with my Native American tribes in South Dakota. And, as you know, the Federal Government has a trust responsibility to provide health care for Native Americans in the United States and Alaska Natives. And, because of this responsibility, they were exempted from the individual mandate of the Affordable Care Act. But tribal employers and tribal businesses were not exempted from the employer mandate that was also included in that law.

You know, tribal governments in South Dakota employ several hundred employees. They fear they could be on the hook for millions of dollars of penalties. In fact, they are often very isolated. It is difficult to have economic development in these regions. They struggle to keep people in positions, in jobs, taking care of their families. And having that kind of penalty impacting them would greatly undermine health care, education, opportunities in the future.

You know, it is some of the most impoverished counties in the country. And so, clearly, this was not the intent of the law, to jeopardize them and their opportunities to provide for their families by making them subject to the employer mandate. So I would like to know what the Department of Treasury is doing to clarify the law and finding a solution to exempt Native Americans and Alaska Natives from the Affordable Care Act, and the employer mandate that is included within it.

*Secretary Lew. Congresswoman, let me just begin by saying that Treasury -- I personally value the government-to-government relationship between tribal governments and the Federal Government. And over the last number of months Treasury has received quite a few letters from Indian tribes, tribal leaders, and tribal organizations, raising the concerns that you are describing.

Treasury has met with tribal leaders and tribal organizations to discuss these issues, and -- including during the tribal consultation call that Treasury recently held with over 200 representatives of tribes and tribal organizations. We are reviewing the issue carefully, taking into consideration the feedback that we have received. And, as you know, the statute has no exception for Indian tribal government employees. But we are committed to considering the concerns that are being raised by tribal stakeholders, and I would be happy to follow up with you.

*Mrs. Noem. Is the intention of the Administration or the Treasury Department to exempt them from the employer mandate, then, and to find a way --

*Secretary Lew. Well, the statute doesn't give us the authority to exempt. So we are looking at the comments and the concerns, and looking to see what, if any, action can be taken. We can't create an exemption that doesn't --

*Mrs. Noem. Well, I have legislation that would do so. I would appreciate your support with it, as well, if we need to clarify the statute.

But clearly, because they were exempted from the individual mandate, the intent of the law is clear that Native Americans should not face this kind of penalty, especially in areas like I have, in South Dakota, where they are impoverished already, and have a difficult time with economic development. It would be a hardship that would jeopardize the little prosperity and way of life that they have today, which is little to none.

*Secretary Lew. Well, I have a lot of empathy for the people in Indian Country, but -- and understand the poverty there, so --

*Mrs. Noem. Well, and specifically in South Dakota even, it is worse. Out of the top 11 poorest counties in the nation, I have 5 of them in South Dakota, and they are all my Native American reservations. So this is something that is there, is constantly on their mind, it is constantly on my mind, and we need resolution, too.

So I know that you are indicating that you will work with me, but we need to find a solution, too. So let's --

*Secretary Lew. Yes. Sitting here, I don't know what the solution is, but we are happy to follow up.

*Mrs. Noem. Okay, thank you. I yield back.

*Secretary Lew. Thank you.

*Mr. Holding. I recognize myself for five minutes. Secretary Lew, the Department of the Treasury and the IRS take seriously the taxpayers' obligation to preserve records, documents [sic]. Indeed, as you know, individual corporate filers who lose records, documents, face significant penalties.

The Federal Records Act that heads -- that the heads of agencies quote -- and I will quote this -- "Make and preserve adequate and proper documentation designated to furnish the information necessary to protect the legal and financial rights of persons directly affected by the agency's activities." So, just like taxpayers under audit, then, Treasury and the IRS are required to preserve important documents. We can agree on that.

And when the Treasury and the IRS are being investigated, or engaged in litigation with private parties, they are supposed to maintain records that may be relevant to those proceedings.

