

**MEMBER PROPOSALS ON TAX ISSUES
INTRODUCED IN THE 109TH CONGRESS**

HEARING
BEFORE THE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED NINTH CONGRESS

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**MEMBER PROPOSALS ON TAX ISSUES
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TUESDAY, SEPTEMBER 26, 2006

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SELECT REVENUE MEASURES,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:00 a.m., in Room B-318, Rayburn House Office Building, Hon. Dave Camp (Chairman of the Subcommittee), presiding.
[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SELECT REVENUE MEASURES

FOR IMMEDIATE RELEASE
September 14, 2006
SRM-10

CONTACT: (202) 226-5591

Camp Announces Hearing on Member Proposals on Tax Issues Introduced in the 109th Congress

Congressman Dave Camp (R-MI), Chairman, Subcommittee on Select Revenue Measures of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on proposals to reform aspects of the Federal tax system which have been introduced in the 109th Congress. **The hearing will take place on Tuesday, September 26, 2006 in B-318 Rayburn House Office Building, beginning at 10:00 a.m. Requests to testify must be received by 5:00 p.m. on Thursday, September 21, 2006.**

Oral testimony at this hearing will be from Members of the House of Representatives, other than those on the Committee on Ways and Means. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Subcommittee and for inclusion in the printed record of the hearing.

BACKGROUND:

In announcing the hearing, Chairman Camp stated, "Members of the Committee on Ways and Means regularly speak with their Committee colleagues about tax issues of importance to their congressional districts. This hearing will afford Members outside the Committee the opportunity to speak on behalf of tax bills they have introduced that are important to their constituents."

FOCUS OF THE HEARING:

This hearing provides Members the opportunity to speak on behalf of bills they have introduced containing tax provisions important to their constituents.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Matt Turkstra or Cooper Smith at (202) 225-1721 no later than 5:00 p.m. on **Thursday, September 21, 2006**. The telephone request should be followed by a formal written request faxed to Allison Giles, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515, at (202) 225-0942. The staff of the Subcommittee will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff at (202) 226-5911.

Members scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED.** The full written statement of each witness will be included in the printed record, in accordance with House Rules.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies, along with an *IBM compatible 3.5-inch diskette*

in *WordPerfect* or *MS Word* format, of their prepared statement for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee office, 1135 Longworth House Office Building, no later than 5:00 p.m., Friday, September 22, 2006.**

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "109th Congress" from the menu entitled, "Hearing Archives" (<http://waysandmeans.house.gov/Hearings.asp?congress=17>). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the on-line instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You **MUST REPLY** to the email and **ATTACH** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Tuesday, October 10, 2006. Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. Those filing written statements who wish to have their statements distributed to the press and interested public at the hearing can follow the same procedure listed above for those who are testifying and making an oral presentation. For questions, or if you encounter technical problems, please call (202) 225-1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at <http://waysandmeans.house.gov>.

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

Chairman CAMP. Good morning. The hearing will come to order. Today the Committee on Select Revenue Measures will hear testimony from our colleagues, some who sit on the Committee on Ways and Means and most of our colleagues do not sit on the Committee on Ways and Means. Their testimony will be useful to us in identi-

fyng ways to improve our tax system. Members of the House have useful insights because they can assess and evaluate what does and does not work for the people they represent. This is the sort of information this Committee can always use. I look forward to the testimony this morning, and I now recognize the Ranking Member from New York for his opening statement.

Mr. MCNULTY. Thank you, Mr. Chairman. I just ask that my entire statement appear in the record, and I want to welcome our colleagues. They have put a lot of thought into these proposals. Some of them have been working on them literally for years. We look forward to giving them the consideration which they deserve.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Michael R. McNulty follows:]

Thank you, Mr. Chairman.

At today's hearing, the Subcommittee on Select Revenue Measures will consider specific tax proposals being offered by Members of the House of Representatives, including Members who serve on the Ways and Means Committee. Our focus will be on tax legislation introduced during the 109th Congress and referred to the Committee on Ways and Means for consideration. Last November, the Subcommittee held a similar hearing to discuss tax proposals of particular interest for Members and their constituents. We are continuing that hearing process today.

I welcome each of you, and thank you for your efforts at improving the effectiveness and fairness of our tax laws. I look forward to the discussion of your specific tax proposal.

Our witness list was compiled on a bipartisan basis. I believe that this is the appropriate way to discuss proposed tax legislation.

As the Ranking Subcommittee Member, I want to thank Subcommittee Chairman Camp for holding today's hearing, and I applaud his efforts to provide a balanced discussion of the various tax issues of interest to Members.

I yield back the balance of my time.

Chairman CAMP. Thank you very much, and now we will go to our first panel, the Honorable E. Clay Shaw from the State of Florida and distinguished Member of the Committee on Ways and Means. You have 5 minutes, and you can make your full statement part of the record. Mr. Chairman, it is good to see you.

Mr. SHAW. It's nice to be here. I've been in this room so many times, but this is the first time I have sat at this table—and I would like to thank and compliment both you gentlemen—

Chairman CAMP. Mr. Chairman, I think that microphone is going in and out. You might want to try the other one. See if that one is better.

Mr. SHAW. Is this better?

Chairman CAMP. Yes, that is much better.

Mr. SHAW. It's a little long in the tooth anyways, so I just thank you all for having this hearing. It gives a lot of the Members a chance to speak before the Committee on Ways and Means, having their stuff heard, and it is important that you do so. I think my problem, I didn't have it close enough.

I think it will be all right, and I will not take my entire 5 minutes.

**STATEMENT OF HON. E. CLAY SHAW, JR., A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF FLORIDA**

Mr. SHAW. This is a very important bill that I think will enjoy much bipartisan support. It is entitled "The 401 Kids Family Savings Act of 2006." It is H.R. 5314. It would help increase not only the national savings for this country, but it will better equip Amer-

ican families to deal with important matters such as paying for college tuition, which we all know is on the rise. It helps buy a first home or savings for retirement.

If enacted, it would enable accounts to be established at a child's birth. You could actually put \$2,000 a year into the account. This is after-tax money, but the build-up in the account itself would be tax-free, and when it comes time for the child to attend college, distribution for these expenses would also be tax-free. Remember, this money has already had the taxes paid on it, but the build-up itself would pass tax-free to the recipient to pay for the expense.

If the child chooses not to attend college or that child is able to pay for college through scholarship grants or other means, the money could be then used to purchase a first home or he could finally choose, he or she could finally choose to roll the money into a Roth IRA or another family member's 401 Kids account.

To accomplish these goals, it works with an existing savings vehicle currently available through Section 530 of the Tax Code, and by expanding upon the existing savings account, we resist the urge that we, as Members of Congress, often have, to make the Tax Code even more complicated.

Finally, it would rename these accounts to "401 Kids Accounts." In doing so, we associate them with the 401(k), a method of savings with which the Americans have been very familiar and very comfortable throughout the years. Because of that it will increase the likelihood of participation to start more people along the path of savings.

Prior to the 109th Congress, I served for 6 years as the Chairman of the Social Security. Members, both you gentlemen know that one of the things that we kept talking about was trying to increase personal savings and make that part of the retirement that the seniors look forward to.

When I introduced this legislation, the Federal tax preferences by "Section 529 Accounts," which have become a very popular method of saving for college in states across the country, and that was set to expire in 2011. However, it was made permanent, included in the pension protection plan that was signed into law this last May. I want to recognize also and give credit to Melissa Hart for her leadership in that area. Many of us were cosponsors of her legislation to permanently extend the benefits, and we are pleased that users of this program will now have the long-term stability and permanency that it brings.

I would also like to recognize the leadership of Representative Mark Kirk, who chairs the Suburban Caucus and the caucus itself for their strong support of the 401 Kids Account. Again, I appreciate the opportunity to testify before you. I only wish you were in the main room. That is where you should be. These are important matters that are going to be talked about by the Members of the Congress.

Thank you very much. I yield back and ask that my full statement be made a part of the record.

Chairman CAMP. Without objection. Thank you very much, Mr. Shaw.

[The prepared statement of Hon. E. Clay Shaw, Jr., follows:]

**Prepared Statement of The Honorable E. Clay Shaw, Jr., a Representative
in Congress from the State of Florida**

Chairman Camp, Ranking Member McNulty, Members of the Subcommittee, thank you for allowing me to come before all of you today to discuss the 401 Kids Family Savings Act of 2006 (H.R. 5314). This is an important piece of legislation that I believe provides Congress with an opportunity to help increase the national savings rate in this country and to better equip American families to deal with important life experiences such as paying for college, buying a first home, or saving for retirement.

If enacted, H.R. 5314 would enable accounts to be established at a child's birth. Each year up to \$2000 could be contributed to each beneficiary under the age of 18. The contributions would be after taxes, but money would be allowed to grow tax free, enabling each child to truly take advantage of the tremendous benefits of compounding interest.

When it comes time for the child to attend college, distributions for these expenses would also be tax free. If the child chooses not to attend college, or if that child is able to pay for college through scholarships, grants or other means, the money could be used to purchase a first home. Finally, the child could choose to roll the money into a Roth IRA or another family member's 401 Kids account.

To accomplish these goals H.R. 5314 works with an existing savings vehicle currently available through Section 530 of the Tax Code. By expanding upon an existing savings vehicle, we resist the urge that we, as Members of Congress, often have to further complicate the Tax Code.

Finally, H.R. 5314 would rename these accounts to "401 Kids Accounts." In doing so, we associate them with the 401(k), a method of savings with which Americans have become very familiar and comfortable. Because of this, we will increase the likelihood of participation, and start more people along the path of long term savings.

Prior to the 109th Congress, I served for 6 years as the Chairman of the Ways and Means Subcommittee on Social Security. In that time, the Subcommittee heard time and again of the need for Americans to save for their own retirement. Because of this, I am particularly pleased with the prospect of people being encouraged to utilize money from these accounts for their retirement.

When I introduced this legislation the Federal tax preferences enjoyed by "Section 529 Accounts," which have become a very popular method of saving for college in states across the country, were set to expire in 2011. Because of that, I also included an extension of this program in H.R. 5314. As you all know, since that time a permanent extension was included in the Pension Protection Act that was signed into law by President Bush in May of this year. I would also like to especially recognize Representative Melissa Hart for her leadership in this area. Many of us were co-sponsors of her legislation to permanently extend this benefit and we are all pleased that users of this program will now have the long-term stability that permanency brings. I'd also like to recognize the leadership of Representative Mark Kirk who chairs the Suburban Caucus and the caucus itself for their strong support of the 401 Kids Family Savings Act.

Again, thank you for the opportunity to testify today and I'd be happy to respond to any questions that Members may have for me. I am hopeful that the examination of this legislation today will help to move these remaining pieces towards enactment and soon make 401 Kids accounts a reality for American families planning for their kid's future.

Chairman CAMP. Now we will go to another distinguished Member of the Committee on Ways and Means, the gentleman from Maryland, Mr. Cardin. Welcome. You have 5 minutes also.

**STATEMENT OF HON. BENJAMIN L. CARDIN, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF MARYLAND**

Mr. CARDIN. Thank you very much, Mr. Chairman. Along with Mr. Shaw, I wish we were in the main room also, because I think the microphone system would probably work a little better there, but let me thank you for this opportunity of being able to present two bills.

One is the “Renewing the Dream Tax Credit Act.” That is a bipartisan bill introduced by myself and Congressman Reynolds. It has 197 cosponsors, including, I am proud to say, Mr. Camp and Mr. McNulty are cosponsors of that legislation, so I think I have a friendly audience here.

Let me explain the reason why I think it is very important that this bill moves forward. What the “Renewing the Dream” tax credit does for homeownership is what we have currently for rental property, with the low income housing tax credit. It uses the same philosophy to generate homeownership affordable housing here in our country.

We know the advantages of homeownership. We all want to encourage homeownership. The problem is that there is a disconnect between the ability to construct affordable housing and an individual’s ability to afford that housing.

This credit law would allow us to fill that gap. It would spur homeownership. It would generate an estimated \$2 billion of private equity investment, \$6 billion of development activity and 122,000 jobs would be created each year by this legislation.

We know that because we know the experiences of the low income housing tax credit, so we understand what impact this legislation could have. It is supported by the National Association of Home Builders, the National Conference of State Housing Agencies, the National Association of Realtors, Fannie Mae and Freddie Mac, and a number of nonprofit organizations including the Enterprise Foundation, the Local Initiative Support Corporation, and Habitat for Humanity International.

By the way, it would affect an estimated—create an estimated 50,000 low and moderate income families would benefit from this legislation.

The second bill is “The Investment in America Act,” H.R. 1736, which I know this Committee is very familiar with, because it deals with the research and development tax credit, modernizes it. It improves it. It makes it permanent. I join with Nancy Johnson in co-authoring this bill. We have 127 cosponsors and, Mr. Chairman, I am proud to have you as one of our cosponsors on that legislation.

This would make permanent the research and development tax credit, raises the percentage levels of the alternative research and development credit, and creates a third level of alternative simplified credit for qualified research expenses that will allow more companies to take advantage of their R&D work.

Innovation is the life’s blood of a healthy economy. We need to do a better job in encouraging companies to invest in research and development. When you compare the incentives that we offer versus what our international competitors offer for research and development, we are not as competitive as we need to be. The average credit is around 6 percent today, using the traditional credit. That just doesn’t get the job done.

Secondly, we have too many times in recent history allowed these credits to lapse, and when they lapse it causes uncertainty among the business community. We need to make it permanent. It has expired. Rather than just extending it for a year or two, let’s make it permanent and really give the signal to American businesses that we do want them to invest in our future.

I would put my entire statement in the record, and I thank you very much for your time.

Chairman CAMP. Without objection. I thank the gentleman.
[The prepared statement of Hon. Benjamin Cardin follows:]

Prepared Statement of The Honorable Benjamin Cardin, a Representative in Congress from the State of Maryland

I. *The Renewing the Dream Tax Credit Act (H.R. 1549)*

This bipartisan legislation, which I introduced with Representative Reynolds, enjoys the support of 197 cosponsors. H.R. 1549 will encourage the construction and rehabilitation of homes for low- and middle-income families in economically distressed areas.

Similar to the Low Income Housing Tax Credit, our bill would provide states with an annual tax credit allocation of \$1.80 per capita (with a floor of slightly more than \$2 million for states with small populations). State housing finance agencies would then allocate the credits to developers who construct or rehabilitate owner-occupied homes in census tracts with median incomes of 80% or less of the area or state median. Prospective homebuyers generally must be at or below 80% of median income as well in order to qualify.

Studies have shown that homeownership encourages personal responsibility, promotes economic security, and gives families a greater stake in their communities. In addition to spurring home ownership, *our legislation would generate an estimated \$2 billion of private equity investment, \$6 billion of development activity, and 122,000 jobs each year.*

H.R. 1549 has the support of a broad coalition of groups with substantial expertise in the housing industry, including the National Association of Home Builders, the National Conference of State Housing Agencies, the National Association of Realtors, Fannie Mae and Freddie Mac, and a number of non-profit organizations, including the Enterprise Foundation, the Local Initiative Support Corporation and Habitat for Humanity International.

Although national homeownership levels have reached historic highs, the dream of homeownership remains out of reach for many families living in economically distressed areas.

Our homeownership tax credit would bridge the gap between the cost of developing homes in these areas and the price at which such homes can be sold to low- and moderate-income buyers. The homeownership tax credit will help an estimated 50,000 low- and moderate-income families in our Nation's urban and rural communities achieve the American dream of homeownership each year.

II. *The Investment in America Act (H.R. 1736)*

The bipartisan bill, which I introduced with Representative Nancy Johnson, enjoys the support of 127 cosponsors. H.R. 1736 includes permanence for the research & development tax credit, raises the percentage levels of the alternative research and development credit, and creates a third level of alternative simplified credit for qualified research expenses that will allow more companies to take advantage that their R&D work deserves.

Adding an additional level of R&D credit will allow companies that do substantial amounts of research and development to receive the same level of credit. Under present law, many companies performing significant amounts of R&D in the United States are unable to claim the regular research credit because of changing economic circumstances relative to the mechanics of the calculation of the regular credit.

The legislation we are introducing would provide an opportunity for all taxpayers to elect to calculate the R&D credit under new computational rules that will eliminate the present-law distortions that can be caused by linking the credit to gross receipts. The alternative credit is intended to ensure that all companies will have a substantial incentive to perform and increase R&D activities in the United States. The bill would preserve the current two levels of credit—companies that benefit from either level of R&D credit currently available would simply not elect to use the new, third level of credit.

Innovation is the life's blood of a healthy twenty-first century economy. America is the undisputed leader in technological innovation because we have created an economic environment that rewards risk taking and creativity.

These breakthroughs do not happen overnight. They are usually the result of years, sometimes decades, of expensive, labor-intensive work. We believe that Congress can strengthen our position by making the research and development tax permanent.

Research-driven economic activity produces high paying jobs. It is important to remember that most of the dollars spent on R&D are spent on salaries for engineers, researchers and technicians. Moreover, when taken to market as new products, incentives that support R&D translate into new jobs for employees in manufacturing and sales.

