Insights: Overview of Ways and Means hearing on President’s budget with Mnuchin

The House Ways and Means Committee held a hearing on President Trump’s fiscal year 2018 budget proposal with Treasury Secretary Steven Mnuchin today.

Secretary Mnuchin discussed a number of key issues with committee members during the hearing, including interest deductibility, the border adjustment tax, taxation of pass-through entities, and the need for Congress to act quickly on legislation to address the debt limit. To follow are some highlights from the hearing:

Interest Deductibility

Rep. Jim Renacci (R-OH) asked Secretary Mnunchin whether he supports elimination of the deduction for interest as part of the tax reform plan. Secretary Mnuchin responded, “Well first of all, on the individual side, I support maintaining the mortgage interest deduction, and on the business side, my preference is to maintain interest deductibility, which is important for small- and medium-sized businesses, but we’re looking at that, like everything else that’s on the table.”

BAT

Several committee members asked Secretary Mnuchin to discuss his concerns about the border adjustment proposal in the House GOP Tax Reform Blueprint, while, Rep. Pat Tiberi (R-OH) expressed his own opposition to the proposal.

Rep. Tiberi said, “I want to associate myself with my colleagues who expressed concern with the border adjustable tax proposal and its impact on consumers and workers.” He was referencing comments Reps. Erik Paulsen (R-MN), Jim Renacci (R-OH), and Mike Kelly (R-PA) made during the May 23 Ways and Means Committee hearing on “Increasing U.S. Competitiveness and Preventing American Jobs from Moving Overseas.” We circulated a summary of that hearing yesterday.

Rep. Ron Kind (D-MN) asked Secretary Mnuchin to expand on a statement he made recently that, “One of the problems with BAT is it doesn’t create a level playing field, it has very different impacts on different companies, it has the potential to pass on significant costs to the consumer, and it has the potential of moving currencies.” Secretary Mnuchin responded, “I think there are things that can be done to lighten those changes and these are the kind of things that Chairman Brady is working on.”

Rep. Lloyd Doggett (D-TX) asked whether the Administration plans to suggest ways to fix the BAT proposal. Secretary Mnuchin said, “I don’t think it’s our job to fix it.” He stressed, however, that the Administration was working in a collaborative manner with House Ways and Means Committee Chairman Brady, Senate Finance Committee Chairman Orrin Hatch (R-UT), and House and Senate GOP leader on tax reform legislation.

Other committee members who asked about BAT included: Reps. Peter Roskam (R-IL), Devin Nunes (R-CA), and Tom Rice (R-SC).
Rep. Rice, who supports a BAT, asked Secretary Mnuchin whether there are other alternative approaches for revenue-neutral tax reform that would make the U.S. tax system “competitive if we don’t do border adjustment, which every other industrialized country has?” Secretary Mnuchin acknowledged, “Many other countries do have a VAT system and a corporate tax system and use them in conjunction.”

Taxation of Pass-through Entities

Rep. Vern Buchanan (R-FL) stressed the need to ensure that pass-through entities are treated similarly as corporations for tax purposes. Secretary Mnuchin said that while the Administration is absolutely committed to ensuring that businesses that are organized as pass-through entities are treated similarly, “we want to make sure that rich people can’t use pass-throughs to evade the present tax system.”

Debt Limit

Chairman Brady asked Secretary Mnuchin to address the issue of the debt limit and noted that he had not raised the issue in his prepared testimony. Secretary Mnuchin said, “I would like to emphasize for this committee and for the rest of Congress, I urge you to raise the debt limit before you leave for the summer. We can all discuss how we cut spending in the future and how we will deal with budgets going forward, but it is absolutely critical that we keep the credit of the United States as the most critical issue. We need to make sure that we can raise our debt ceiling to pay our debts.”

Section 385 Regulations

Rep. Renacci asked Secretary Mnuchin whether the Treasury Department had a timeframe for completing its review of the Section 385 regulations. He said, “I don’t. It’s under review and it would be preliminary of me to give timing on that.”