In June of 2014 the IRS announced that it had lost Lois Lerner's emails, and destroyed back-up tapes in the face of multiple subpoenas -- the internal hold notices and document preservation notices from the IRS, TIGTA, And DOJ. The IRS testified before this Committee that the Lerner document destruction was just a fluke, And that the IRS would improve its systems.

But it is deja vu all over again. In the middle of an audit of a large corporation, the IRS marked documents for deletion and destroyed records that were under a litigation hold. When questioned, again, the answer is that it is not as bad as it looks. And while the IRS attempted to destroy the documents, by sheer luck not all of the records had indeed been destroyed.

So my question, Mr. Secretary. What is the Treasury's policy about employees who destroy documents that are part of a litigation or investigation?

*Secretary Lew. Well, Congressman, whenever -- first, we comply with the federal record retention policies, And that is the policy, and continues to be. When there is any kind of an investigation, parties are notified about retention requirements that are particular to cases with investigations.

I think that, you know, obviously, there has been a lot of discussion about the facts that are at issue. I don't think your characterization of them is one that we would agree with, in terms of whether things were destroyed or whether, because of the standard practices, there was a writing over of -- on a routine basis, of storage materials.

I am happy to get back to you with more details. But it is certainly my policy that we all need to comply with the requirement.

*Mr. Holding. So are you taking steps that would ensure that the IRS stops destroying records integral to any investigation?

*Secretary Lew. I --

*Mr. Holding. I mean can you point to any concrete steps that you are taking in light of --

*Secretary Lew. I am not conceding that there was destruction. You know, there -- you know, the practices of using storage materials and writing over them was driven more by budget concerns than anything else. But I do know that they are doing a lot more, and it is costing them a lot more money to not do that kind of writing over in the future, in part to respond to the inadvertent --

*Mr. Holding. Would you agree that it undermines the confidence that the American --

*Secretary Lew. Yes.

*Mr. Holding. -- people would have in the IRS, when they seem to be held to a different standard regarding the retention of documents than individual taxpayers are?

*Secretary Lew. They are held to the same standard --

*Mr. Holding. Do you think the individual taxpayer would receive a very warm welcome from the IRS if they just said, "Well, in the common practice of my business I seem to be overwriting these relevant documents on a regular basis that you would like to have for this audit"?

*Secretary Lew. Look, I think the overwriting, as a general practice -- this has nothing to do with a records retention issue. It was a matter of cost and efficiency --

*Mr. Holding. So does cost and efficiency trump the record retention --

*Secretary Lew. No, I am not -- we are happy to get back to you, but my understanding is that they are not doing the overwriting any more, and it is much more costly because of that. There is more storage and more devices.

*Mr. Holding. Are they sufficiently complying with the record retention policies?

*Secretary Lew. It is certainly the policy to comply. You know, I have to defer to those who oversee, you know, on a daily basis, whether there --

*Mr. Holding. Well, Mr. Secretary, I don't think you would accept from a taxpayer the excuse that, "For efficiency and cost savings, I destroyed my relevant records that you would like for this audit."

My time has expired. I recognize Ms. Sanchez for five minutes.

*Ms. Sanchez. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for hanging with, to the bitter end, the last few Members that are here to ask questions.

I am interested in discussing some aspects of the Administration's 2017 budget, because I think -- And it has been said many times on this Committee -- that budgets are a very clear reflection of what priorities we value. And our priorities, I think, should be very clear, in terms of what we need to do for the American public.

We need to create an environment for good-paying jobs that allow workers to support a family. We should offer our children an opportunity to get an education and to be able to develop their talents without the threat of crushing debt from going to pursue a higher education. We should be fostering innovative businesses and creating a business environment that allows our domestic industries to thrive.

And I am happy to see, quite frankly, that the President's budget reflects all of those priorities. I think it is a healthy road map, and a -- quite a good statement about what his priorities are.