Consumers reap the benefits of new and improved products. Advances in polymers, for example, make cars lighter and therefore more fuel efficient without compromising strength and passenger safety.

Unfortunately, the United States continues to send a mixed signal to American businesses. In 2004, the credit expired for over 6 months and while it was restored retroactively, other nations have permanent credits in place thus providing a more attractive and stable place to conduct research. We cannot afford to lose our technological edge to Europe or Japan.

The R&D credit expired, again, at the end of 2005. This is the third time in a decade we have allowed the R&D credit to elapse. Our Tax Code should work with the companies who are planning R&D projects that bring good jobs to the U.S., not against them. It's time we made this important credit permanent.

Chairman CAMP. Now another distinguished Member of the Committee on Ways and Means, the gentleman from Kentucky, Mr. Lewis. You have 5 minutes.

**STATEMENT OF HON. RON LEWIS, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF KENTUCKY**

Mr. LEWIS OF KENTUCKY. Thank you, Chairman Camp and Ranking Member McNulty.

I have two measures that I would like to discuss that would help rural America. Kentucky's second district is comprised mostly of rural areas, and like other rural communities in the country, benefit greatly from economic development incentives.

One bill I have introduced, along with Congressman Tom Osborne, is intended to provide an economic incentive that will help spur growth and stability in small towns.

H.R. 4854, the "Rural Communities Investment Act," would extend an existing tax incentive to make interest earned on farm real estate and certain rural housing loans exempt from Federal taxation. H.R. 4854 would increase the availability of low cost financing for farm and rural housing loans, thereby creating savings for the consumer and strengthening the economies of rural America.

In addition, it will trigger more low cost financing opportunities for farmers, ranchers, and homeowners.

The bill also has safeguard provisions to ensure that the tax benefit goes only to rural residents and farmers. The language stipulates that the tax credit expires if the farm land is converted for some other purpose. These savings would put resources back into the rural economy and encourage investment in rural communities, making rural America a more affordable and attractive place to live and do business.

It is important for Congress to do what we can to protect farm land and preserve rural communities. I believe we must also ensure that the necessary infrastructure exists to make these rural communities a viable and appealing place to live.

I have sponsored another piece of legislation that would significantly improve the quality of life of rural Americans. H.R. 2378 would allow USDA guaranteed loans to be tax exempt when used to finance water, waste water, and essential community facilities.

This advantage would spur necessary infrastructure development in some of our Nation's most underserved communities.

As many of my colleagues know, rural communities throughout American continue to face challenges in accessing basic needs. We can improve this situation by supporting the development of necessary infrastructures such as dependable water, waste water systems and essential community facilities like schools, hospitals, and police and fire stations.

In order for rural communities to build needed infrastructure, there must be added financial incentives for development. The availability of tax exempt bonds has encouraged economic activity throughout the country. By providing bond holders an exemption from taxes on these interest earnings we are able to loan out money at lower rates. Federal guarantee of these loans, along with an exemption on the taxable interest, is a winning combination that will help many rural communities.

These two bills, along with the New Market Tax Credit Reauthorization Act, which I introduced last fall and Congressman Chabot will be discussing today, would provide much-needed tax incentives to help rural communities.

Again, thank you, Chairman Camp, for holding this hearing and for affording me the opportunity to speak on behalf of our rural constituents.

[The prepared statement of Hon. Ron Lewis follows:]

**Prepared Statement of The Honorable Ron Lewis, a Representative in
Congress from the State of Kentucky**

Thank you, Chairman Camp, for holding this hearing today and for giving me time to discuss two measures I am working on to help rural America. Kentucky's Second District is comprised mostly of rural areas that, like other rural communities in the country, benefit greatly from economic development incentives.

One bill I have introduced, along with Congressman Tom Osborne, is intended to provide an economic incentive that will help spur growth and stability in small towns. H.R. 4854, the *Rural Communities Investment Act*, would extend an existing tax incentive to make interest earned on farm real estate and certain rural housing loans exempt from Federal taxation.

H.R. 4854 would increase the availability of low cost financing for farm and rural housing loans, thereby creating a savings for the consumer and strengthening the economies of rural America. In addition, it will trigger more low cost financing opportunities for farmers, ranchers, and rural homeowners.

The bill also has safeguard provisions to ensure that the tax benefit goes only to rural residents and farmers. The language stipulates that the tax credit expires if the farm land is converted for some other purpose.

These savings would put resources back into the rural economy and encourage investment in rural communities, making rural America a more affordable and attractive place to live and do business.

It is important that Congress do what we can to protect farm land and preserve rural communities. I believe we must also ensure that the necessary infrastructure exists to make these rural communities a viable and appealing place to live.

I have sponsored another piece of legislation that would significantly improve the quality of life of rural Americans. H.R. 2378 would allow USDA guaranteed loans to be tax exempted when used to finance water, wastewater, and essential community facilities. This advantage would spur necessary infrastructure development in some of our nation's most underserved communities.

As many of my colleagues know, rural communities throughout America continue to face challenges in accessing basic needs. We can improve this situation by supporting the development of necessary infrastructure such as dependable water and wastewater systems, and essential community facilities like schools, hospitals, and police and fire stations.

In order for rural communities to build needed infrastructure, there must be added financial incentives for development. The availability of tax exempt bonds has

encouraged economic activity throughout the country. By providing bond holders an exemption from taxes on their interest earnings, they are able to loan out money at lower rates. Federal guarantee of these loans, along with an exemption on the taxable interest, is a winning combination that will help many rural communities.

These two bills, along with the New Markets Tax Credit Reauthorization Act which I introduced last fall and Congressman Chabot will be discussing today, would provide much-needed tax incentives to help rural communities.

Again, thank you, Chairman Camp, for holding this hearing and for affording me the opportunity to speak on behalf a number of my rural constituents who would benefit from the advancement of these two pieces of legislation.

Chairman CAMP. Thank you very much, and also a distinguished Member of the Committee on Ways and Means from the Ohio, Mrs. Tubbs Jones. You have 5 minutes as well.

**STATEMENT OF HON. STEPHANIE TUBBS JONES, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO**

Ms. TUBBS JONES. Thank you, Chairman Camp, and thank you Member McNulty and my colleagues, for the opportunity to testify today on an issue of significance to the Great Lakes region and those communities that have ports. My district and the Great Lakes region are directly impacted by the Harbor Maintenance Tax. The HMT presents a disincentive to businesses interested in moving their cargo via waterway, forcing them instead to move their cargo by road. Congested highways hinder the flow of commerce and create a drag on the economy, constraining growth.

Furthermore, the trade relationship between the U.S. and Canada is impacted greatly by the HMT. The State of Ohio earns \$15.5 billion annually through trade with Canada. Because Canada is Ohio's most important trading partner, it is important to address transportation challenges in this trade relationship. As a result of these problems, I introduced H.R. 5889, The Great Lakes Short Sea Shipping Enhancement Act of 2006, with my colleague, Congressman Phil English, who represents Erie, Pennsylvania and its port. This bipartisan legislation is designed to improve the efficiency of commerce in the Great Lakes region and ports. In response to the transportation challenges in the U.S.-Canada trade relationship, Great Lakes communities have proposed great utilization of waterways for freight movement as a solution. Erie, Pennsylvania, Oswego, New York and Cleveland, Ohio, have proposed new shipping services between the U.S. and Canada with the goal of moving cargo from roads to freight ferries. The initiative being proposed in my district would transport 250,000 passengers, 42,000 vehicles, and 40,000 trucks annually between Cleveland and Port Stanley, Ohio.

A major impediment to the establishment of freight ferries is the HMT. It is a tax on .125 percent of the value of cargo paid by the owner of the cargo in each ship. The tax is assessed on cargo transported between U.S. ports and cargo imported to U.S. ports from other countries, but not on exports. Because the HMT is only assessed on cargo if it moves by ship, the tax serves as a disincentive to move trucks and their freight by water. As such, the tax contributes to greater highway congestion that can result in choked border crossings, increase fuel consumption, and increase the air pollution.

The legislation I am discussing, H.R. 5889, would provide a narrow exemption to the HMT for the movement of non-bulk commercial cargo between U.S. ports on the Great Lakes and between Canadian and U.S. ports on the Great Lakes and between Canadian and U.S. ports on the Great Lakes. This will encourage the development of new shipping services on the Great Lakes, boosting the economic vitality of the region. A ferry service with just three crossings a day has a potential to remove 40,500 truck movements per year off the highway system, reducing wear and tear on our roads.

Mr. Chairman, as a Representative from Michigan, you will understand the critical importance of free-flowing trade between Canada and the Great Lakes. The Department of Homeland Security has worked to reduce wait times at U.S.-Canadian border crossings. Specific focus was paid to the crossings in southeastern Michigan, where the average wait time for trucks and cars had increased to over 35 minutes and often exceeded 2 hours. These delays have caused an estimated \$5 billion in lost productivity. This is why business are seeking more efficient ways of moving cargo. Eliminate the HMT as a disincentive would further improve wait times at crossings by reducing the volume of cargo and transferring some of it to our waterways.

Moreover, eliminating the HMT and encouraging travel by waterways, commerce would be more economically efficient, because travel distances and duration would be shortened. Riding in from London, Ontario, region, one of Canada's manufacturing and still-producing hubs, to Cleveland takes about 5.5 hours. As trucks must travel approximately 290 miles completed around Lake Erie. The ferry would travel only 65 miles, directly across the lake, cutting travel time by at least 2 hours.

Finally, let me highlight one example of how cost of the HMT is a burden on commerce. The Cleveland port was recently approached by a Canadian steel producer that would like to ship steel coils to a Cleveland area steel processing company by water. This could have led to 360,000 tons of new waterborne transportation, thereby eliminating approximately 18,000 truck movements from the highway system. However, the HMT on this ship would have cost \$270,000 annually for just that one Cleveland customer, and the cost multiplies with each additional customer.

In closing, Mr. Chairman, thank you for the opportunity to testify. H.R. 5889 would expand commerce in the Great Lakes, and I know that my colleague, Mr. McNulty, has a port in his congressional district as well, and I would hope that this would be something that we could all work to help.

[The prepared statement of Hon. Stephanie Tubbs Jones follows:]

**Prepared Statement of The Honorable Stephanie Tubbs Jones, a
Representative in Congress from the State of Ohio**

Chairman Camp, Ranking Member McNulty, and Members of the Subcommittee, thank you for the opportunity to testify today on an issue of significance to my congressional district and the Great Lakes region.

My district, which includes the City of Cleveland and the Cleveland Port, is directly impacted by the Harbor Maintenance Tax (HMT). The impact is two-fold. On the one hand, the revenue collected through the HMT goes into a trust fund that is used to pay for necessary navigational dredging and upkeep of the Port. On the other hand, the HMT presents a disincentive to businesses interested in moving

their cargo via waterway, forcing them to, instead, move their cargo by road. Clearly, the positive and negative impacts of the HMT must be balanced.

As a result, I introduced H.R. 5889, the Great Lakes Short Sea Shipping Enhancement Act of 2006, with my colleague Congressman Phil English, who represents Erie, Pennsylvania, and its port. I am grateful for the chance to explain this legislation's importance to the economic vitality of my district. This bipartisan legislation is designed to improve the efficiency of commerce in Cleveland and the surrounding Great Lakes region and ports.

In recent years, transportation planners have struggled to identify ways to move people and goods more efficiently. Congested highways—particularly in urban areas like Cleveland—hinder the flow of commerce and create a drag on the economy. The expansion of highway and rail infrastructure is expensive, difficult, and time consuming. Today, there is a real concern that our nation's transportation system is constraining economic growth.

Canada is Ohio's most important trading partner. Trade between Ohio and Canada generated over \$28 billion in annual revenue in recent years, yielding \$15.5 billion for Ohio. Ohio trades six times more goods with Canada than with its next largest trading partner. As such, transportation challenges to this relationship must be addressed in a serious and effective way. As Ohio communities have grappled with transportation challenges, some have identified the greater utilization of waterways for freight movement to be the solution.

In the Great Lakes region, new shipping services have been proposed with the goal of moving cargo from roads to "freight ferries." Today, three cities have proposed specific freight ferries connecting the Great Lakes region with Canada: Erie, Pennsylvania, Oswego, New York, and Cleveland, Ohio. The promising initiative being proposed in my district would connect Cleveland to Port Stanley, Ontario. This proposal would employ two vessels, one based in Cleveland and one in Canada. The proposed ferry service could transport 250,000 passengers, 42,000 vehicles, and 40,000 trucks annually between Cleveland and Port Stanley, Ontario.

Unfortunately, a major impediment to the establishment of this and other freight ferries is the Harbor Maintenance Tax. Because the HMT is only assessed on cargo if it moves by ship, the tax serves as a disincentive to move trucks and their freight by water. As such, the tax actually contributes to greater highway congestion, which can result in choked border crossings, increased fuel consumption, and increased air pollution.

The Harbor Maintenance Tax is an "ad valorem" tax, meaning a tax on the value of cargo. Originally, the HMT was set by Congress at 0.04 percent of the value of cargo. In 1990, the tax was increased to 0.125 percent of the value of cargo. The tax is not paid by the vessel owner, or the port, but rather, by the owner of the cargo in each ship. Today, the Harbor Maintenance Tax is assessed on cargo transported between U.S. ports, and cargo imported to U.S. ports from other countries, but not on exports.

The legislation I am discussing today, H.R. 5889, would provide a narrow exemption to the HMT for the movement of non-bulk commercial cargo by water in the Great Lakes region. This includes the movement of freight between U.S. ports on the Great Lakes, and between Canadian and U.S. ports on the Great Lakes. By removing the HMT as a disincentive, this legislation will encourage the development of new shipping services on the Great Lakes. By enhancing the utilization of our waterways, we will boost the economic vitality of the Port of Cleveland, Northeast Ohio, and the Great Lakes region. This will translate into an increase of commerce flowing in and out of the region. There are over 6,000 manufacturing firms in Northeast Ohio, many related to the steel or automotive industries. Motor vehicle parts (excluding engines) are the state's second largest import commodity (\$1.8 billion). The metals sector between Ohio and Canada is also vibrant with \$3.3 billion in bilateral trade in 2004. This huge trade volume is currently being conducted only on our roadways. H.R. 5889 would make it possible to move some of this trade to the Great Lakes. A ferry service with just three crossings a day (which is part of Cleveland's proposal) has the potential to remove 40,500 truck movements per year off the highway system. Moving this trade volume to our waterways would play a significant role in energizing our ports and reducing wear and tear on our roads.

Mr. Chairman, as a Representative from Michigan, you understand Canada's significance as a trading partner and the critical importance of free flowing trade between Canada and the Great Lakes region. The Department of Homeland Security has worked to reduce wait times at U.S.-Canadian border crossings. Specific focus was paid to the crossings in southeastern Michigan where the average wait time for trucks and cars had increased to over 35 minutes, and often exceeded 2 hours during peak traffic periods. With nearly \$1 billion in trade crossing across the U.S.-Canadian border each day, these delays were causing an estimated \$5 billion in lost

productivity per year. Considering the cost of an idling truck is estimated at \$150 per hour, it is easy to see why businesses moving cargo would be interested in more efficient forms of transportation. While border crossings have improved in recent years, eliminating the HMT as a disincentive would further improve wait times at crossings by reducing the volume of cargo and transferring some of it to our waterways.

Moreover, by eliminating the HMT and encouraging travel by waterway, commerce would be more economically efficient because travel distance and duration would be shortened. Driving from the London, Ontario, region, one of Canada's manufacturing and steel producing hubs, to Cleveland takes about 5.5 hours driving or longer, as trucks must travel approximately 290 miles completely around Lake Erie. A ferry would travel only about 65 miles, directly across the lake, and could cut travel time by at least 2 hours.

Let me highlight one example of how the cost of the HMT is a burden on commerce. The Port of Cleveland was recently approached by a Canadian steel producer that would like to ship steel coils to a Cleveland-area steel processing company by water, instead of by road. This could have led to 360,000 tons of new waterborne transportation, thereby eliminating approximately 18,000 truck movements from the highway system. However, the Harbor Maintenance Tax on this shipment would have cost \$270,000 annually for just that one Cleveland customer, and the cost multiplies with each additional customer. Therefore, water transportation and the use of the Port of Cleveland was not a viable option in this example, as the cost of the HMT would not be incurred if the coils were moved by truck. The HMT is a disincentive to efficient transportation in the Great Lakes and it must be eliminated.

As I mentioned previously, the original purpose of the HMT was to generate revenue for port maintenance. Specifically, Harbor Maintenance Tax receipts are placed in a trust fund, which provides revenue for the Army Corps of Engineers' dredging budget—the Corps maintains Federal shipping channels by conducting periodic dredging. The Harbor Maintenance Trust Fund currently has accumulated an excess balance of more than \$3 billion (as of Fiscal Year 2006). As a result, we anticipate the legislation's limited HMT exemption would have no impact on the Corps' ability to perform necessary dredging. Furthermore, since trucks currently use roads rather than ferries to move around the Great Lakes region, the Federal Government does not collect the Harbor Maintenance Tax on their cargo. Under the proposed legislation, if a truck boarded a ferry, the Federal Government would still not collect a tax. Consequently, there should be no change in the collection of the Harbor Maintenance Tax. Speaking from Cleveland's perspective, there have been only THREE non-bulk cargo shipments arriving from Canada in the last 10 years. These three HMT payments would have been forgone under my proposed legislation, but surely that would be inconsequential when one considers the vast benefits to efficient commerce that would be gained in exchange.

