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CONGRESSIONAL HEARING REPORT

DATE OF HEARING: June 13, 2017

SUBJECT: “President’s FY 18 Budget and Revenue Proposals”

COMMITTEE: Senate Budget

STAFF MEMBER COVERING HEARING: Alex Barcham

Members Present

Republicans: Chairman Michael Enzi (WY), Senator David Perdue (GA), Senator Pat Toomey (PA), Senator John Kennedy (LA), Senator Mike Crapo (ID), Senator Ron Johnson (WI), Senator Cory Gardner (CO)

Democrats: Ranking Member Bernie Sanders (VT), Senator Sheldon Whitehouse (RI), Senator Tim Kaine (VA), Senator Chris Van Hollen (MD), Senator Jeff Merkley (OR), Senator Ron Wyden (OR)

Witness

[The Honorable Steven T. Mnuchin](#), Secretary, United States Department of the Treasury

Overview

On June 13, the Senate Budget Committee held a [hearing](#) to discuss the President’s Fiscal Year (FY) 2018 budget and revenue proposals.

Topics discussed in the hearing included: (1) Debt Ceiling/Budget Process; (2) Tax Reform; (3) Estate Tax; (4) Regulatory Reform; (5) Economic Growth/National Debt; (6) Volcker Rule; (7) Passthrough Entities; (8) Infrastructure; (9) International Taxation; and (10) Sanctions.

Member Statements

Chairman Michael Enzi (R-WY) said the Treasury has a responsibility to foster economic growth and ensure fiscal stability. He stated that the national debt is growing and economic growth is sluggish. He said he has suggested including long-term debt-to-GDP targets in the federal budget process, which would provide key goals and benchmarks for the Administration and Congress. **Enzi** noted that Congress will be asked to raise the debt ceiling again this year, stressing the need to change the trajectory of spending. He said the President has proposed a budget which balances. He stated that one way to promote economic growth is through tax reform. He expressed support for broadening the base, lowering rates, and simplifying the code. He said tax reform is long overdue, stressing the need to get a bill “across the finish line.” He stated there are questions about how tax reform bills will be scored, suggesting that dynamic scoring provides more complete information than static scoring. He said the Committee is continuing to examine the use of dynamic scoring. **Enzi** said the Treasury also plays a key role in regulatory reform, international trade, and infrastructure investment. He commended the Administration for withdrawing from the Paris Climate Accord. He said the FY2018 budget must stimulate the economy, promote growth, and address the national debt.

Ranking Member Bernie Sanders (I-VT) said during his campaign President Trump stated that he would stand up for working families and stand up to the establishment. He stated that as a candidate Trump had harsh comments towards Wall Street and said he would “drain the swamp.” He noted that Trump also called for reinstating the Glass-Steagall Act. He stated that those promises were just “campaign rhetoric” which Trump did not intend to actually implement. He said Trump has more billionaires in his Administration than any president in history. He stated that Trump has appointed multiple economic advisors from Goldman Sachs, including Mnuchin and Gary Cohn. **Sanders** said every major Wall Street institution was involved in reckless, irresponsible and illegal behavior which led to the 2008 financial crisis. He stated that financial institutions ripped off consumers and sold mortgage-backed securities (MBS) which were worthless, noting that Goldman Sachs paid a fine of \$5 billion. He stated that the President has endorsed the Financial CHOICE Act, which would deregulate Wall Street and increase the odds of another financial crisis. He stated institutions which are Too Big to Fail are too big to exist and should be broken up. **Sanders** described the President’s budget request as destructive and harmful to average Americans. He said the Trump budget would cut nutrition program, slash Head Start, and make massive cuts to affordable housing, while giving \$3 trillion in tax breaks to the top 1 percent. He stated that the President’s budget request is “immoral” and must be defeated by Congress.

Senator Sheldon Whitehouse (D-RI) said the Committee will eventually have to address the issue of savings in the health care system. He said the Congressional Budget Office (CBO) has reduced the out year projections for health care spending by \$3 trillion since the passage of the Affordable Care Act (ACA). He expressed concern that Senate Republicans are working to repeal the ACA through a secret process with no Democratic amendments.