One of the issues that I would really like to drill down on in the President's -- is the President's child care tax incentive proposal. As a mom who has faced the struggle to find affordable and quality health care, I know of many couples that, even though they find out they are expecting, and it should be a time of great happiness and joy, they also begin to fret. That is the moment they begin to fret and think about just exactly how are they going to be able to swing working and quality child care.

Too often, families don't find options that help them. And there are a number of examples in certain states where parents are actually paying more to send an infant to day care than they are to send children to college. And you know, that is just alarming to me. Too many families are forced to make economic choices for their families, rather than the choices that are best for their families, and we have to stop that madness.

So I am interested in hearing a little more detail from you about the President's proposed changes to the child care tax credit, and how that provision specifically could benefit working families in this country.

*Secretary Lew. Well, Congresswoman, I couldn't agree more that the issues of child care are fundamentally important to working families. And it is indeed a real challenge for many families to make ends meet. And you can't go to work if you can't get the child care. So it is an economic issue, as well as a personal family issue.

And the President's budget contains a number of policy initiatives to try and ease the burden on working families. It would provide a new simple tax credit to two-earner families. It would be a second earner credit of up to \$500 per year. We would reform the child care tax incentives, raising the threshold, which begins to phase down now at 15,000, to 120,000, so that the rate reaches 20 percent of income above \$148,000.

We would simplify and better target education tax benefits to improve college affordability. Child care is the first set of bills, but, you know, college bills are on the horizon. And --

*Ms. Sanchez. As somebody who experiences both of those things, I definitely feel the pain.

*Secretary Lew. I have been through many years of both. And finally, we would expand the earned income tax credit for workers without qualifying children, which is a different issue than you raised, but it is critically important, in terms of providing working families the ability to stay in and -- get into and stay in the workforce.

*Ms. Sanchez. I appreciate your response, and I am just going to add one comment onto the end of this, since I have got about 60 seconds left.

I actually was discussing the issue of trying to find affordable child care with another colleague. And a third colleague sort of overheard, somebody a little bit older than I am, and his contribution to the conversation was, "Well, can't the grandparents just watch the children?" And I wanted to -- I bit my tongue, but what I wanted to say is --

*Secretary Lew. The grandparent are working, also.

*Ms. Sanchez. Well, no. I have a father with Alzheimer's, who is in full-time nursing care, and a mother who is retired, who can't run after a young child, due to health problems. So I think there is a lack of understanding And --

*Secretary Lew. Right.

*Ms. Sanchez. -- awareness of just how difficult it is for families to get that kind of support that they need.

*Secretary Lew. As a proud and doting grandfather, I relish every minute I get to spend with my grandchildren. But, you know, it is just not practical to expect grandparents to leave the workforce early, in many cases. And, as you say, the responsibility for two generations creates a real sandwich generation.

*Ms. Sanchez. Yes. Thank you so much for your time.

*Mr. Holding. Mr. Crowley is recognized for five minutes.

*Mr. Crowley. Thank you, Mr. Holding. It is appropriate, two guys from Queens.

*Secretary Lew. Bringing it home.

*Mr. Crowley. Mr. Secretary, welcome once again. Today on the House floor is a bill to compel the Administration to come to Congress and discuss the budget and the deficit. Pretty interesting, is it?

*Secretary Lew. It is a little ironic.

*Mr. Crowley. So I find it odd, like you, I think, that this week the Republicans are refusing to have the guy who writes the budget for the White House -- they haven't asked him to testify. In fact, they are not inviting him to testify before Congress to discuss the budget and the deficit. And we both find that ironic.

But since he is not going to be invited to come before the Hill, maybe you could channel your best Shaun Donovan for us here and answer a few questions about the budget and the deficit, as you have been doing throughout this morning and this afternoon.

Earlier this week the President issued his budget for the year, and it outlined ways to cut \$2.9 trillion from the debt. Is that correct?

*Secretary Lew. Correct.