Approximately 212,000 Ohio jobs are already supported by Canada-U.S. trade. The proposed Cleveland ferry alone anticipates a minimum of 75 new full-time, well-paying jobs, and this does not include the construction related jobs connected to the building of the ferry terminal. In addition, Canada currently generates nearly \$90 million in tourism for Ohio, making approximately 495,300 visits to the state in 2004. As cargo and passengers move from ground to waterborne transportation, the economic development possibilities for the Cleveland area will be significant.

In closing, Mr. Chairman, thank you for the opportunity to testify today. H.R. 5889 would expand commerce in the Great Lakes region and improve its efficiency by reducing highway congestion and relieving choked border crossings. I look forward to working together on this important bipartisan legislation. I would be pleased to answer any questions you may have. Thank you.

Chairman CAMP. Thank you very much for your testimony. The full statement will be part of the record. Now I will recognize the distinguished Member of the full Committee, the gentlewoman from Pennsylvania, who is also a Member of the Subcommittee on Select Revenue Measures. You have 5 minutes.

**STATEMENT OF HON. MELISSA HART, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF PENNSYLVANIA**

Ms. HART. Thank you, Mr. Chairman. I am honored to be before the Subcommittee—on both sides today. I also want to thank Congressman Shaw for his 401 Kids legislation that he referred to, and also for his work in helping us secure permanency for the college savings plans known as 529s, which now allows anyone to save for college tax free, and now that is permanent. We were worried that that might end for a lot of folks who have been saving for college.

But, Mr. Chairman and Ranking Member McNulty and Members of the Committee, I am here today to testify about H.R. 4961, the Self-Employed Health Care Affordability Act.

As we have been meeting with our constituents at home we have been hearing a significant amount of concerns about the rising cost of health coverage. Whether it is the cost facing individuals or families attempting to purchase insurance coverage or an employer who may be trying to provide health care for his or her employees, the cost of health care has become a priority issue in this country.

For businessowners, the rising cost of health care leads to a number of challenges. Offering good benefits can help attract and retain employees. In addition, the increased costs associated with providing health coverage means that there is less capital that an employer has to reinvest into improving or expanding his or her business.

The rising cost of health insurance is an especially acute problem for the smallest employers, the self-employed. Don't let the size of these businesses fool you. The self-employed play a critical role in our economy with more than 18 million businessowners, and according to the last U.S. census, they employ an additional 12.3 million people, with a total payroll of over \$309 billion.

In addition, we know these businesses often play an especially important role in our local economies and in many cases these small companies with big ideas expand into some of the larger employers in our towns and cities.

The key impediment to the growth of these small and micro-businesses has been the rising cost of health care. A 2002 survey released by the National Association for the Self-Employed found that seven in ten self-employed businessowners provide no health coverage to their employees, and also do not provide coverage for themselves or their families. They said that cost is the primary reason.

Despite the complexity of this problem, there is a fairly simple solution that can help. Currently the self-employed pay an additional 15.3 percent tax on the cost of their health insurance that other companies are not required to pay on the insurance they provide to themselves and their employees, larger companies that are not sole proprietorships.

As you know, all compensation is taxed at 15.3 percent to meet the requirements of the Self-Employed Contribution Act, which is the FICA tax for the self-employed. For all businesses except self-employed, health care is considered an ordinary business expense and so they are not subject to that 15.3 percent on the cost of their health insurance. The self-employed Schedule C filers, the sole proprietors, and the Schedule E filers, partners in partnerships with

earned income and 2-percent owners in S Corps, they pay both the income tax and the self-employment tax. This includes the tax on the amount they pay to provide health insurance for themselves and their dependents.

In 1986 the self-employed were permitted to claim a deduction for the cost of health insurance as it relates to income tax. This deduction, however, is not available for the self-employment tax.

H.R. 4961, the Self-Employed Affordability Act, would inject equity into the Tax Code for all employers by allowing the self-employed to deduct the cost of health insurance when determining their self-employment tax, thus reducing the cost to them of providing health care.

I introduced this bill together with Chairman Don Manzullo of the Small Business Committee and we currently have 28 cosponsors on both sides of the aisle.

First, H.R. 4961 would reduce the cost of health insurance for the self-employed. A recent Kaiser Family Foundation survey found the typical self-employed individual pays on the average of \$10,880 a year for family coverage. Permitting the full deduction of health insurance costs would save these families well over \$1600 on their annual taxes.

Additionally, because these individuals are typically purchasing insurance in the individual market, premiums are about 18 percent higher than a larger corporation that can negotiate lower prices or spread the risk among their employees. Second, eliminating this tax inequity provides additional capital that can be reinvested in the business or it can simply allow a current small businessowner who doesn't buy insurance because of the affordability issue allows that person to buy insurance.

I have a neighbor, Mark Edelman. He is an architect and a construction manager. He pays \$1285 for self-employment tax on the cost of the health insurance he buys. He said, and I quote, "As a small Pennsylvania business, the additional tax burden on already overpriced business health care premiums takes away resources that we could use to grow our business. We certainly could use this money to reinvest in our business and grow. By growing we can add employees and expand our market base."

Mr. Edelman's statement and the hundreds of similar statements made by the self-employed all over the country are echoed in the recent Small Business Administration's Office of Advocacy report titled, "Health Insurance Deductibility and Entrepreneurial Survival." Specifically the report finds that the deductibility of health insurance costs when determining the self-employment tax decreases the probability that both single and married filers would exit the entrepreneurial sector. H.R. 4961 is a common sense change to the Tax Code which can lower the cost of health insurance coverage and preserve and increase the entrepreneurial activity of the self-employed. I think that this is extremely important, because many of us have spoken with people who have great ideas, who have a job that provides health coverage, but they make the decision not to leave their current job, not to go out and pursue that dream because they need that health coverage for their families.

This is why this bill and its Senate companion, S. 663, introduced by Senators Thomas and Bingaman, is endorsed by a broad coalition including the National Association of the Self-Employed, the U.S. Chamber of Commerce, the American Farm Bureau, and others.

I thank you, Mr. Chairman and Ranking McNulty, for allowing me the opportunity to explain this legislation, and I look forward to any question.

[The prepared statement of Hon. Melissa Hart follows:]

Prepared Statement of The Honorable Melissa Hart, a Representative in Congress from the State of Pennsylvania

Chairman Camp, Ranking Member McNulty, Members of the Select Revenue Committee; I want to thank you for the opportunity to testify today about H.R. 4961, the Self-Employed Health Care Affordability Act.

As we meet with constituents, we all hear concerns about the rising cost of health care. Whether it is the costs facing individuals and families attempting to purchase insurance coverage or an employer trying to provide health care for their employees, the cost of health care is clearly a priority issue.

For business owners the rising cost of health care leads to a number of challenges. Offering a good benefits package can help to attract and retain employees. In addition, the increased price of health insurance that employers must pay means that they cannot reinvest that capital into expanding or improving their business.

The rising cost of health insurance is an especially acute problem for the smallest employers—the self-employed. Despite being small, the self-employed play a critical role in the economy with more than 18 million business owners and, according to the last U.S. Census, employ more than 12.3 million workers with a total payroll of more than \$309 billion. In addition, we know that these businesses often play an especially important role in our local economies and, in some cases, these small companies with big ideas expand into large employers.

A chief impediment to the growth of these small and micro businesses is the rising cost of health care. A 2002 survey released by the National Association for the Self-Employed (NASE) found that seven in 10 self-employed business owners provide no insurance for their employees and did not cover themselves. They cited cost as the primary reason.

Despite the complexity of this problem, there is a fairly simple solution that can help. Currently, the self-employed pay an additional 15.3 percent tax on the cost of their health insurance that other companies are not required to pay.

As you know, all compensation is taxed at 15.3 percent to meet the requirements of the FICA tax. For all businesses, except the self-employed, health care is considered an ordinary business expense meaning they are not subject to the 15.3 percent tax on the cost of health care.

The Self-employed—Schedule C filers (solo proprietors) and Schedule E filers (partners in partnership with earned income and 2-percent owners in S Corps)—pay both an income and a self-employment tax. In 1986, the self-employed were permitted to claim a deduction for the cost of health insurance as it relates to the income tax. The deduction is not available for the self-employment tax.

H.R. 4961, the Self-Employed Health Care Affordability Act, would create equity in the Tax Code amongst all employers by allowing the self-employed to deduct the cost of health insurance when determining their self-employment tax, thus reducing the cost of health care. I introduced this bill with Chairman of the Small Business Committee, Donald Manzullo and we currently have 28 bipartisan cosponsors.

First, H.R. 4961 will reduce the cost of health insurance for the self-employed. A recent Kaiser Family Foundation Survey found that the typical self-employed individual pays, on average, \$10,880 annually for family coverage. Permitting the full deduction of health insurance costs would save these families about \$1,665 on their annual taxes. Additionally, because these individuals are typically purchasing insurance in an individual market, premiums are approximately 18 percent higher than a larger corporation that can negotiate lower prices.

Second, eliminating this tax inequity provides additional capital that can be invested back into the business. For example, Mark Edelman, an architect and construction manager from Bradfordwoods, Pennsylvania, must pay \$1,285 each year in self-employment tax on the cost of his health insurance. Mr. Edelman said:

“As a small, Pennsylvania business the additional tax burden on already overpriced small business healthcare premiums—takes away resources that we could

use to grow our business. We would use this money to reinvest in our business and grow. By growing we can add employees and expand our market base.”

Mr. Edelmann’s statement and the hundreds of similar statements made by the self-employed from all around the country are echoed in the recent Small Business Administration Office of Advocacy report “Health Insurance Deductibility and Entrepreneurial Survival.” Specifically, the report finds that the deductibility of health insurance costs when determining the self employment tax decreases the probability that both single and married filers would exit the entrepreneurial sector.

H.R. 4961 is a commonsense change to the Tax Code, which can lower the cost of health care coverage and preserve and increase the entrepreneurial activity of the self-employed. That is why this bill and its Senate companion, S. 663, introduced by Senators Thomas and Bingaman is endorsed by a broad coalition including the National Association for the Self-Employed, the U.S. Chamber of Commerce, the American Farm Bureau, and others.

Again, thank you for providing me with the opportunity to explain this important legislation and I look forward to any questions.

Chairman CAMP. Thank you very much. Also we have the Honorable Devin Nunes, who is a distinguished Member of the Committee on Ways and Means from the State of California. You have 5 minutes.

STATEMENT OF HON. DEVIN NUNES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. NUNES. Thank you Chairman Camp and Ranking Member McNulty.

I want to thank you for this opportunity to testify on our Nation’s energy future, specifically to discuss H.R. 5890.

While gas prices are declining, we must not be lulled into a false sense of security. We are still in the midst of an energy crisis that is not going away. All we need is a hiccup in the oil supply chain and the price at the pump can quickly return to historic levels or even higher.

Today we import 65 percent of our petroleum needs and by 2025 we will import 71 percent of our petroleum needs. This situation has stifled economic development, put our Nation’s security at risk, and placed an unnecessary burden on the family budget. We need to come to grips with the onerous policies of the past that are strangling us now. What we need is a comprehensive market-based strategy that will reduce our dependence on foreign sources of oil while bridging the gap to the next generation of energy.

For these reasons I and a number of my colleagues on a bipartisan basis introduced the American-Made Energy Freedom Act. Thanks to Senator Burr, we now have a companion bill in the United States Senate. This bill will provide short-term relief while funding a long-term solution for energy freedom. We would accomplish this by opening 2,000 acres of the Arctic National Wildlife Refuge to exploration and investing the Federal share of the lease and royalty revenue into an energy trust fund. This fund would be used to pay for numerous renewable alternative and advanced energy programs.

At an estimated \$40 billion over 30 years, this fund would be the largest investment in renewable and alternative fuel in our nation’s history, all at no cost to the taxpayer.

In the first 2 years of enactment, this legislation would provide an infusion of investment into numerous renewal and alternative

energy programs, including the next generation of ethanol, coal-to-liquid technology, solar and fuel technology, and biofuel energy production.

A number of these investments would come in the form of market-based tax credits. In the case of the cellulosic and CTL credits, we have crafted a solution not yet seen in Congress. Both tax credits are tied to the price per barrel of oil and adapt to market conditions. We simply don't believe in government handouts, and the structure of these credits provides an insurance policy against a crash in the price of oil.

Certainly there are no quick fixes to our energy challenges. However, a few things are clear. We must recognize the possibility of global shortages or disruptions as demand continues to grow. We are also in the midst of a global war on terrorism, fighting radicals whose stated objective is to destroy western civilization. At the same time, we rely on certified state sponsors of terrorism for our petroleum needs.

Therefore, we must also contemplate the real possibility that oil will be used as an economic weapon. Consequently, in my view it is irresponsible for the United States to buy oil from fanatical regimes that are determined to be determined to destroy our way of life. It is time for energy freedom, it is time for energy security, and it is time for action on American-made solution.

For that I appreciate the opportunity to testify and I have submitted my statement for the record.

[The prepared statement of Hon. Devin Nunes follows:]

**Prepared Statement of The Honorable Devin Nunes, a Representative in
Congress from the State of California**

Chairman Camp and Ranking Member McNulty;

I appreciate the opportunity to testify today on legislation that I and a number of my colleagues, including Senator Burr, introduced to address our nation's energy future. While gas prices are declining, we must not be lulled into a false sense of security. We are still in the midst of an energy crisis that is not going away. All we need is a hiccup in the supply chain of crude oil, and the prices at the pump can quickly return to the historic levels we have seen in past months or even higher.

Indeed, in the past, we have attempted to address our nation's energy security by looking at renewables and alternatives—only to see crude oil poured into the international market driving down the price per barrel of oil. In this case, basic economics take over and the cheaper energy source prevails. Because of this, crude oil has been the fuel of choice for more than a century. This economic addiction to cheap energy has led to the crisis we are now experiencing.

As everyone on this Committee knows, **we import 65% of our petroleum needs, and** the Energy Information Administration (EIA) projects that by 2025 we will import 71% of our petroleum. While this is a tenuous situation, it is exacerbated by the fact that **two-thirds of the world's proven oil reserves are located in the volatile Middle East. The nexus of instability with the Middle East, as well as the threat of lost production from Nigeria and Venezuela, and a virtual halt to new energy exploration in the United States have resulted in the price of oil reaching all-time highs. With this in mind,** it does not surprise me that year after year we pay higher and higher prices for energy—whether at the pumps or in our home energy bills. This situation has stifled economic development, put our nation's security at risk, and placed an unnecessary burden on the family budget. We need to come to grips with the onerous policies of the past that are strangling us now; this is an American-Made problem that requires an American-Made solution.

Unfortunately, we, as legislators, have tried time and again to enact solutions to expand our energy resources only to be thwarted by a vocal minority. The opposition's only solution is social engineering by mandating that the American people change their lifestyle. This has not worked in the past and will not work today. What we need is a comprehensive market based strategy that will reduce our de-

pendence on foreign sources of oil while bridging the gap to the next generation of energy. Congress has a responsibility to deal with our nation's energy demands in a bi-partisan manner that benefits all Americans. For these reasons, 13 Republicans and 9 Democrats introduced H.R. 5890, the American-Made Energy Freedom Act. [*Current Cosponsors: 38*] Thanks to Senator Burr, we also have a companion bill in the Senate.

This bipartisan, bicameral, bill would provide short-term relief while funding a long-term solution for energy freedom. We would accomplish this by opening just 2,000 acres of the Arctic National Wildlife Refuge (ANWR) to exploration and investing the Federal share of the lease and royalty revenue into an energy trust fund. This trust fund would be used to pay for numerous renewable, alternative, and advanced energy programs. At an estimated \$40 billion over 30 years, this trust fund would be the largest investment in renewable, alternative, and advanced energy in our nation's history—***all at no cost to the taxpayer.***

Within the first 2 years of enactment of H.R. 5890, numerous renewable and alternative energy programs would receive billions of dollars in much needed investment. This would include an infusion of investment into the next generation of ethanol (cellulosic), a deployment of Coal-to-Liquid (CTL) technology, an expansion of the use of solar and fuel cell technology, and significant growth in the biofuel energy production industry. A number of these investments would come in the form of market based production tax credits. In the case of the cellulosic and CTL credits, we have crafted a solution yet to be seen in Congress. Both tax credits are tied to the price per barrel of oil and adapt to market conditions. We simply don't believe in government handouts and the structure of these tax credits merely provides an insurance policy against a crash in the price of crude oil.

Moreover, the bill funds numerous renewable energy provisions that were originally authorized in the Energy Policy Act of 2005 and have yet to receive significant funding. These Federal investments are needed to ensure breakthroughs in biotechnology, new feedstocks, harvesting, storage, transportation, and processing to produce a sustainable transportation fuel at a price competitive with fuel from the mature petroleum industry. Furthermore, enhancing Federal consumer tax credits is necessary to ensure that every home owner or small business has the opportunity to participate in our energy freedom by installing alternative energy systems that are economically viable and environmentally sensitive.