Witness Testimony

The Honorable Steven T. Mnuchin, Secretary, United States Department of the Treasury said his top priority as Secretary is creating sustainable economic growth. He said this can be achieved through tax reform, regulatory relief, and protecting taxpayers. He stated that if the U.S. returns to GDP growth above 3 percent the economy would grow by trillions of dollars. He said tax reform will play a major role in the campaign for growth, noting that it has been 30 years since the previous tax reform package. **Mnuchin** expressed support for giving tax relief to lower and middle income Americans, making American businesses more competitive, and simplifying the tax code. He emphasized the importance of free and fair trade. He stated that he has had productive meetings with the finance ministers of the G-7. He said imprudent regulations and an uncompetitive tax system are stifling economic growth.

Question and Answer

Debt Ceiling/Budget Process

Chairman Michael Enzi (R-WY) said the original estimate for the exhaustion of extraordinary measures was in the fall, but there have been calls to raise the debt limit before the August recess. He asked when the deadline is for raising the debt limit. **Mnuchin** said his preference is for the House and Senate to address the debt limit before the August recess. He stated that the Treasury has plans which allow them to fund the government through September.

Senator Tim Kaine (D-VA) said Congress reached a bipartisan Continuing Resolution (CR) in April. He said President Trump has suggested that there should be a “good shutdown” in September. He asked if Mnuchin believes there should be a “good shutdown.” **Mnuchin** said it is

not his “primary objective” to have a shutdown. He said there are reasons why at times a shutdown could be the right outcome, but he does not support closing down critical infrastructure. He stated that his objective is to raise the debt limit. **Kaine** asked if it would be helpful to provide certainty to the public about government funding. **Mnuchin** said it would be better to have uncertainty that could lead to good outcomes than certainty about bad outcomes. **Kaine** expressed support for funding the government through appropriations rather than through CRs. **Mnuchin** said at some point it makes sense to review the entire budget process and link the debt ceiling to budgeting. **Kaine** asked what the debt-to-GDP ratio should be. **Mnuchin** said he has a general concern about the size and growth of the debt. He said the last time the U.S. had a surplus was when it had economic growth stressing the need to grow the economy.

Senator David Perdue (R-GA) said the budget process is broken, stressing the need to avoid the use of CRs. He said Congress is likely headed to a CR in September or an omnibus. He asked about Mnuchin’s perspective on the budget process. **Mnuchin** said if he were “king for a day” he would prioritize fixing the budget process over fixing the Dodd-Frank Act (DFA). He asserted that the budget process is completely broken.

Tax Reform

Chairman Michael Enzi (R-WY) said the President’s budget assumes deficit neutral tax reform. He asked about the Administration’s views on tax reform and economic growth. **Mnuchin** said they believe the U.S. can return to 3 percent sustained economic growth through tax reform, regulatory reform and trade. He stated that their principles for tax reform are simplifying the code, reducing the number of brackets, reducing special interest deductions, and making it so that most Americans can fill out their taxes on a large post card. He stated that on the business side the U.S. has an uncompetitive tax system which has high rates, taxes worldwide income, and includes deferral which leads to companies leaving money offshore. He stressed the need to address these problems. **Enzi** noted that in 2012 he introduced the U.S. Job Creation and International Tax Reform Act, which would fix the tax code and promote job growth. He said the bill would place U.S. firms on a level playing field internationally. He asked if the current system places U.S. companies at an international disadvantage. He questioned whether the U.S. should move towards a territorial system. **Mnuchin** commended Enzi’s work on this issue. He said the current system is outdated and the U.S. should move to a territorial system. He stated that the worldwide system encourages companies to leave their money abroad. **Enzi** said tax reform must also address the thousands of small business structured as passthroughs.

Senator Ron Wyden (D-OR) said ten days ago Mnuchin reiterated that there would be no absolute tax cut for the wealthy. Wyden stated that this principle is referred to as the “Mnuchin Rule.” He noted that yesterday Mnuchin said in the House Appropriations Committee that the “Mnuchin Rule” is an objective, not a commitment. He noted that Mnuchin also said the President would not veto a tax cut for the wealthy. He suggested that Mnuchin has changed his position. He asked if Mnuchin would return to his commitment that there will be no absolute tax cut for the wealthy. **Mnuchin** said he did not establish this rule. He stated that avoiding an absolute tax cut for the wealthy is an objective, but he is focused on creating a middle income tax cut. He stated that the Administration’s focus is on getting tax reform done, stating that they will have to work with Congress to do so. He stated that there will be “compromises along the way.” He said the President will have to evaluate whether to sign the tax reform package passed by Congress. **Wyden** emphasized his support for bipartisan tax reform. He said bipartisan tax reform will not occur if the Secretary of the Treasury walks back his pledge not to cut taxes for the wealthy.