*Mr. Crowley. Now, this is on top of about \$4 trillion in previously-enacted deficit reduction by the President, mostly in spending cuts, though some in closing tax loopholes and increasing the taxes paid by millionaires, as well as the economic policies put in place by this Administration, and carried out by Democrats also helped to improve the economy. Is that not correct?

*Secretary Lew. Correct.

*Mr. Crowley. Would saving the auto industry, which Republicans bragged they wanted to let go bankrupt, or investing in clean, renewable energy manufacturing, which is revitalizing our nation -- including in places like Buffalo, New York, for instance -- be some of the economic policies put in place by this Administration And carried out by Democrats also as it helped to improve the economy? And maybe you can add a few others, if you can think of them.

*Secretary Lew. Look, I think, if you look at the auto industry, saving the -- we have had months -- several months of record, historic record auto sales by U.S. auto industry that could have easily been out of business --

*Mr. Crowley. In fact --

*Secretary Lew. -- if not for the actions we took --

*Mr. Crowley. In fact, Mr. Secretary, under the -- President Obama, the U.S. auto industry has created 645,000 American jobs.

*Secretary Lew. Right.

*Mr. Crowley. When, again, my Republican colleagues wanted to let Detroit go bankrupt. Is that not correct?

*Secretary Lew. Yes. I mean I think that it is an enormous recovery, rebound for the auto industry. And it very much proves the wisdom of not losing that critical industry.

*Mr. Crowley. One of those pesky tax loopholes we closed without Republican support was to prohibit Americans from hiding their money offshore in foreign bank accounts. Is that not correct?

*Secretary Lew. Mm-hmm.

*Mr. Crowley. It is odd the Republicans opposed that common-sense action, but maybe they represent a lot of folks with Swiss bank accounts. No one that I know in Queens fits that bill, nor did anyone complain about the closing of that giant loophole, that giant billion-dollar loophole.

A simple fact is that the first trillion-dollar annual deficit was created when President Bush was president, in the final year of his presidency. Have those trillion-dollar deficits been stopped by this Administration?

*Secretary Lew. We have been reducing the deficit by a faster rate than any time since the end of World War II. There is still a deficit, because we started in such a deep recession and such a --

*Mr. Crowley. They are no longer a trillion --

*Secretary Lew. No, it has been dramatically reduced.

*Mr. Crowley. Mr. Secretary, the Affordable Care Act, or Obamacare, was slated to save taxpayers \$100 billion in the first 10 years. How much has it saved to date, being only in its first five years of law?

*Secretary Lew. I should have -- if I were the budget director, I would have those numbers at my disposal, but I will have to go back And a--

*Mr. Crowley. Well, I am told that, by the numbers we have from OMB, compared with the 2011 mid-session review, projected federal health care spending for 2020 will have decreased by \$185 billion, not \$100 billion, based on current budget estimates, saving above and beyond -- way above and beyond -- the deficit reduction directly attributed to the Affordable Care Act. So we can put that in your quiver.

And the private sector has created new jobs in every month since the Affordable Care Act, that dreaded job killer, was enacted into law. Is that not correct?

*Secretary Lew. Not only have we created more jobs, but we have seen jobs created at a pretty rapid rate in the small business part of the economy, which was where a lot of the biggest concerns were raised.

*Mr. Crowley. So the only thing sent to the so-called death panels were the Republican lies about the health care law, and how it would hurt our economy.

So let me close by saying that I do not think we need to make America great again, as we already are the greatest nation on earth. And I pity those that need to spin untruths and lies to tear down the greatest nation on this planet. Thank you, Mr. Secretary, for being here today.

*Secretary Lew. Thank you.

*Mr. Holding. I would like to thank the Secretary for appearing before us today.

Please be advised that Members may submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record.

And, with that, the committee stands adjourned.

[Whereupon, at 1:14 p.m., the committee was adjourned.]

[Questions for the Record](#)