Indeed, the proposals put forth in H.R. 5890 will have numerous benefits. First, it will bridge the gap in our efforts to transition to homegrown energy and reduce our dependence on foreign oil. Second, it will assist us in meeting Renewable Portfolio Standards which have been set by many states. Third, it will significantly reduce greenhouse gas emissions. Finally, all of this is accomplished by incubating technology *rather than subsidize an industry.*

Certainly, there are no quick fixes to our energy challenges. However, one thing is clear. Americans cannot continue to rely on cheap imports for our energy future. It is important for us to recognize the possibility of global shortages or disruptions as demand for fossil fuel continues to grow. We must also contemplate the real possibility that oil will be used as an economic weapon against us. We are in the midst of a Global War on Terrorism, fighting radicals whose stated objective is to destroy western civilization and install religious theocracies. At the same time, we rely on certified state-sponsors of terrorism for our petroleum needs. In my view, it is irresponsible for the United States to buy oil from fanatical regimes that are determined to destroy our way of life. It is time for energy freedom, it is time for energy security, and it is time for action on an American-Made solution.

I appreciate the opportunity to testify today and I look forward to working with my colleagues on the Committee to address the tax provisions in our proposed legislation.

Chairman CAMP. Thank you very much, and thank you all very much for your good testimony. Now we will just go to the question time.

Mr. Shaw, your 401 Kids legislation obviously gives us more options in tax-preferred savings. Do you have any information on what that will do to the national savings rate?

Mr. SHAW. Well, it would greatly increase it. The revenue loss on it has been—and I should have included this in my statement—is I think \$69 million over the 5-year period. It jumps up to a bil-

lion over a 10-year period, and that is anticipating that people are going to put more and more money into these accounts, and as they grow, that will mean there is more deferred. It is an investment. All of us are concerned about the rising cost of the first home, the rising cost of a college education, and I can tell you, Mr. Chairman, having 15 grandkids myself, I am not sure I can afford to send them all to college, and I think other parents with a little bit of help from the grandparents should be able to. We should be devising as many ways as possible in order to equip the families with the ability to pay for this important expenditure.

Chairman CAMP. Well, thank you very much. Ms. Hart, if self-employed folks can deduct the self-employment tax, will that increase health coverage for the uninsured?

Ms. HART. That is a good point to make, since the significance of people who are self-employed, according to some studies that I cited, just opt not to provide it for themselves or their families because they can't afford it, if they are infused with an additional \$1600, that certainly makes health coverage more affordable for them. I think it is likely to do that.

Chairman CAMP. Okay, thank you, and Mr. Nunes, your proposal creates a trust fund to help subsidize alternative energy uses, and how long would you expect that would continue?

Mr. NUNES. Well, essentially it would continue the entire life of—it depends on how much money is put in and then the life of the oil fields in Alaska. Essentially what we are doing, we are opening up the North Slope to drilling, putting all that money in a trust fund, and the money—the rate that the money is spent basically depends on the price of oil. If the price of oil is high, we would not use any money in the trust fund. If the price of oil drops down like it did in the seventies, just when alternative are starting to take shape, it protects against a drop and it continues the investment into this type of technology which I think gets us to the new generation of fuel and weans us off of our dependence on foreign oil.

Chairman CAMP. All right, thank you very much.

Mr. McMulty may inquire.

Mr. MCNULTY. Thank you, Mr. Chairman.

Congresswoman Hart, if we should be doing anything, we should be trying to reduce the number of uninsured in this country as far as health care coverage is concerned, because the number of uninsured has increased over the past 5 or 6 years from 39 million to 46 million, and it is going up. So, I certainly share your goal.

My question would be you seem to have zoomed in on the self-employed and their employees. Is there a provision in your bill which would provide a benefit to an employee who is not employed by a self-employed individual?

In other words, an employee of a corporation which does not provide health care coverage, if that employee opted to buy health care coverage for his or her family, would they derive a benefit from this bill?

Ms. HART. Actually, no. This is very incisive. It focuses on the Self-Employed Contribution Act only, so it would not—in fact, anyone who does not pay that tax, so anybody who is employed by someone else, their Social Security and Medicare taxes are through

the FICA tax and they are paid, you know, by the employer out of their check, so this would not affect them.

Chairman CAMP. Have you looked at John McHugh's bill at all? Because his bill does what your bill would do, but it is more expansive and would cover the employees as well as the employers.

Ms. HART. I certainly will do that.

Chairman CAMP. Thank you.

Mr. Foley may inquire.

Mr. FOLEY. Thank you. Further on Mr. Nunes's suggestion, because I think it is a very, very sensible approach. I am a cosponsor, but I really want to emphasize the fact that you do transfer additional investments to alternative fuels, further explain.

Mr. NUNES. Essentially what we do is we take all the revenue generated, Federal share of revenue generated by ANWR, put it into a trust fund that can be used at the beginning on three major technologies—cellulosic ethanol, which is the next generation of ethanol, coal-to-liquid technology, which as of last week as just ran in a B-52. They ran Mr. Trope's process. It is a very clean form of diesel fuel created from coal or jet fuel, and it was actually used first by the Nazis in World War Two to fund their war machine. The third thing it funds is solar technology—and actually, Mr. Camp, I believe we took parts of your bill and put it into this bill to make it possible—you know, we have broad support from the solar industry, the biofuels folks, and without an investment like this it is going to be hard really to get the next future generation of energy off the group because people—or companies do not want to invest billions of dollars into building a coal-to-liquid plant if the price of oil could very possibly drop back to \$35–40, and it would not be profitable.

So, this basically provides an insurance policy against a drop in oil.

Chairman CAMP. Thank you. Mr. Shaw, on your 401(k) kids' savings account, you mentioned in there grandparents helping to pay. Are grandparents eligible to take a deduction?

Mr. SHAW. Yes, I believe they are—the limitation of \$2,000 a year. But it is important to realize where the tax break is is on the buildup within the account. No deduction for the contribution. Those are put into it with after-tax dollars.

Chairman CAMP. Mr. Cardin, the Renewing the Dream Tax Credit Act, that seems very, very well-poised to help inner cities particularly, and take some of the sprawl, particularly in Florida we have a lot of people moving to the suburbs, leaving the inner city areas. Does this bill keep people inside, where transportation is evident, where infrastructure is already existent?

Mr. CARDIN. It does. The concern we have today and the reason why it is so important for the inner cities is that if you try to develop properties, renovate properties for homeownership, the cost of renovation of inner city property is beyond the means of the individuals who live in those communities.

What the credit does, it fills the gap between the cost of providing affordable homeownership and the ability of an individual to be able to pay for that, so the credit fills that gap, as it does in the low income housing tax credit. So, yes, it would allow us to re-

plenish the housing stock in our inner cities today, make it available for homeownership. Thank you.

Chairman CAMP. All right, thank you. I guess we have no further questions of this panel. I want to thank you all very much for your testimony. It is very, very helpful. Thank you very much.

Now we will move to panel two.

We have the Honorable Donna Christensen, a Delegate in Congress from the United States Virgin Islands, the Honorable Vito Fossella, a Representative in Congress from the State of New York, Hon. Heather Wilson, a Representative in Congress from the State of New Mexico, the Honorable Gary Miller, a Representative in Congress from the State of California, the Honorable Trent Franks, a Representative in Congress from the State of Arizona.

I want to welcome our panel. We have been having a little bit of difficulty with the microphones.

If you speak directly into the microphone and don't move your head away from it at all, they pick up sound. They don't have a button. They just pick up sound, so if you speak directly into it, that will be very helpful.

Why don't we begin with the Honorable Donna Christensen, a Member of Congress from the United States Virgin Islands.

STATEMENT OF HON. DONNA CHRISTENSEN, A DELEGATE IN CONGRESS FROM THE UNITED STATES VIRGIN ISLANDS

Ms. CHRISTENSEN. Thank you, Mr. Chairman, good morning, Chairman and distinguished Members of the Subcommittee. I am pleased to have this opportunity to appear before you in support of H.R. 273, legislation I introduced last year to repeal the cap under Section 7652(f) of the Internal Revenue Code on the rate of excise tax on Virgin Islands and Puerto Rico rum shipped to the United States and returned, or "covered over," to the treasuries of the Virgin Islands and Puerto Rico, respectively. The legislation would eliminate the need for Congress to periodically extend the current cover-over rate as is now the case. I am not aware of any policy objections to this legislation and I respectfully ask that the Committee act to lift the cap and cover over the full amount at the earliest practicable time.

At the same time, I would like to take this opportunity to bring an issue to the attention of the Subcommittee that is having an extremely damaging impact on the Virgin Island economy. Virgin Islands residents are required to pay Federal income tax like any other citizen living outside the continental United States. However, Section 932 of the Internal Revenue Code states that the bona fide residents of the Virgin Islands are not required to file an income tax return with IRS but to file and pay taxes to the Virgin Islands' government.

As determined under the "mirror code" section, the amount of liability to the Virgin Islands is generally equal to what would have been paid to IRS. The only exception is a provision under Section 934 of the Code which permits the Virgin Islands to provide economic development incentives to tax credits or tax rate reductions for income sourced in or effectively connected to the Virgin Islands.

Pursuant to this authority, almost 50 years ago the Virgin Islands government established an economic development program

which would provide tax incentives to qualified businesses located in the Virgin Islands owned by residents of the Virgin Islands in order to diversify our economy, create jobs, and to lessen our dependence on the Federal Government.

In response to concerns that U.S. citizens claim those tax benefits who neither live nor work in the Territory, Congress 2 years ago tightened the income and residency rules as part of the American Jobs Creation Act of 2004. The Jobs Act replaced the “facts and circumstances test” similar to that previously used for determining the tax residency of foreigners was an onerous physical presence test, a closer connection test, and a tax home test.

At around the same time the U.S. Internal Revenue Service initiated a very invasive series of audits of individuals who participated in the Territory’s Economic Development Commission program, as well as on many taxpayers not in the EDC program who had moved to the Virgin Islands and Virgin Islanders who were born in the Virgin Islands but who for lack of opportunity were forced to periodically work outside of the Virgin Islands.

Neither the Virgin Islands government or our EDC community had any objection, of course, to properly conducted IRS audits with clear audit guidelines in place at the outset. However, it appears that the IRS has used the subjective nature of the pre-Jobs Act legal standard for determining bona fide V.I. residency as a “hunting license” for challenging anyone who claimed EDC benefits as a potential participant in an abusive tax shelter, rather than as a participant in a lawful economic development program duly authorized by Congress.

In fact, some IRS agents have taken the position that anyone who moved to the Virgin Islands for the principal purpose of taking advantage of the EDC benefits by definition cannot be a bona fide V.I. resident, even if the individual meets all generally-accepted tests of residency under pre-Jobs Act law.

Such a position not only stands the law on which the EDC program is based on its head, but has served unfairly and improperly to influence and distort IRS’ entire approach to the ongoing audits of V.I. taxpayers. Rather than facilitating and ensuring tax compliance, and if the fact warrant, ferreting out the wrongdoers, the IRS audits have instead become a vehicle for undermining a Congressionally sanctioned and authorized development program to punitive and heavy-handed techniques including repetitive, intrusive, and burdensome data and document requests. Unfortunately and unfairly the audit presumptions seem to be that the taxpayer is engaged in tax fraud unless he or she can prove otherwise.

But there is more. The IRS has also reversed its longstanding policy, and now removes the statute of limitations for V.I. taxpayers who reasonably and in good faith file their tax returns and pay their tax to the Virgin Islands Bureau of Internal Revenue, as the law requires them to do. In a recent General Counsel Advisory Memorandum, the IRS announced that it has the right to audit the returns of a V.I. taxpayer as far back as they like and if they determine under the subjective pre-Jobs Act tests that the taxpayer was not a bona fide V.I. resident that it can assess full tax and penalties even if the V.I. taxpayers pay the correct amount to the Virgin Islands.

Because the Virgin Islands statute of limitations will have run in many of these circumstances, the taxpayer will be precluded from seeking a refund of tax paid to the Virgin Islands and thus be subjected to double taxation. Similarly, at least some IRS agents may now be taking the position that even a bona fide V.I. resident who underpays his tax to the Virgin Islands by even one dollar, even if it was the result of a good faith error, may not be subject to full taxation by the United States without regard to or credit for any payments made to the Virgin Islands.

Such a position is without legal support but it operates perversely as a disincentive for our BIR to audit and seek any underpayments of tax from its own V.I. taxpayers.

These heavy-handed practices have been damaging to the Territory's EDC program and clearly is not what Congress had in mind when it enacted the Virgin Islands tax incentive at issue as part of the 1986 Tax Reform Act or when Congress acted to include more objective factors in the determination of residency and sourcing of income as part of the Jobs Act in 2004.

The IRS needs to state up front that the EDC program is a legitimate, Congressionally-sanctioned economic development program and that participation in the program does not create a rebuttable presumption that the taxpayer investor is not a bona fide resident, engaged in tax fraud or unlawfully participating in a tax shelter.

Most importantly, if not soon reversed by IRS or Treasury administrative action, I respectfully request that Congress needs to clarify, consistent with the language and legislative intent of the 1986 Tax Reform Act, the filing of a tax return by a bona fide resident of the Virgin Islands with the BIR starts the running of the statute of limitations both in the Virgin Islands and in the United States and a person who files his return within the Virgin Islands is a bona fide resident of the United States in good faith for years that are now closed for Virgin Islands purposes should be credited for any tax paid to the BIR, even though the person is subsequently determined not to have been a Virgin Islands resident by the current IRS regulation.

Finally, to the extent that a bona fide resident of the Virgin Islands pays his tax liability to the Virgin Islands that any residual tax liability should be payable to the Virgin Islands.

Mr. Chairman, I look forward to working with you and Members of the Subcommittee to resolve these very important issues which are so critical to the economic development and well-being of the United States Virgin Islands. Thank you.

[The prepared statement of Hon. Donna Christensen follows:]

Prepared Statement of The Honorable Donna Christensen, a Delegate in Congress from the United States Virgin Islands

Mr. Chairman and Distinguished Members of the Subcommittee, I am pleased to have this opportunity to appear before you in support of H.R. 273, legislation I introduced last year to repeal the cap, under Section 7652(f) of the Internal Revenue Code ("Code"), on the rate of excise tax on Virgin Islands and Puerto Rico rum shipped to the United States and returned, or "covered-over," to the treasuries of the Virgin Islands and Puerto Rico, respectively. This legislation would eliminate the need for Congress to periodically extend the current cover-over rate as is now the case. I am not aware of any policy objections to this legislation, and I respectfully ask that this Committee act on it at the earliest practicable time.

At the same time, I would like to take this opportunity to bring an issue to the attention of the Subcommittee that is having an extremely damaging impact on the Virgin Islands economy.

As you know, residents of the Virgin Islands, as citizens of the United States, are required to pay Federal income tax like any other citizen living outside the United States. However, Section 932 of the Internal Revenue Code ("Code") states that bona fide residents of the Virgin Islands are not required to file an income tax return with the IRS. They are required instead, to file their income tax return and pay the applicable tax to, the Government of the Virgin Islands.

The amount of the liability to the Virgin Islands, determined under the "mirror code" system, in most cases is exactly the same amount that they would otherwise have been required to pay to the Federal Government. The only exception is a provision under Section 934 of the Code which permits the Virgin Islands to provide economic development incentives through tax credits or tax rate reductions for income from sources in the Virgin Islands or income effectively connected with the conduct of a trade or business in the Virgin Islands.

Pursuant to this authority, the government of the Virgin Islands established, almost 50 years ago, an economic development program that was intended to diversify the local economy, create jobs for its citizens, and to lessen its dependence on the Federal Government.

Under this program, the VI government provided tax incentives to qualified businesses that established operations and invested in the Virgin Islands, and that met the program's criteria for creating jobs and economic opportunity for Virgin Islanders.

In response to concerns that some U.S. citizens claimed tax benefits who neither lived nor worked in the Territory, Congress 2 years ago tightened the income and residency rules as part of the American Jobs Creation Act of 2004 ("Jobs Act"). With respect to the rules for determining residency in the Virgin Islands, the Jobs Act replaced a "facts and circumstances test" similar to that previously used for determining the tax residency for aliens with a physical presence test, a closer connection test, and a tax home test.

At around the same time, the U.S. Internal Revenue Service ("IRS") initiated a comprehensive series of audits not only of individuals who participated in the Territory's Economic Development Commission ("EDC") program, but also of many taxpayers who had moved to the Virgin Islands years earlier and who did not participate in the EDC program as well as taxpayers who were born in the Virgin Islands but who had spent periods of their working life outside the Territory due to the lack of opportunities in the Virgin Islands.

Neither the VI government nor most responsible members of our EDC community have any objection to properly conducted IRS audits with clear audit guidelines in place at the outset.

However, it appears that the IRS has used the subjective nature of the pre-Jobs Act legal standard for determining bona fide V.I. residency as a "hunting license" for challenging anyone who claimed EDC benefits as a potential participant in an abusive tax shelter, rather than as a participant in a lawful economic development program duly authorized by the Congress.