Senator Pat Toomey (R-PA) said the Administration should be focused on economic growth, suggesting that the Obama Administration's policies slowed growth. He suggested that tax reform will promote economic growth and result in fewer people needing assistance from safety net program. **Mnuchin** agreed, suggesting that increased economic growth will result in people returning to the workforce. He said 70 percent of the burdens of corporate taxes are passed on to workers. **Toomey** said a pro-growth tax code will support economic growth. He expressed support for using dynamic scoring, which accounts for economic growth as a result of tax reform. He put forward that the CBO and the Joint Committee on Taxation (JCT) may not account for this growth. He suggested Republicans may need to use reconciliation to pass tax reform. He said any increase in the deficit outside of the budget window is not permitted under reconciliation. He suggested that **Mnuchin** consider a longer budget window than the traditional ten years. He said permanent tax reform would be best, but it requires bipartisan support, suggesting that this will not occur. He stated that temporary tax relief would be the next best thing. **Mnuchin** said he is hopeful that bipartisan support can be obtained. He said reconciliation is an alternative if bipartisan support cannot be obtained. He stated that he is open to moving to a 20 year budget window. He stated that he supports the use of dynamic scoring.

Senator Sheldon Whitehouse (D-RI) said **Mnuchin** testified that tax reform would be paid for with economic growth and base broadening. He noted that Office of Management and Budget (OMB) Director Mick Mulvaney has said the President's tax reform plan would be deficit neutral without regard to growth. He asked which statement is accurate. **Mnuchin** said Treasury is working on the details of tax reform. He said the budget will be updated when the tax reform plan is completed. **Whitehouse** suggested that the budget request utilizes double counting.

Senator Sheldon Whitehouse (D-RI) suggested that reductions in revenue through tax cuts have the same effects on the deficit as increases in spending. **Mnuchin** said he is very concerned about the debt. He said tax reform must be paid for and accounted for. He stressed that tax reform is not just tax cuts. **Whitehouse** said tax loopholes should be closed to help reduce the deficit. **Mnuchin** said the Administration's proposals are focused on economic growth, which will lead to an increase in revenue.

Senator Chris Van Hollen (D-MD) asked if the Administration's tax proposal will comply with the rule that there be no absolute tax cuts for the upper class. **Mnuchin** said he hopes to release a more detailed plan in the near future. He said the plan would eliminate almost all deductions except the charitable and mortgage interest deductions. He stated that he would testify when the plan is released. **Van Hollen** said the JCT will do dynamic scoring of any tax plan. He asked if **Mnuchin** would oppose any plan that the JCT says increases the deficit. **Mnuchin** said the Administration believes in complete transparency. He stated that the Administration will explain their views on the JCT scoring.

Senator John Kennedy (R-LA) asked about the total cost of all of the deductions, exemptions, exclusions and credits in the tax code. **Mnuchin** responded that it is a staggering number. **Kennedy** asked if Treasury is looking at all of these provisions and examining whether the benefits are greater than the costs. **Mnuchin** stressed that everything is on the table. **Kennedy** asked how the Administration's proposal will help the working class. **Mnuchin** said their objective for the working class is to offer a tax cut and simpler tax filings. He said fixing the business tax system will create better paying jobs.