Indeed, I have been informed by many of my constituents who have been the subject of such audits that some IRS agents have taken the position that anyone who moved to the Virgin Islands for the principal purpose of taking advantage of EDC benefits, by definition, cannot be a bona fide V.I. resident, even if the individual meets all generally accepted tests of residency under pre-Jobs Act law.

Such a position not only stands the law, on which the EDC program is based, on its head, but has served unfairly and improperly to influence and distort IRS's entire approach to the ongoing audits of V.I. taxpayers.

Rather than facilitating and ensuring tax compliance and, if the facts warrant, ferreting out wrongdoers, the IRS audits have instead become a vehicle for undermining a Congressionally sanctioned and authorized economic development program through punitive and heavy-handed techniques, including repetitive, intrusive, and burdensome data and document requests. Unfortunately and unfairly, the IRS audit presumption seems to be that the taxpayer engaged in tax fraud unless he or she can prove otherwise.

The IRS tactics, however, go far beyond intrusive and burdensome data requests. In the course of these audits, the IRS has reversed its long-standing administrative practice and published position, and now claims that the statute of limitations never runs for V.I. taxpayers who reasonably and in good faith file their tax returns with, and pay their tax to, the Virgin Islands Bureau of Internal Revenue ("BIR"), as the law requires them to do.

In a recent General Counsel Advisory Memorandum, the IRS announced its new position that it has the right to audit the returns of a V.I. taxpayer as far back as they like and, if they determine under the subjective pre-Jobs Act test that the taxpayer was not a bona fide V.I. resident, that it can assess full tax and penalties *even if* the taxpayer has paid the correct amount to the Virgin Islands.

Because the Virgin Islands statute of limitations will have run in many of these circumstances, the taxpayer will be precluded from seeking a refund of tax paid to the Virgin Islands, and thus be subject to double taxation. Moreover, since the IRS position reverses a previously issued IRS advisory memorandum and also runs counter to the general rule that persons can be audited for up to 3 years after filing a return, many taxpayers who are being audited no longer have the records to defend themselves.

Similarly, at least some IRS agents may now be taking the position that even a bona fide V.I. resident who underpays his tax to the Virgin Islands by even one dollar (even if this is a result of a good faith error) may now be subject to full taxation by the United States without regard to, or credit for, any payments made to the Virgin Islands.

Such a position is not only not without legal support, but it operates perversely as a disincentive for the BIR to audit and seek any underpayments of tax from its own V.I. taxpayers.

These heavy handed practices have been damaging to the Territory's EDC program, raising the specter of guaranteed and endless audits of virtually anyone who moves to, and invests in, the Virgin Islands.

This is not, I would respectfully submit, what Congress had in mind when it enacted the Virgin Islands tax incentives at issue as part of the 1986 Tax Reform Act, or when Congress acted to include more objective factors in the determination of residency and sourcing of income as part of the Jobs Act in 2004.

Representatives of the VI government, including the BIR, are working with Treasury and IRS officials in an effort to minimize the burdens and intrusiveness of the audit process. There needs to be published reasonable and precedent-based IRS audit guidelines for the determination of bona fide V.I. residency under pre-Jobs Act law in order to avoid IRS audit abuse. The IRS needs to state up front that the EDC program is a legitimate, congressionally sanctioned economic development program and that participation in the EDC program does not create a rebuttable presumption that the taxpayer/investor is not a bona fide V.I. resident, engaged in tax fraud, or unlawfully participating in a tax shelter.

Most importantly, if not soon reversed by IRS or Treasury administrative action, Congress needs to clarify that, consistent with the language and legislative intent of the 1986 Tax Reform Act, the filing of a tax return by a bona fide resident of the Virgin Islands with the BIR starts the running of the statute of limitations in both the Virgin Islands and the United States and that a person who filed his return with the Virgin Islands as a bona fide resident of the Virgin Islands in good faith for years that are now closed for Virgin Islands purposes should be credited for any tax paid to the BIR, even if the person is subsequently determined not to have been a Virgin Islands resident by the IRS.

And finally, to the extent that a bona fide Virgin Islands resident underpays his tax liability to the Virgin Islands, any residual tax liability should be payable to the Virgin Islands and not the United States.

Mr. Chairman, I look forward to working with you and Members of this Subcommittee to resolve these important issues which are so critical to the economic development and well-being of the United States Virgin Islands. Thank you.

Chairman CAMP. Thank you. Thank you very much for your testimony. Hon. Vito Fossella from the State of New York, you will have 5 minutes, and your full statement will be made part of the record.

**STATEMENT OF VITO FOSSELLA, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NEW YORK**

Mr. FOSSELLA. Thank you, Mr. Chairman, and thank you Mr. McNulty and Members for giving me the opportunity to testify. Like me and like you and like any parent, choosing a school to send your child is about the most important and fundamental decision

that one parent can make, and indeed we are blessed in this country with amazing teachers, great education professionals, people who dedicate their lives to helping young people to improve their educational achievement and character and strength through academic excellence, and we are blessed in the public school system, not just in New York but across the country, and likewise religious and private schools have earned a reputation for academic excellence and character development in America's young people as well.

However, many parents who send their children to religious or private schools do so at a tremendous financial cost. In my home district of Staten Island and Brooklyn, New York, tuition to these religious and private schools averages roughly \$4,500 per year per student. At these rates it is increasingly difficult for the typical family—let's say a police officer and a nurse—to afford to send their children to the schools they want or choose.

In April, 2006 the Archdiocese of New York announced it would close eight schools, including St. Paul's in Staten Island and others across New York City.

This action mirrors a nationwide trend. Indeed, from 1999 to 2003 more than 1,200 private and parochial schools in urban areas like New York, Chicago and Detroit have shut their doors while enrollment has dropped by nearly 360,000. Many of these schools have worked hard to keep costs down, but as Edward Cardinal Egan, head of the archdiocese in New York, told me, quote, "the cost to us—even though about a third of what it is to spend on competition—is rising above our financial capacities." End quote.

As a proud graduate of PS 39 and IS 2 on Staten Island, I recognize that public schools are the right choice for the overwhelming majority of Americans. That's why I've consistently voted for higher levels of Federal funding, more than \$57 billion this year alone, for public education, a rise of about 150 percent of the last decade.

But many low-income students find themselves trapped in failing schools, public schools, where academic achievement and opportunity is all by nonexistent. These young Americans, the majority of them minorities, are being denied a basic education because the alternatives are simply outside their financial means, family's financial means.

In my home State of New York between 65 and 80 percent of students in the archdiocese's 16 schools have family incomes below the poverty line. A recent New York University study found the performance of Catholic schools with high concentrations of poor African American and Hispanic students surpassed that of public schools, with student populations that are less poor and more white or Asian, despite large student-to-teacher ratios and lower per-pupil spending in Catholic schools.

The New York Post recently stated, quote, "Of the nearly 30,000 students attending Catholic schools in non-white and poor neighborhoods, the percentage of students of state tests was twice that of local public schools." End quote.

While taxpayers save money for every child that attends a non-public school, the Tax Code offers these families no such benefit. This needs to change. That's why I've introduced H.R. 5230, the TEACH Act—legislation creating a \$4,500 Federal tuition tax credit for K through 12 parochial and private school education.

Here's how it would work: Families would be permitted to take a dollar-for-dollar reduction in their tax liability for nonpublic school tuition expenses. For example, a taxpayer with a liability of \$10,000 and a tax credit of \$4,500 would be required to pay the Federal Government only \$5,500 in taxes. Simply put, it allows families to keep more of their money to spend on their children's education.

Some already have called this a voucher program, but it is clearly not. Arizona's Supreme Court recognized the difference in a ruling that the U.S. Constitution didn't bar the state's tuition tax credit. Others claim it will lead to an exodus of students and destroy public education, claims that suggest a lack of confidence in the existing system.

The fact is, the school choice genie is out of the bottle, and it's working, in Wisconsin, Arizona, Florida, even the District of Columbia. Those who still embrace a cocoon mentality only stifle innovation and cultivate mediocrity in education.

No less a respected educational leader than Albert Shanker, who was the former president of the American Federation of Teachers, agreed. He said, quote, "It's time to admit that public education operates like a planned economy, and there are few incentives for innovation or productivity. It's no surprise our school system doesn't improve. It more resembles the communist economy than our own market economy." End quote. That's the former president of the American Federation of Teachers.

Public school students would also benefit under this plan, because it would help reduce class size, improve teacher-to-student ratios, and increase per capita spending. A nonpartisan economic analysis of a Utah tuition tax credit proposal found that taxpayers would save as much as \$1.3 billion over 13 years, and the Desert Morning News noted, quote, "It dealt a blow to public education officials' stand that tuition tax credits would drain school dollars." End quote.

The fact that both public and nonpublic schools would win with a Federal tuition tax credit is beside the point. What matters most is that America's students should have the opportunity to succeed regardless of what type of school they attend. Passage of this act would have a profound impact not only on our communities, but in every corner of America.

Mr. Chairman, I come before you today asking the support of the TEACH Act. Together we can make education more affordable for all Americans and provide a quality education for all of our nation's children.

Thank you for your time.

[The prepared statement of Hon. Vito Fossella follows:]

Prepared Statement of The Honorable Vito Fossella, a Representative in Congress from the State of New York

I would like to begin by thanking the Ways and Means Committee, including Chairman Thomas, Ranking Member Rangel, Sub-Committee Chairman Camp and Ranking Member McNulty for the opportunity to testify at today's hearing.

Religious and private schools have rightfully earned a reputation for academic excellence and character development in America's young people. However, many parents who send their children to religious or private schools do so at a tremendous financial cost. In my home district of Staten Island and Brooklyn, New York, tuition to these religious and private schools averages roughly \$4,500 per year, per student.

At these rates, it is increasingly difficult for the typical family—let’s say a police officer and a nurse—to afford to send their children to the schools they want.

In April of 2006, the Archdiocese of New York announced it would close eight schools, including St. Paul’s on Staten Island and others across the city. This action mirrors a nationwide trend. Indeed, from 1999 to 2003, more than 1,200 private and parochial schools in urban areas like New York, Chicago, and Detroit have shut their doors while enrollment has dropped by nearly 360,000.

Many of these schools worked hard to keep costs down, but as Edward Cardinal Egan told me, “the cost to us—even though about a third of what is spent on the competition—is rising above our financial capacities.”

As a proud graduate of PS 39 and IS 2 on Staten Island, I recognize that public schools are the right choice for the overwhelming majority of Americans. That is why I have consistently voted for higher levels of Federal funding (more than \$57 billion this year alone) for public education, a rise of 150 percent over the last decade.

But many low-income students find themselves trapped in failing public schools, where academic achievement—and opportunity—is all but non-existent. These young Americans, the majority of them minorities, are being denied a basic education because the alternatives are simply outside their family’s financial means.

In my home State of New York, between 65 and 80 percent of students in the archdiocese’s 16 schools have family incomes below the poverty line. A recent New York University study found the performance of Catholic schools with high concentrations of poor black and Hispanic students surpassed that of public schools with student populations that are less poor and more white or Asian, despite larger student-to-teacher ratios and lower per-pupil spending in Catholic schools. The New York Post recently stated, “Of the nearly 30,000 students attending Catholic schools in non-white and poor neighborhoods, the percentage of students passing state tests was twice that of the local public schools.”

While taxpayers save money for every child that attends a non-public school, the Tax Code offers these families no such benefit. This needs to change. This is why I have introduced H.R. 5230, the TEACH Act—legislation creating a \$4,500 Federal tuition-tax credit for K–12 parochial and private school education.

Here’s how it would work: Families would be permitted to take a dollar-for-dollar reduction in their tax liability for non-public school tuition expenses. For example, a taxpayer with a liability of \$10,000 and a tax credit of \$4,500 would be required to pay Uncle Sam only \$5,500 in taxes. Simply put, it allows families to keep more of their money to spend on their children’s education.

Some already have called this a voucher program, but it clearly is not. Arizona’s Supreme Court recognized the difference in ruling that the U.S. Constitution didn’t bar that state’s tuition-tax credit. Others claim it will lead to an exodus of students and destroy public education—claims that suggest a lack of confidence in the existing system.

Fact is, the school-choice genie is out of the bottle—and it’s working, in Wisconsin, Arizona, Florida, and even the District of Columbia. Those who still embrace a cocoon mentality only stifle innovation and cultivate mediocrity in education.

No less a respected educational leader than Albert Shanker, former president of the American Federation of Teachers, agreed, “It’s time to admit that public education operates like a planned economy and there are few incentives for innovation or productivity. It’s no surprise our school system doesn’t improve. It more resembles the communist economy than our own market economy.”

Public-school students would also benefit under this plan because it would help reduce class sizes, improve teacher-to-student ratios and increase per-capita spending. A nonpartisan economic analysis of a Utah tuition-tax credit proposal found that taxpayers would save as much as \$1.3 billion over 13 years. Plus, as the Desert Morning News noted, it “dealt a blow to public education officials’ stand that tuition-tax credits would drain school dollars.”

The fact that both public and non-public schools would win with a Federal tuition tax credit is beside the point.

What matters most is that America’s students should have every opportunity to succeed, regardless of what type of school they attend. Passage of the TEACH Act will have a profound impact not only on our communities, but in every corner of America.

Mr. Chairman, I come before your Committee today asking support by cosponsoring the TEACH Act. Together, we can make education more affordable for all Americans and provide a quality education for our nation’s children.

Thank you.



Chairman CAMP. Thank you. Thank you very much for your testimony. Now the Honorable Gary Miller from the State of California. You have 5 minutes. We will make your full statement part of the record as well.

**STATEMENT OF HON. GARY MILLER, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. MILLER. Thank you, Mr. Chairman. I want to thank you for inviting me to testify. I think I'm—

Chairman CAMP. Yes. If you speak directly into the microphone and not move away from it, it'll sound much better.

Mr. MILLER. To me this is an important tax issue that's been in place for far too long. In particular, I'm here to talk about H.R. 1898, the Telephone Excise Tax Repeal Act, which will repeal the antiquated 3 percent tax on telecommunications services. I'd like to thank the Members of this Committee for taking time today to listen and consider this bill. I especially want to thank you, Chairman Camp. You're one of the cosponsors of this, and I believe seven Members of your Subcommittee also cosponsor the bill.

The tax on telecommunication services has a long history. In 1898, the United States engaged in a brief military conflict in Spain referred to as the Spanish-American War. To pay for this 3-month skirmish, lawmakers enacted a "temporary" tax on telephone use. The intention was to tap money from only those who could afford a telephone. The tax was repealed in 1916, but that only lasted for 1 year. Then it was reinstated, even becoming as high as 25 percent in 1943. Lawmakers designated the tax as permanent in 1990 when it was set at the current 3 percent level. In 2000, the battle on American taxpayers' wallets almost came to a close when Congress sent legislation to the President to repeal this tax. I worked on this tax for 8 years and was lucky in 2000 to get the language put into an appropriations bill that was sent to President Clinton at that point in time, but he decided to veto that bill so the tax that's been going on for 108 years is continuing.

While a luxury tax on telecommunication services might have made sense in 1898, there's no question that telecommunication services today are a necessity, not a luxury. More than 107 million American households are paying for a tax on their telecommunication services, a significantly larger population than the few who it was basically intended to impact in the original 1898 law. Today, instead of taxing only the rich, the Federal excise tax, referred to as FET, hits the pocketbooks of almost every American, both rich and poor.

Other items subject to a luxury tax include airplane tickets, beer and liquor, firearms and cigarettes. Today a telephone is a necessity and does not fit in this list of others that are considered luxury items.

I am pleased that the telephone tax has received some attention in recent months as the Treasury Department concluded that an outdated statute no longer enabled them to collect a large portion of the tax referred to as FET.

Specifically, in 1965, Congress codified excise tax collection rules and specified that collection of taxes on long distance telephone services shall be based on both time and distance. For the

past 10 years, the modern long distance service charges vary only by time, not by time and distance.

After losing eleven consecutive cases in five Federal circuit courts, on May 25, 2006, the Treasury Department announced that it would end collection of the excise tax on long distance telecommunication services. Collection of the 3 percent excise tax on long distance services ended on July 31st, 2006.

In addition to ending the collection on long distance services, bundled services are also no longer subject to the 3 percent tax. This means a majority of wireless telephone subscribers are exempt from paying the FET as well. Based on the IRS decision, land line telephones are the last remaining vestige in which a FET is applied. Typically, those who depend solely on land line telephones are seniors, low income and rural residents. This is not only regressive, it's discriminatory.

While I was pleased with the Treasury action earlier this year, I believe there is a great potential for disparity in treatment of continued collection of the FET on local services, both of telecommunication companies and the average American consumer. Taxes should apply equally to comparable transactions.

Today there are thousands of new providers of telecommunication services like cable companies, satellite companies and Internet providers. There is a potential that comparable services provided to customers using different technologies may not be subject to the same excise tax.

As a conservative, I certainly believe it is important to consider the impact of this legislation on the Federal budget. According to the Joint Committee on Taxation, JCT, the estimated budget effect over 10 years beginning in 2007 is \$4.5 billion. This is \$4.5 billion more that Americans can keep in their pocketbooks to spend and invest, which in turn will stimulate the economic growth of our country.

Former Treasury Secretary John Snow is on the record supporting full repeal of the FET. On May 25, 2006, he stated, quote, "In addition to ending the litigation, I would like to call on Congress to terminate the remainder of the antique tax by repealing the excise tax on local services as well." End quote. So, the Treasury at this point is behind what we're trying to do.

Again, I want to thank you for hearing this today. We all have to acknowledge that the Spanish-American War has concluded, and there's no reason to punish people who still rely on a land line to make a phone call.

Thank you.

[The prepared statement of Hon. Gary G. Miller follows:]

Prepared Statement of The Honorable Gary Miller, a Representative in Congress from the State of California

Mr. Chairman, thank you for inviting me to testify today about an important tax issue that has remained in place for far too long and no longer serves its original purpose. In particular, I am here to talk about H.R. 1898, the "Telephone Excise Tax Repeal Act of 2005," which will repeal the antiquated 3 percent tax on telecommunication services. I would like to thank Members of the Committee for taking time today to listen and consider the merits of H.R. 1898. I especially want to thank Chairman Camp and the seven Members of the Subcommittee who are cosponsors of this important legislation.

The tax on telecommunication services has a long history. In 1898, the United States engaged in a brief military conflict with Spain, the Spanish American War. To pay for the 3-month skirmish, lawmakers enacted a “temporary” tax on telephone use. The intention was to tap money from only those who could afford a telephone. The tax was repealed in 1916, but only for 1 year, when it was reinstated, even becoming as high as 25 percent in 1943. Lawmakers designated the tax as “permanent” in 1990, when it was set at the current 3 percent rate. In 2000, the battle on American taxpayers’ wallets almost came to a close, when Congress sent legislation to the President to repeal the tax.¹ However, President Clinton vetoed an appropriations bill which included the phone tax provision, and thus, taxpayers continue to pay for a “temporary” tax that was enacted 108 years ago.

While a “luxury” tax on telecommunication services might have made sense in 1898, there is no question that telecommunications services today are necessities, not luxuries. More than 107 million American households are paying for a tax on their telecommunications services, a significantly larger population than the few it was initially intended to impact.² Today, instead of taxing only the rich, the Federal excise tax (FET) hits the pocket books of almost all Americans, both rich and poor.

Other items subject to a luxury tax include airplane tickets, beer and liquor, firearms and cigarettes. Today, a telephone is a necessity, and does not fit with this list of luxury items.

Internal Revenue Service (IRS) Action

I am pleased that the telephone tax has received some attention in recent months, as the Treasury Department concluded that an outdated statute no longer enabled them to collect a large portion of the FET.

Specifically, in 1965, Congress codified excise tax collection rules, and specified that collection of taxes on long distance telephone services shall be based on both time *and* distance.³ However, for the past 10 years, modern long distance service charges vary only by time, not both time *and* distance.

The IRS acknowledged the change in long distance service offerings, and thus began settling cases brought about by companies who demanded refunds for payment of the FET on their long distance charges. In August 2004, the IRS issued a notice requiring telephone companies to continue to collect the FET on all long distance services, even those varying by time only.⁴

After losing eleven consecutive cases in five Federal circuit courts, on May 25, 2006, the Treasury Department announced that it would end collection of the excise tax on long distance telecommunications services.⁵ Collection of the 3 percent excise tax on long distance services ended on July 31, 2006.

In addition to ending the collection on long distance services, “bundled” services are also no longer subject to the 3 percent tax.⁶ This means a majority of wireless telephone subscribers are exempt from paying the FET as well.

Based on the IRS decision, land line telephones are the last remaining vestiges in which the FET is applied. Typically, those who depend solely on land line telephones are seniors, low-income and rural residents. This is not only regressive but discriminatory.

Full Repeal of the FET is Necessary

While I was pleased with the Treasury’s action earlier this year, I believe there is great potential for disparities in treatment of continued collection of the FET on local services, both for telecommunications companies and the average American consumer. Taxes should apply equally to comparable transactions.

¹ United States Cong. House. 106th Congress, 2nd Session. *H.R. 4516, the Legislative Appropriations Act for Fiscal Year 2001* [introduced in the U.S. House, 23 May 2000].

² United States. Federal Communications Commission, Wireline Competition Bureau, Industry Analysis and Technology Division. *Telephone Subscriberhip in the United States*. January 2004.

³ 26 U.S.C. Sec. 4252(b)(1).

⁴ United States. Department of the Treasury. *Internal Revenue Bulletin: 2004-35*. 30 August 2004.

⁵ “Treasury Announces End to Long-Distance Telephone Excise Tax: Press Release js-4287.” Department of the Treasury Official Home Page. 2006. United States Department of the Treasury. 25 May 2006. <<http://www.treas.gov/press/releases/js4287.htm>>.

⁶ United States. Department of the Treasury. *Internal Revenue Bulletin: 2006-25*. 19 June 2006. A bundled service is local and long distance service provided under a plan that does not separately state the charge for the local telephone service. Bundled service includes, for example, Voice over Internet Protocol service, prepaid telephone cards, and plans that provide both local and long distance service for either a flat monthly fee or a charge that varies with the elapsed transmission time for which the service is used. Telecommunications companies provide bundled service for both landline and wireless (cellular) service.

Today, there are thousands of new providers of telecommunications services, like cable companies, satellite companies and Internet providers. There is the potential that comparable services provided to customers using different technologies may not be subject to the excise tax.

For example, traditional telecommunications providers may be forced to collect the tax from customers that competitors may not collect on comparable services. This puts traditional telephone companies at a competitive disadvantage, and may lead consumers to choose a particular service or company solely based on tax applicability. In addition, in rural areas where only basic services may be offered, consumers are forced to pay the FET with little or no recourse.

Enhanced competition in the telecommunications industry will benefit the marketplace, consumers and our economy. Telephone service provides the basis for much of the growth of the digital economy. It is vital that Congress does not stifle this innovation by imposing burdensome taxes and fees. The continued tax on telephone service may inhibit growth of this new sector of the economy.

As a fiscal conservative, I certainly believe it is important to consider the impact of this legislation on our Federal budget. According to the Joint Committee on Taxation (JCT), the estimated budget effect over 10 years, beginning in 2007, is \$4.5 billion.⁷ This is \$4.5 billion more that Americans can keep in their pocketbooks to spend and invest, which in turn will stimulate economic growth.

Former Treasury Secretary John Snow is on record supporting full repeal of the FET. On May 25, 2006, he stated, "In addition to ending the litigation, I would like to call on Congress to terminate the remainder of this antique tax by repealing the excise tax on local service as well."⁸

Conclusion

Again, I want to thank you for the opportunity to testify before this Committee regarding the telephone excise tax. With the support of over 200 of our colleagues, including over half of the distinguished Members of the Ways and Means Committee, I am hopeful that Congress can finally give closure to the Spanish American War by considering and passing H.R. 1898, the "Telephone Excise Tax Repeal Act."

Chairman CAMP. Thank you very much, Mr. Miller, for your testimony. Now the Honorable Trent Franks from the State of Arizona, you have 5 minutes, and we'll make your full statement part of the record as well.

STATEMENT OF HON. TRENT FRANKS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. FRANKS. Thank you, Mr. Chairman. Mr. Chairman, I know that when the issue of education comes before any group, you know, sometimes it's good for us just to focus on what it's really all about. I think Thomas Jefferson said the purpose of education is to create young citizens with knowing heads and loving hearts. Aristotle said to the effect that the longer I study the art of governing mankind, the more I realize that the fate of empires depends upon the education of youth.

I'm convinced that all of us understand here in this room the critical nature to the future of education. The challenge before us oftentimes is how to effect the very best possible system. Really at the core of that dynamic is who will decide the nature and the content of children's education in this country. Will it be bureaucrats who do not know the children, or will it be mom and dad?

⁷United States. Joint Committee on Taxation. *Estimated Budget Effects of the Telephone Excise Tax Repeal and Taxpayer Protection and Assistance Act of 2006, as Reported by the Senate Committee on Finance*. Washington: Government Printing Office, 15 September 2006.

⁸"Treasury Announces End to Long-Distance Telephone Excise Tax: Press Release js-4287." Department of the Treasury Official Home Page. 2006. United States Department of the Treasury. 25 May 2006. <<http://www.treas.gov/press/releases/js4287.htm>>.

In Arizona, we enacted the Children's Hope Act, because we believe that mothers and fathers love their children more than any other group on Earth and would do the very best they could if given the opportunity. The Arizona Scholarship Tax Credit, which is a bill that I wrote that was passed in 1997, allows individuals on a voluntary basis if they choose to do so, to contribute to scholarship funds for children to go to school of their parents' choice, and the contributor then gets a dollar-for-dollar reduction in their state income taxes. The results are twofold. First, thousands of children, in this case in Arizona, around 27,000 children to this point, are given the opportunity to get scholarships to go to a school of their parents' choice. It is incredibly effective in that it has increased the public school satisfaction among parents across the board. In fact, instead of hurting public schools, it has helped them.

The scholarship tax credit reduces the revenue that goes to the state treasury, but in so doing, it reduces the burden on it twice as much, and oftentimes the private sector comes along and further helps the private school student. So, this is a major boon economically to Arizona.

But the real advantage to the scholarship tax credit approach, in my opinion, is its constitutionality, because it gives a choice both to the donor and to the parent. Consequently, we've survived every constitutional challenge. This went to the Arizona Supreme Court and was upheld, then it went to the United States Supreme Court which let the ruling stand as written.

That's not something that we're projecting, Mr. Chairman. That's what happened. In the process here, we've seen children, most of which are low income children, that are having their education funded by people who are in the upper income levels, and it's all done on a voluntary basis. It increases the competition among the school system, and it puts the focus where it belongs, that being upon the child rather than the system.

I can only say to you, Mr. Chairman and Members, you know, probably more than any other factor in humanity's whole, the direction that our children go academically and spiritually and philosophically will affect the future of this country more than any other single factor.

I think it's incredibly important that we afford parents the opportunity to choose the best road for their children. Because if children understand that they are miracles and that all those around them are miracles, not only will they have the motivation to learn and study history and math and philosophy and all of these things that are important to them academically, but they will find something else, and that is a purpose for living. At the end of the day, they will find their way home.

I can tell you that the Children's Hope Act that we've introduced in Congress is merely to create a Federal matching credit for those states who do the same thing. The Joint Tax Committee has estimated over 3 years that the impact would be 216 million—that's not billion—but million dollars in 3 years. The idea is to catalyze these programs in many states. The effect, I believe, Mr. Chairman and Members, would be a tremendous boon to the children of that state.

So with that, I'll just be here for questions. Thank you, Mr. Chairman.

[The prepared statement of Hon. Trent Franks follows:]

Prepared Statement of The Honorable Trent Franks, a Representative in Congress from the State of Arizona

Mr. Chairman, Members of the Subcommittee, thank you very much for allowing me to speak to you today about the Children's Hope Act and education tax credits in general. I believe that tax credits, by providing choice to both the donor and the recipient, provide a unique way for the Federal Government, state governments and individuals to work together to ensure that everyone of our nation's students are getting the best possible education.

Arizona has led the nation in providing tax credits for education, and the results have been truly amazing. Arizona's scholarship tax credit program was enacted in 1997. In the first year that the program was fully operational, 17 school tuition organizations distributed close to \$2.2 million in scholarships to over 3,300 students. The average scholarship amount was 653 dollars. The program has grown significantly every year. In 2005, according to the Arizona Department of Revenue,:

- 69,232 donations to private school tuition organizations totaling \$42,191,748 were reported to the Arizona Department of Revenue. This is an increase of 32.4% over the \$31,871,900 reported for 2004.
- All of the 54 school tuition organizations operating in Arizona in 2005 submitted the statutorily-required report.
- The average donation in 2005 was \$609. This is an increase from the \$499 average in 2004, mostly due to the increase in the maximum credit for married filing joint filers.
- The average scholarship amount in 2005 was \$1,370. Total Scholarships paid by school tuition organizations was \$30.9 million, a 9.4% increase over the amount of scholarships paid in 2004. The number of scholarships paid in 2005 was 22,522, a 6.5% increase over the 21,146 scholarships paid in 2004.
- 345 private schools in Arizona received scholarship money from school tuition organizations, 10 more than last year.

This year, under a democratic Governor, Arizona's scholarship tax program was expanded to allow corporations to participate. Tax credits have truly bipartisan appeal. Democratic governors in Iowa and Pennsylvania have signed legislation this year expanding or creating scholarship tax credit programs. Rhode Island passed a tax credit program with broad, bipartisan support. And in Maryland and New Jersey, bipartisan coalitions are working to create scholarship tax credits.

The *Children's Hope Act* would encourage even more states to enact tax credits similar to Arizona's innovative program by providing a small Federal credit as an *incentive* for states to enact their own scholarship tax credit. Tax credits truly empower parents and communities to directly make a difference in the needs of their local schools.

Under the *Children's Hope Act*, if a state enacts a scholarship tax credit of \$250 or more, based upon the minimal guidelines that are outlined in the text of the legislation, all residents of that state are eligible to take part in an additional Federal tax credit. The Federal tax credit is only \$100 (\$200 for joint returns) and only for those individuals contributing to education investment organizations that distribute at least half of their scholarships to low-income children. For those nine states that do not have an income tax, they can take a dollar-for-dollar credit against their property taxes.

This program encourages a community commitment: The scholarship tax credit program provides individuals with a cost-free charitable opportunity to improve a child's life and make a difference in a community. Individuals can receive a dollar-for-dollar credit against their state income tax liability for contributions to non-profit organizations that give students scholarships to attend a school of their choice.

This program builds on existing programs: An education investment organization is a nonprofit group that distributes at least 90 percent of their annual cash contributions in the form of grants or scholarships to elementary and secondary students. A donation for as little as \$5 can help make the difference in the life of a child. And, families who do not utilize the credits can still see daily benefits as their public schools improve to keep up with the new competition.

Mr. Chairman, Members of the Committee, I sincerely thank you for giving me the opportunity to speak with you today about this innovative program, and I would be happy to answer any questions that you might have.

Chairman CAMP. Thank you very much for your testimony. Now the Honorable Heather Wilson from the State of New Mexico, your full statement will be made part of the record. You have 5 minutes. We've been having a little trouble with these microphones, so just speak directly into it, please, and then we'll be able to hear everything. Thank you. Welcome to the Subcommittee.

**STATEMENT OF HON. HEATHER WILSON, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF NEW MEXICO**

Ms. WILSON. Thank you, Mr. Chairman, and thank you for holding this hearing today. We know that we have a challenge in this country in hiring teachers over the next couple of decades. We're going to have to hire 2 million teachers over the next 10 years. There's a surge of retirements and a growth of enrollment of students.

But the problem is not really an overall teacher shortage. We have a serious shortage and a maldistribution of teachers, and a shortage of well qualified teachers in the most disadvantaged schools.

I introduced the Teacher Tax Credit Act that will help recruit and retain teachers in the most needed neighborhoods. The Tax Credit Act would provide a \$2,000 tax credit to a kindergarten through grade 12 teacher, counselor, instructor, principal or aide in a Title I elementary or secondary school. Of course, Title I is the program for schools in neighborhoods where at least 40 percent of the students are coming from families living in poverty.

In New Mexico, in the district that I represent, there are 61 Title I schools who would benefit from H.R. 986, and nationally, Title I helps about 12.5 million students.

All of us know that having a great teacher in the classroom is the key of getting a great education. If I have a choice between the best equipped school in the city of Albuquerque and a great teacher standing under a cottonwood tree, for my kids, I'd choose a great teacher standing under a cottonwood tree. The key is to get highly qualified teachers into the schools where disadvantaged children need the most, and the Teacher Tax Credit Act is intended to help in that direction.

The bill that I've introduced has 83 bipartisan cosponsors. It is supported by the National Education Association on behalf of its 2.7 million members.

I thank you for your consideration.

[The prepared statement of Hon. Heather Wilson follows:]

**Prepared Statement of The Honorable Heather Wilson, a Representative in
Congress from the State of New Mexico**

Chairman Camp and Ranking Member McNulty,

Thank you for allowing me the opportunity to testify on H.R. 986, the Teacher Tax Credit Act of 2005.

The United States will need to hire 2 million teachers in the coming decade. A surge in teacher retirement and growth in enrollment of students are major contributing factors to the need for more teachers.

The problem is not an overall teaching shortage in the country, but rather a problem with the distribution of teachers between affluent and disadvantaged schools. We need qualified, competent teachers to stay in the neighborhoods that need them

most. The Teacher Tax Credit Act will help recruit and retain teachers in the most needed areas.

The Teacher Tax Credit Act will provide a \$2,000 credit to a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a Title I elementary or secondary school.

The Teacher Tax Credit Act provides a \$2,000 non-refundable tax credit for teachers, instructors, counselors, principals, or aides who teach or work full-time in a Title I elementary or secondary school. Title I is the Federal program for schools with at least 40 percent of their students coming from families living in poverty.