Senator Jeff Merkley (D-OR) criticized the lack of detail in the President's tax plan. He stated that the President's tax plan would increase the debt and give tax breaks to the wealthy. He said that the Republican health care plan would give Americans making more than \$1 million per year a tax cut of close to \$50,000. He asked if the Republican health care plan violates the "Mnuchin Rule." **Mnuchin** emphasized that he did not create the "Mnuchin Rule." He said the health care plan would reverse \$1 trillion in new taxes created by the ACA. He said these taxes are mostly on capital, which hurts productivity and job creation. **Merkley** said the Republican plan would give tax breaks to the wealthy while slashing health benefits. **Mnuchin** said the plan would eliminate taxes which are a drag on the economy. **Merkley** said the budget proposal would provide \$3.6 trillion in tax cuts, with three quarters of those going to the top 1 percent of Americans. He suggested that the top 1 percent is already doing very well. He asked why the Administration would support a proposal to help the wealthy while taking health benefits away from working families. **Mnuchin** said the President's objective is to create economic growth, simplify the tax code, and create a middle income tax cut. **Merkley** asked if Mnuchin is abandoning the "Mnuchin Rule." **Mnuchin** said he is not abandoning anything, asserting that his objective is not about creating tax cuts for the rich, but to simplify the tax code. He said the Administration's proposal would take away every deduction for the wealthy, except for the mortgage interest and charitable deductions.

Estate Tax

Chairman Michael Enzi (R-WY) said family-owned businesses should not face financial ruin from the estate tax. He asked how the Administration will address the estate tax. **Mnuchin** said the estate tax is unfair, especially for family businesses which have promoted economic growth and job creation.

Ranking Member Bernie Sanders (I-VT) said the estate tax does not apply to 99.8 percent of Americans. He asked why the Administration would cut nutrition programs and energy assistance, while giving the Walton family a \$52 billion tax break by repealing the estate tax. **Mnuchin** said the President wants to create a middle income tax cut which focuses on spurring the economy. He stated that the very rich can use many gimmicks to avoid the estate tax. He said repealing the estate tax would help ranchers and farmers who want to pass on their family business. **Sanders** said the Koch family and the Trump family would receive large tax breaks if the estate tax were repealed. **Mnuchin** said President's budget and tax reform plan are about creating 3 percent economic growth. He said the budget includes difficult choices about cuts.

Regulatory Reform

Ranking Member Bernie Sanders (I-VT) said President Trump campaigned on reestablishing Glass-Steagall. He asked if the Treasury's recent report calls for implementing a 21st Century Glass-Steagall Act. **Mnuchin** said President Trump campaigned on creating a "21st Century Glass-Steagall." He said this is different from what was in the Republican Party platform. He stated that the President does not support breaking up big banks, but believes there should be prudent regulations for big banks.

Senator Mike Crapo (R-ID) commended the Treasury's report on reducing regulatory burdens. He said the report is an important step and includes helpful recommendations. He asked about the need to tailor regulations. **Mnuchin** said the banking system is now sufficiently capitalized. He said the report's overarching theme is that community and regional banks must be allowed to grow properly, stating that these banks do not put the system at risk. He said regulations must be

appropriately tailored not to put undue burdens on community banks. **Crapo** said there was some agreement in Congress last year on raising the systemically important financial institution (SIFI) threshold and modifying the application of Comprehensive Capital Analysis and Review (CCAR) stress tests. He asked how exempting some regional banks from CCAR and streamlining the process for others would help economic growth. **Mnuchin** said this is critical to economic growth.

Senator Ron Johnson (R-WI) said overregulation is a major impediment to economic growth. He asked about the importance of regulatory reform. **Mnuchin** said businesses have said regulations are the largest impediment to growth. **Johnson** said the one-in, two-out rule is a good start, but suggested that more must be done.

Senator David Perdue (R-GA) asked if Mnuchin would repeal the DFA if he were “king for a day.” **Mnuchin** responded in the affirmative, stating that he would start over. He suggested that most of the DFA is unnecessary. He said the Treasury’s report on regulations found that 70 or 80 percent of the needed changes can be achieved through executive orders and working with regulators.

Economic Growth/National Debt

Senator Mike Crapo (R-ID) commended Mnuchin for his willingness to work with Congress. He said the President’s budget assumes 2.9 percent growth over ten years. He said President Obama’s budgets assumed 4 percent growth in his first four years. He stated that 3 percent growth is not unusual from a historical perspective. **Mnuchin** said the historical rate is above 3 percent.