In the New Mexico district I represent there are sixty-one Title I schools that would benefit from H.R. 986. Nationally, Title I helps about 12.5 million students. 12.5 million students would potentially benefit from H.R. 986.

Ensuring a highly qualified teacher in every classroom is critical to closing achievement gaps and maximizing students' academic success. The Teacher Tax Credit Act will help to retain talented teachers and close the achievement gap.

I have introduced the Teacher Tax Credit Act in the 107th, 108th and 109th Congresses. In the 109th Congress, H.R. 986 enjoys the support of 83 bi-partisan cosponsors. In addition, H.R. 986 is supported by the National Education Association on behalf of its 2.7 million members.

Chairman CAMP. Thank you very much for your testimony. What effect would your proposal have on the ability of schools to attract quality teachers?

Ms. WILSON. In my view, it will have a tremendous impact. If you look at the average experience level of teachers in Title I schools compared to the experience levels of teachers in more affluent neighborhoods, there's a big difference. We have to be honest about it. Sometimes teaching in disadvantaged neighborhoods, it's just a harder job. You have to spend more time. You're there after school more. It's just a tougher job.

I guess it's not a big surprise that maybe you start out there and then maybe you move into a different neighborhood. This gives teachers in schools where kids are growing up in poverty a little bit extra incentive to stay teaching at that school, because there's a \$2,000 tax credit that goes along with it.

Chairman CAMP. Thank you. Mr. Franks, Congress through the Code has allowed the deductibility of gifts for a very long time. Tell me why your proposal would supplement that, and why that's necessary.

Mr. FRANKS. I appreciate—that's a very cogent question, because we asked the same question in Arizona. We had the ability to contribute to scholarship funds for children and get a deduction for it. We were raising about \$100,000 a year for 4 or 5 years straight. It just wasn't moving much. When we turned that deduction into a credit, it went from 100,000 to now 50 million a year. We now have the largest school choice program in the Nation.

So there is something about the mindset, you know, getting a dollar-for-dollar reduction, that seems to catalyze the contributions in a huge way. You understand, we're not trying to replicate that on the Federal level. We're simply trying to catalyze other states to do the same thing that Arizona has done, and there are five states now that have moved in that direction. Again, the five of them together eclipse all other school choice programs in the Nation.

I don't think tax credits have been given really the fair look that they deserve in this situation. The success has been profound, and

the cost effect here. I wish people could understand this. In Arizona, it costs us about \$7,500 per year to educate a child on an average basis. It costs half that much for us to do it in a private school, half that much.

Besides that, the parents and the people—the extended family and other people that are trying to help the child often augment the scholarship in the second place. So, we end up having a two, three, and sometimes four-to-one savings of the cost of education, and the child outperforms their peers in the public schools two to three grade levels.

You know, as you can see, it's something I feel very, very good about. This is something that worked. This is not theory. It worked very well, and it especially worked well for low income children who sometimes find themselves just a little bottom in the chair to the system. This turns them into royalty, Mr. Chairman.

Chairman CAMP. Thank you very much. The gentleman from New York, Mr. McNulty, may inquire.

Mr. MCNULTY. Thank you, Mr. Chairman. I thank you all for your testimony. Gary, would you just clarify on your bill, because I note that the IRS did repeal this tax earlier this year.

Mr. MILLER. Oh, sure.

Mr. MCNULTY. Okay. But would you clarify again for me what portion of these services is still subject to a Federal tax?

Mr. MILLER. Just hard line services, and that's an individual who doesn't have a cell phone, mainly disadvantaged individuals, senior citizens. Every other repeal amongst the phone has pretty much been taken place on the—the problem we face is about \$4.5 billion over the next 10 years is applied to those lower income levels, we believe. Over 200 Members of Congress—

Mr. MCNULTY. How does that happen if the tax has been repealed? I don't understand.

Mr. MILLER. From long distance phone calls. A repeal of that portion.

Mr. MCNULTY. Okay.

Mr. MILLER. Bundled services. Those have been repealed. So, now it—

Mr. MCNULTY. So, it was not repealed for local services?

Mr. MILLER. No, it was not. It wasn't—

Mr. MCNULTY. You're talking about the Federal tax?

Mr. MILLER. It just applies to land phones, the phone you pick up at home, those are all it applies to. When you pick up a cell phone, you don't pay. But the people who don't have cell phones are having to pay this tax, and we believe that's regressive and really hits the people who should not be taxed.

Mr. MCNULTY. Thank you.

Chairman CAMP. Thank you. Mr. Foley may inquire.

Mr. FOLEY. Thanks very much. Ms. Wilson, I notice your bill builds on a Camp legislation, which is the \$250 deduction for school supplies. Is that the base by which you started?

Ms. WILSON. It's not—it wasn't—it's not tied to that specific measure. It is just a \$2,000 per teacher tax credit for those who teach in low income Title I schools.

Mr. FOLEY. Title I. Okay. Because current law, I know Mr. Camp introduced a bill that allows for the deduction of cost of supplies. This is listed in our little handout.

Ms. WILSON. Okay.

Mr. FOLEY. That's the only reason I asked if you were using that as a model to advance your legislation.

Ms. WILSON. Well, Mr. Chairman, I think that Camp legislation is a great idea, but the—it wasn't particularly tied to that.

Mr. FOLEY. You answered correctly.

[Laughter.]

The Title I schools, that's based on eligibility on free and reduced lunch?

Ms. WILSON. Free and reduced price lunch. It's 40 percent of the students are growing up in poverty is I think the criteria now for a Title I school.

Mr. FOLEY. Okay. That's an above-the-line? That's a tax credit?

Ms. WILSON. Tax credit.

Mr. FOLEY. Okay. Thank you. Ms. Christensen, the amount of cover. It doesn't have a score at this point of what it would provide revenues to both Puerto Rico and Virgin Islands. Do you have an idea what that additional revenues would enhance your abilities?

Ms. CHRISTENSEN. It would be an additional 25 cents on the proof gallon, and it would probably—within the cap from where it is right now would be about \$80 million.

Mr. FOLEY. Eighty million. What would you anticipate that providing for the residents of Puerto Rico and Virgin Islands, where would you see that additional revenue being allocated?

Ms. CHRISTENSEN. In Puerto Rico, I believe that the extra 25 cents goes to a conservation fund. The Virgin Islands, it has not been determined where it would go at this point, but it would go, I would think for school, infrastructure repair. But it has not been decided specifically.

Mr. FOLEY. Okay. Mr. Fossella, on your legislation relative to deductions for sending children to private school, can you give me the impetus for that?

Mr. FOSSELLA. Certainly. I think at the core is I think in life these days you have a choice of buying a car, a home, a shirt, a tie, and yet many parents don't have a choice as to where to send their kid to school. So, I think fundamental is that we should do everything possible to provide incentives to have a mother, a father or both send their kids to the school of their choosing.

But more specifically is that over the last several years, decades, the trend has been because of the nature and the costs associated with educating children in nonpublic schools has continued to rise, the cost, you'll recall decades ago, it was not unusual to have clergy be the teachers, nuns. Salaries were practically zero. They were parish subsidies to these nonpublic schools.

Well, the fact is there's probably more nuns over the age of 90 than there are under the age of 50. We've had more lay teachers in the nonpublic schools that we want to attract—that school systems want to attract with good paying jobs, like every other job. So, those costs rise, the parish subsidies continue to increase.

Therefore, you're at a point like in the archdiocese of New York where to educate a student, although about one-third of the public

school, there still is at a point where they're closing schools. The archdiocese of New York in the last 2 years alone have closed 63 schools throughout the State of New York. In Detroit, in LA, in Chicago, they're closing schools because they can't afford to keep them open.

So, I believe a combination of providing those families on the cusp, maybe a police officer or a nurse, an opportunity to obtain this tax credit and recognize the rising cost of nonpublic schools is the impetus. As I say, at the core, doing everything possible to give every parent a choice to send their child to a school of their choosing.

Mr. FOLEY. How do you answer the critics that suggest it will further deplete student population from public settings?

Mr. FOSSELLA. Well, I think it's, again, in my testimony, it speaks to the lack of confidence in the school system. I believe, and to this day I enjoy a tremendous relationship with my teachers. I am a product of public schools. We have some great teachers, great educational professionals who dedicate their life to helping young people achieve the best in this country.

But at the same time, I think we have to recognize that some parents are choosing differently, and that if we can provide a healthy dose of competition but allow particularly low income, middle income parents the same opportunities that families who make a lot of money have, then I think we're doing them a service. I don't buy into that rhetoric that it would deplete. I think the best will go where the best should go.

Mr. FOLEY. Thank you. Yes, Mr. Franks?

Mr. FRANKS. Mr. Foley, maybe I could, to that point, you know, a lot of times, if you look at the past, people said that Federal Express, when it came about, that it would destroy the post office. But it had the exact opposite effect. It actually caused the post office to improve tremendously. They started giving us money back. Now you see a Federal Express box in front of post offices. It's astonishing what happens when you, you know, incent excellence.

They key here is to understand that most of these go to low income children. The rich children can go anywhere they want to right now. But this makes all the difference for those kids who don't have that opportunity. I would just say to you that rather than hurting the public schools in Arizona, what it's done, it's improved people's assessment of the public schools.

Mr. FOLEY. Thank you.

Chairman CAMP. All right. Thank you. The gentlewoman from Pennsylvania, Ms. Hart, may inquire.

Ms. HART. Thank the Chairman, and sorry to go back to the same two panel members, but I'm going to do that. I'm a big fan of both Vito's bill, I mean, Congressman Fossella's bill, and Congressman Franks' bill. I think the goal that you have of providing more opportunities for more students to really attend the schools that will be better for them and really allow that decision to rest more fully in the hands of the parents is a great idea, and I want to go back to Congressman Fossella's legislation, which is purely a tax credit to the family. I've been supportive of school choice, and I've always been concerned about tax credits, because I think it still doesn't provide an opportunity for those who may need it the

most to still access that other private or religious education. My question for you is, do you think that your tax credit is enough to really allow the people who need it the most to attend those schools?

Mr. FOSSELLA. Well, I think I share your view of choice when it comes to education. I tried to keep the legislation as simple and as straightforward as possible without any other bells or whistles attached to it. I would hope, as my colleague, Mr. Franks, just stated, that with an injection of this and healthy competition, that not only will these schools continue to flourish, but public schools will improve as well.

So, there is no provision that addresses income in any way.

Ms. HART. Thank you. Mr. Franks, do you think that maybe your legislation could fill in where Mr. Fossella's would not? For example, people who are low enough income that they maybe don't pay that much in taxes or couldn't put the money together to pay the tuition?

Mr. FRANKS. Thank you, ma'am. I will say first of all that I'm a strong supporter of Mr. Fossella's bill. Having said that, the scholarship tax credit approach is very different than a direct tax credit to families. It sounds a little bit like it's circuitous. But what it does, this legislation allows poor children whose parents don't pay any taxes or have any tax liability whatsoever to get full scholarships to go to—so it completely bypasses that challenge that you put before us.

The way it does it, is it allows those who do have tax liability to voluntarily make these contributions, and it reduces their—it's no difference to them in the bottom line, but, you know, a lot of times people would rather give money to help a child have a better future than to give it to bureaucrats. It's just—humanity, you know. But the reality is that this anticipates that in a very wonderful way.

The secondary impact is not only do poor kids have opportunity for full scholarships even though their parents have no tax liability or pay no taxes, this has catalyzed a major building program in Arizona of private schools. Certainly the diocese there, Mr. Fossella has built schools there for the first time in 30 years because there's not enough room to put the kids. These are schools the government doesn't have to build. It is a tremendous savings to the state and a tremendous boon to the children.

Ms. HART. As I see it, I think the two bills together would really address the needs of families. My State of Pennsylvania actually has something similar to the one you discuss in Arizona, and we actually started a fund to do that, and a lot of folks did contribute to it to provide grants to students to go to private religious schools as a result.

I see both of you as really helping to address a problem that we see out there, and that is that if we do become so dependent upon a system of public education, that is not very American when you think about different people wanting different things and being able to make different choices for their children. So, I appreciate both of the bills very much.

I yield back, Mr. Chairman.

Chairman CAMP. Thank you very much. I want to thank all of you for your testimony. This will conclude panel number two, and we'll move to panel number three, the Honorable Steve Chabot, a Representative in Congress from the State of Ohio; the Honorable Tom Udall, a Representative in Congress from the State of New Mexico; the Honorable Tim Murphy, a representative of Congress from the State of Pennsylvania; and the Honorable Jeff Fortenberry, a Representative in Congress from the State of Nebraska.

We'll begin with the gentleman from Ohio, Mr. Chabot. Each of you will have 5 minutes to summarize your testimony. We will make all of your full statements a part of the permanent record. These microphones are a little bit difficult, so if you speak directly into the microphone, it will avoid the fading in and out that we've had from some other testimonies this morning.

Thank you all for coming. Look forward to hearing about your ideas. The gentleman from Ohio, Mr. Chabot, you may begin.

STATEMENT OF HON. STEVE CHABOT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. CHABOT. Thank you very much, Mr. Chairman, and I want to thank all the members of the panel for their opportunity to testify here this morning before the Subcommittee in support of the New Markets Tax Credit program, a program that is making a very big difference in my district, and I would guess in many other districts around the country. I also want to thank my colleague, Mr. Lewis, for introducing legislation that would reauthorize this important program through 2012, and I am proud to be a cosponsor of his bill, H.R. 3957, the New Markets Tax Credit Reauthorization Act.

Mr. Chairman, the New Markets Tax Credit, enacted as part of the Community Renewal Tax Relief Act of 2000, takes an innovative approach to address poverty by using the Tax Code to enlist the support of both the public and private sector, making the program unique among Federal economic development initiatives.

The New Market Tax Credit, a 39 percent credit against Federal taxes over a 7-year period, has helped spur investment and economic development in low income communities in my district, which is the City of Cincinnati. For example, the New Markets Tax Credit program is attracting a significant amount of private capital to low income neighborhoods in Cincinnati, and is reshaping the area around the University of Cincinnati's main campus.

All told, the New Markets Tax Credit is responsible for \$102 million in private investments within my district, and is providing momentum to spur redevelopment and job creation in some of the city's most distressed neighborhoods.

I hear regularly from my constituents who support this program and have witnessed Cincinnati institutions, such as Procter & Gamble, Federated Department Stores, the University of Cincinnati, and area hospitals reinvest in the urban core. Nationwide, the momentum for the New Markets Tax Credits program is continuing to grow. Data released from the Treasury Department reveals that \$4.72 billion in new private capital has been raised from 560 investors with increasing demand among community develop-

ment organizations for the credit. In fact, the average demand in the four rounds of New Markets Tax Credits was nearly nine times that of the available tax credits.

Mr. Chairman, the New Markets Tax Credits program works. Providing the private sector with incentives to redevelop and strengthen distressed neighborhoods makes sense. In my opinion, easing tax and regulatory burdens on the American people is always good policy made all the better when struggling communities directly benefit.

As you know, Mr. Chairman, the House passed legislation a few months ago to extend the credit for another year. I am hopeful that this extension can be signed into law before Congress adjourns for the year and look forward to reauthorizing the New Markets Tax Credit program into the future.

I want to thank all the Committee Members for their attention on this important issue this morning. Unfortunately, I would ask to be excused because I have other commitments to take care of. Thank you very much.

[The prepared statement of Hon. Steve Chabot follows:]

Prepared Statement of The Honorable Steve Chabot, a Representative in Congress from the State of Ohio

Mr. Chairman, thank you for the opportunity to testify today before your Subcommittee in support of the New Markets Tax Credit program—a program that is making a difference in my district. I also want to thank my colleague, Mr. Lewis, for introducing legislation that would reauthorize this important program through 2012, and I'm proud to be a cosponsor of his bill.

Mr. Chairman, the New Markets Tax Credit, enacted as part of the *Community Renewal Tax Relief Act of 2000*, takes an innovative approach to address poverty by using the Tax Code to enlist the support of both the public and private sector—making the program unique among Federal economic development initiatives. The New Market Tax Credit—a 39 percent credit against Federal taxes over a 7-year period—has helped spur investment and economic development in low-income communities in my district.

For example, the New Markets Tax Credit Program is attracting a significant amount of private capital to low income neighborhoods in Cincinnati and is reshaping the area around the University of Cincinnati's main campus.

All told, the New Markets Tax Credit is responsible for \$102 million in private investments within my district and is providing momentum to spur redevelopment and job creation in some of the city's most distressed neighborhoods. I hear regularly from my constituents who support this program and have witnessed Cincinnati institutions such as Proctor & Gamble, Federated Department Stores, the University of Cincinnati, and area hospitals reinvest in the urban core.

Nationwide, the momentum for the New Markets Tax Credit program is continuing to grow. Data released from the Treasury Department reveals that \$4.72 billion in new private capital has been raised from 560 investors—with increasing demand among community development organizations for the credit. In fact, the average demand in the four rounds of New Markets Tax Credits was nearly nine times that of the available tax credits.

Mr. Chairman, the New Markets Tax Credit program works. Providing the private sector with incentives to redevelop and strengthen distressed neighborhoods makes sense. In my opinion, easing tax and regulatory burdens on the American people is always good policy—made all the better when struggling communities directly benefit.