Senator David Perdue (R-GA) said the U.S. has one third of the world’s sovereign debt. He questioned how long the bond markets will allow the U.S. to take on so much debt. He said 60 percent of U.S. debt has a duration of three years or less, noting that the UK has moved to longer duration debt. He asked about the Treasury’s position on the impact of the debt on economic growth. **Mnuchin** said Treasury is exploring the use of ultra-long bonds of 50 or 100 years. **Perdue** suggested that even moving to 30 year bonds would be helpful.

Volcker Rule

Senator Mike Crapo (R-ID) said the report includes recommendations on simplifying and clarifying the Volcker Rule. He asked about the challenges firms have faced in implementing the Volcker Rule. **Mnuchin** said the CHOICE Act calls for a repeal of the Volcker Rule. He said the Administration is working on ways to fix the Volcker Rule, stating that their focus is on ensuring that proper market making functions do occur.

Senator Jeff Merkley (D-OR) said the financial crisis was driven by predatory mortgage lending and “big bets” by Wall Street. He said the Volcker Rule and the regulations on mortgages address these issues. He asked if Mnuchin supports dismantling those regulations. **Mnuchin** said he is “100 percent committed” to ensuring that Americans have access to mortgage capital, “but that they can afford those mortgages.” He said his objective is to fix the Volcker Rule.

Passthrough Entities

Senator Ron Johnson (R-WI) said he has proposed to treat C-corps like passthrough entities and tax corporate income at the ownership level. He said this would eliminate the harm caused by the double taxation of dividends. He asked for Mnuchin’s views on this proposal. He criticized Democrats for dismissing the use of dynamic scoring. **Mnuchin** said small businesses operating as

passthroughs should have the benefit of the business tax. He said wages should be properly taxed as well. He expressed support for the use of dynamic scoring, stating that the intent of tax reform is to stimulate economic growth.

Infrastructure

Senator Chris Van Hollen (D-MD) said there is bipartisan support for modernizing infrastructure, but the President's budget includes cuts to infrastructure. He said the Wharton School concluded that the President's budget request would make net cuts to infrastructure of \$55 billion. **Mnuchin** said he would review this study. He emphasized the President's commitment to infrastructure. **Van Hollen** said the Administration has only released a one page document on infrastructure.

International Taxation

Senator John Kennedy (R-LA) said the U.S. taxes companies on money they earn abroad, but only if they bring that money back home. He noted there are billions or trillions of dollars being held abroad because companies do not want to pay the taxes. He suggested that Treasury should reach a deal with these companies on how much they would have to pay in order to bring these funds back to the U.S. He contended that a bipartisan agreement could then be reached to use this money to fund infrastructure. **Mnuchin** said his primary objective is to fix the tax code, stressing the need to move to a territorial system. He stated that he would work with Congress to reach a bipartisan agreement. He stated that tax reform and infrastructure could be linked or not linked; and added that he is open to working with the House and the Senate to reach an agreement on tax reform. **Kennedy** said bipartisan support could be achieved for his proposal, suggesting that it would match non-recurring revenue with a non-recurring expense.

Senator David Perdue (R-GA) said \$6 trillion is not at work in the economy, partly because of money being held overseas due to repatriation taxes. He asked how the Administration's tax reform proposal would promote capital formation. **Mnuchin** said the business tax code must be simplified and made more competitive. He stated that the businesses rate is very high. He stated that the U.S. has a worldwide system with deferral, which encourages companies to keep money offshore. He suggested that this money should be brought back into the U.S. He stated that small and medium-sized businesses should also have tax relief.

Sanctions

Senator Cory Gardner (R-CO) said a report came out recently which identified 5,000 Chinese businesses which are doing business with North Korea. He noted that ten of those companies control 30 percent of Chinese exports to North Korea, with one company alone controlling 10 percent. He noted that another report stated that not one of the UN sanctions on North Korea enjoys robust international enforcement. He asked what can be done to enhance global enforcement of sanctions on North Korea. **Mnuchin** said he take his terrorism financing responsibilities very seriously, noting that he spends 50 percent of his time on this issue. He said the Administration believes in sanctions, suggesting that they work best when there is international cooperation. He stated that the President is concerned with North Korea's recent missile tests. **Gardner** said Secretary Mattis has called North Korea the biggest threat to the U.S. He said China increased its trade with North Korea in the first quarter of 2017. He asked if China has met its commitments on North Korea. **Mnuchin** said he could not comment in an open setting.