As you know, Mr. Chairman, the House passed legislation a few months ago to extend the Credit for another year. I am hopeful that this extension can be signed into law before Congress adjourns for the year and look forward to reauthorizing the New Markets Tax Credit program into the future.

Chairman CAMP. Thank you very much for appearing.

Now we will go to the gentleman, Mr. Udall, from New Mexico. Thank you for being here. You have 5 minutes.

**STATEMENT OF HON. TOM UDALL, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NEW MEXICO**

Mr. UDALL. Thank you. Thank you very much, Chairman Camp and Ranking Member McNulty.

Thank you both for holding this hearing and for giving me the opportunity to testify today about legislation I introduced in an attempt to remedy an outdated tax law.

Mr. Chairman, in early 2004 Mrs. Novella Wheaton Nied, a U.S. citizen and a native New Mexican, brought to my attention a tax law that is effectively precluding her and her husband, Mr. Veit Nied, from spending their golden years together in the manner of their choosing. At issue is the foreign income tax credit. As you know, the United States has tax agreements with many countries to prevent double taxation as well as provisions in the Tax Code that allow resident aliens who pay taxes to a foreign country to claim the foreign tax credit which reduces their U.S. income taxes.

Unfortunately, taxes paid to international organizations, such as the European Commission, to whom taxation authority is sometimes ceded by member nations, do not qualify for the foreign income credit. This is precisely the issue facing the Nields. Mr. Nied, an economist and German citizen, worked for the European Commission in Brussels, Belgium, for 27 years, as long as he and Novella have been married, before retiring in September, 2001.

Following his retirement, the couple decided to retire in Taos, New Mexico, Novella's home. Veit was approved for permanent resident status in the United States, but found that his pension from the European Commission would be subject to double taxation. The initial tax assessed by the European Commission because Germany ceded taxation authority to them, and the second tax assessed by the United States.

Double taxation on his pension will create a hardship for the Nields in their retirement, both financially and emotionally. As a result, Mr. Nied did not accept the permanent resident status and has been traveling back and forth between Germany and the United States. All the while he has remained extremely cognizant and diligent about following U.S. immigration and taxation laws, and therefore has not stayed longer than 120 days per annum in the United States, which would render him liable for taxes in this country.

This unfortunate living situation has been ongoing since 2001, when they learned of the double taxation and have been seeking a solution that would allow them once again to live together. During this time the Nields have corresponded with the IRS seeking a solution to the problem—to no avail.

I have consulted with the IRS, as well as with the Congressional Research Service, seeking a solution short of introducing legislation, but it has become clear that only legislation will remedy this problem. That is why I introduced H.R. 2307. This legislation seeks to rectify this unfortunately predicament by amending the Internal Revenue Code so that employment taxes paid to the European Union by employees of the European Union are treated as income

taxes paid to a foreign country for the purposes of the foreign tax credit.

When I introduced this legislation with the Nields in mind specifically, I believe there must be other families facing the same problem. To date, however, I have had difficulty locating others facing the same situation as the Nields.

Mr. Chairman, this is a bill designed with the intention of modernizing a section of the Tax Code that lags behind changes in international political institution. In doing so, it will allow families such as the Nields greater freedom, and in the particular case of the Nields will allow them to spend their retirement where they wish.

Mr. Chairman, I thank you once again for holding this hearing, and for allowing me to testify. I welcome any questions from Members of the Committee as well as any suggestions or wisdom on how best to address this complicated and unfortunate situation. Thank you, Mr. Chairman.

[The prepared statement of Hon. Tom Udall follows:]

**Prepared Statement of The Honorable Tom Udall, a Representative in
Congress from the State of New Mexico**

Chairman Camp and Ranking Member McNulty:

Thank you both for holding this hearing and for allowing me the opportunity to testify today about legislation I introduced in attempt to remedy an outdated tax law.

Mr. Chairman, in early 2004, Mrs. Novella Wheaton Nied, a U.S. citizen and a native New Mexican, brought to my attention a tax law that is effectively precluding her and her husband, Mr. Veit Nied, from spending their golden years together in the manner of their choosing. At issue is the foreign income tax credit. As you know, the United States has tax agreements with many countries to prevent double taxation, as well as provisions in the Tax Code that allow resident aliens who pay taxes to a foreign country to claim the foreign tax credit, which reduces their U.S. income taxes. Unfortunately, taxes paid to international organizations such as the European Commission, to whom taxation authority is sometimes ceded by member nations, do not qualify for the foreign income credit.

This is precisely the issue facing the Nields. Mr. Nied, an economist and German citizen, worked for the European Commission in Brussels, Belgium, for 27 years, as long as he and Novella have been married, before retiring in September 2001. Following his retirement, the couple decided to retire in Taos, New Mexico, Novella's home. Veit was approved for permanent resident status in the United States, but found that his pension from the European Commission would be subject to double taxation; the initial tax, assessed by the European Commission because Germany ceded taxation authority to them, and the second tax, assessed by the United States.

Double taxation on his pension will create a hardship for the Nields in their retirement—both financially and emotionally. As a result, Mr. Nied did not accept the permanent resident status and has been traveling back and forth between Germany and the United States. All the while he has remained extremely cognizant and diligent about following U.S. immigration and taxation laws, and therefore has not stayed longer than 120 days per annum in the United States, which would render him liable for taxes in this country. This unfortunate living situation has been ongoing since 2001 when they learned of the double taxation and have been seeking a solution that would allow them to once again live together.

During this time, the Nields have corresponded with the IRS seeking a solution to the problem, to no avail. I have consulted with the IRS, as well as with the Congressional Research Service, seeking a solution short of introducing legislation, but it has become clear that only legislation will remedy this problem.

That is why I introduced H.R. 2307. This legislation seeks to rectify this unfortunate predicament by amending the Internal Revenue Code so that employment taxes paid to the European Union by employees of the European Union are treated as income taxes paid to a foreign country, for purposes of the foreign tax credit. While I introduce this legislation with the Nields in mind specifically, I believe that there must be other families facing the same problem. To date, however, I have had difficulty locating others facing the same situation as the Nields.

Mr. Chairman, this is a bill designed with the intention of modernizing a section of the Tax Code that lags behind changes in international political institutions. In so doing, it will allow families such as the Nied's greater freedom, and in the particular case of the Nied's, will allow them to spend their retirement where they wish.

Mr. Chairman, I thank you once again for holding this hearing and for allowing me to testify. I welcome any questions from the Members of the Committee, as well as any suggestions or wisdom on how best to address this complicated and unfortunate situation.

Thank you.

Chairman CAMP. Thank you very much for your testimony.
Now the gentleman from Pennsylvania, the Honorable Tim Murphy.

**STATEMENT OF HON. TIM MURPHY, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF PENNSYLVANIA**

Mr. MURPHY. Thank you, Mr. Chairman, Chairman Camp, and Ranking Member McNulty and distinguished colleagues of the Subcommittee. I would like to thank you all for allowing me to speak before you today on behalf of this bill, H.R. 3580, the Environmental Restoration Act of 2005.

Please allow me to explain how this bill can be a key component on national strategy to achieve energy independence. This Congress has been keenly aware of our Nation's need to produce more energy here at home. We procure too much energy from the most volatile regimes on the globe, and these dependent relationships compromise our long-term national security.

My constituents in the Pittsburgh area are strong supporters of the Federal Government's efforts to increase domestic production. That is because more than a century ago the modern industrial world was literally built to a large extent by Pittsburgh energy. Andrew Carnegie did not manufacture steel in Pittsburgh because the region was filled with iron ore. Rather Carnegie and others established his steel empire in southwestern Pennsylvania because we had abundant supplies of coal, and the water resources to transport it.

To this day Pittsburgh sits on a 250-year supply of coal, the Pittsburgh coal seam, which is one of the most valuable natural resource stockpiles in the entire world. As we seem to capitalize on domestic energy supplies, we must make coal a big part of this equation.

Coal is currently burned to produce more than half of our domestic electricity, and this Congress has provided extensive funding for research and clean coal initiatives that will virtually eliminate emissions in future plants. However, the coal mines of decades past did not emphasize clean air or water. One of the unfortunate legacies of the coal mining industry are mountains of waste coal, also known as "gob." In the past, mining technology was less sophisticated in separating out coal from other materials that were mined in the process. These gob piles are a mixture of coal, clay, rocks, soil and other unusable raw materials.

These massive piles, in some instances totalling millions of cubic yards, can be seen in any mining state. They are unsightly, they are useless and they are a source of considerable pollution. For ex-

ample, every time it rains, the resulting runoff is acid mine drainage, presenting an ongoing pollution problem for our waterways.

However, the 1.1 billion tons of waste coal in the United States are a potential source of energy. By using waste coal as a fuel source in power plants, the existing waste coal sites can be reclaimed. The mine drainage associated with these sites can be ameliorated, alkaline coal combustion byproducts beneficially used in reclaiming the mine lands. It is an expensive process, but creating energy out of waste coal has obvious benefits for cleaning up the environment while producing that energy.

Toward the objective of recycling more waste coal, H.R. 3580 would encourage energy producers to use waste coal by providing a business tax credit for waste coal energy production. It would provide a tax credit to an energy producer of 75 cents per million BTUs of heat input from qualified waste coal recycling.

Simply put, the bill would provide the necessary incentive for the private sector to overcome the financial costs of recycling waste coal and maximize its potential energy.

Mr. Chairman, I know you and the Members of the Subcommittee share my unequivocal goal of attaining energy independence for America in the next decade. I believe H.R. 3580 can be a small but indispensable and significant part of that strategy.

Thank you for allowing me this time today and for your consideration of H.R. 3580. I look forward to continuing our cooperative work to secure an energy independent future.

[The prepared statement of Hon. Tim Murphy follows:]

**Prepared Statement of The Honorable Tim Murphy, a Representative in
Congress from the State of Pennsylvania**

Chairman Camp, Ranking Member McNulty, distinguished colleagues of the Subcommittee, thank you for allowing me to speak before you today on behalf of my legislation, H.R. 3580, the Environmental Restoration Act of 2005. Please allow me to explain how this bill can be a key component of our national strategy to achieve energy independence.

This Congress has been keenly aware of our nation's need to produce more energy here at home. We procure too much energy from the most volatile regimes on the globe; these dependent relationships compromise our long-term national security.

My constituents in the Pittsburgh area are strong supporters of the Federal Government's efforts to increase domestic production. That's because, more than a century ago, the modern industrial world was literally built by Pittsburgh energy. Andrew Carnegie did not manufacture steel in Pittsburgh because the region had iron ore. Rather, Carnegie established his steel empire in Southwestern Pennsylvania because we had coal, and the water resources to transport it. To this day, Pittsburgh sits on a 250-year supply of coal—the Pittsburgh coal seam is one of the most valuable natural resource stockpiles in the entire world. As we seek to capitalize on domestic energy supplies, we must make coal a big part of this equation. Coal is currently burned to produce half of our domestic electricity.

The coal production process yields a large amount of other material, which accompanies the coal to the surface when it is removed from underground mines. This material, known as waste coal or "gob," consists of a mixture of clay, rocks, soil, minerals, and other unusable raw materials. These materials are piled in stagnant mountains of waste coal, and there is estimated to be at least 1.1 billion tons of waste coal in the U.S. However, they contain potential energy that can be recycled to create new sources of power. By using waste coal as the fuel source, the existing waste coal sites can be reclaimed, the mine drainage associated with these sites ameliorated, and the alkaline coal combustion byproducts beneficially used in reclaiming the mine lands.

Toward the objective of recycling more waste coal, H.R. 3580 would encourage energy producers to address waste coal by providing a business tax credit for waste coal energy production. The bill would provide a tax credit to an energy producer of 75 cents per million BTUs of heat input from qualified waste coal recycling. Sim-

ply put, the bill would provide the necessary incentive for the private sector to overcome the financial cost of recycling waste coal and maximize its energy potential.

Mr. Chairman, I know you and Members of the Subcommittee share my unequivocal goal of attaining energy independence for America in 10 years. I believe H.R. 3580 can be a small, but indispensable part of such a strategy.

Thank you for this time today, and for your consideration of H.R. 3580. I look forward to continuing our cooperation to secure an energy independent future for our nation.

Chairman CAMP. Thank you very much for your testimony.

Now, the Honorable Mike Turner, from the State of Ohio. You will have 5 minutes to summarize your testimony and your full statement will be made part of the record. Thank you for being here.

**STATEMENT OF HON. MIKE TURNER, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF OHIO**

Mr. TURNER. Thank you, Mr. Chairman. Chairman Camp, Ranking Member McNulty, Members of the Subcommittee, I want to thank you for the opportunity to testify concerning America's Brownfield Cleanup Act, H.R. 4480. I want to acknowledge that an original cosponsor with me on this bill is fellow Ohioan Stephanie Tubbs Jones and we have worked with Representatives Melissa Hart, Chris Chocola, Phil English, and Nancy Johnson in the drafting of this legislation.

I want to thank you for the opportunity to testify concerning an issue that is of great importance to my constituents and many communities throughout the country. Before being elected to Congress, I served as Mayor for the City of Dayton for 8 years. My top priorities were urban revitalization and economic development. The City of Dayton is not unlike many of America's inner cities that continue to struggle economically. In most of urban America tax revenues are declining and jobs are leaving.

Although many center cities are inventing wonderfully creative programs to achieve economic revitalization, they are hindered by the very thing that makes them unique—density. The availability of land is an enormous impediment to the economic renewal and revitalization of cities. There is a solution to this predicament. American cities hold acres of abandoned land that could be, should be redeveloped as the key ingredient to urban recovery. These abandoned properties include former factories and other contaminated sites called brownfields. Brownfields are defined as abandoned or unutilized properties, old factories, where expansion or re-development is complicated by environmental contamination. These properties are found in every state and every congressional district.

Estimates range from a half a million to one million brownfield sites nationwide, covering at least 178,000 acres or roughly the combined land area of Atlanta, Seattle, and San Francisco. These sites are missed economic development opportunities.

Local officials, developers, and environmentalists all consider brownfields a federally created problem, and that under current law a property owner may be fully responsible for all costs to remediate environmental problems once those problems are identified.

One unintended consequence of the current environmental law is that properties where suspected contamination is located are abandoned to avoid potential liability for higher cleanup cost. The end result is that brownfields remain, marring the face of our communities and impeding economic development and job creation.

H.R. 4480, America's Brownfield Cleanup Act, provides a Federal program to encourage redevelopment by providing funding for demolition and environmental remediation costs for sites enrolled in a state voluntary cleanup action program.

Brownfield tax credits would be allocated for up to 50 percent of demolition and remediation costs pursuant to an approved plan. Tax credits would be competitively awarded based on remediation and redevelopment plans. The remainder of the cleanup costs would be deductible or may be capitalized by the property owner, and the plan also includes incentives for original polluters to participate in the redevelopment.

In September 2003, Chairman Tom Davis and I requested a Government Accountability Office study regarding the EPA's Brownfields Programs and the general state of brownfield redevelopment across the Nation. The result of that report was a finding that stakeholders believed that a Federal tax credit for developers or mediation costs could attract developers to brownfield sites on a broader national basis.

As Chairman of the Government Reform Subcommittee on Federalism and the Census, I have held a series of hearings to determine the state of brownfield redevelopment, the effect of Federal laws and funding for remediation, and what further action Congress could take to encourage more aggressive remediation and redevelopment efforts.

The Subcommittee has held a total of five hearings on this matter, and based upon the GAO report and these hearings, the Committee on Government Reform unanimously passed and reported to the Committee of the whole a report on September 6th, 2006.

Mr. Chairman, I have attached a copy of the report to my submitted testimony that can be entered into the record, and among the ten recommendations of the report was a Federal tax credit would be the most useful incentive in attracting financial investment in brownfields redevelopment projects. A brownfield tax credit would constitute a powerful incentive to transform derelict brownfield sites into job producing economic development sites.

Without a Federal program, brownfields will remain, marring the face of U.S. cities. Redeveloping brownfields will revitalize our cities, returning them to the life and vitality once seen when these sites provided jobs and were anchors for our neighborhoods and communities.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Mike Turner follows:]

Prepared Statement of The Honorable Mike Turner, a Representative in Congress from the State of Ohio

Chairman Camp, Ranking Member McNulty and Members of the Subcommittee, thank you for the opportunity to testify concerning America's Brownfield Cleanup Act—H.R. 4480.

Mr. Chairman, thank you for another opportunity to address the Subcommittee about an issue of great importance to my constituents and many communities

throughout the country. Before being elected to Congress I served for 8 years as the Mayor of the city of Dayton, Ohio where my top priorities were urban revitalization and economic development. The city of Dayton is not unlike many of America's center cities that continue to struggle economically.

In most of urban America, tax revenues are declining and jobs are leaving. In my district, the city of Dayton is expected to lose approximately 6,000 jobs due to Delphi restructuring. Although many center cities are inventing wonderfully creative programs to achieve economic revitalization, they are hindered by the very thing that makes them unique: density. The availability of land is an enormous impediment to the economic renewal and revitalization of cities.

And yet, there is a solution to this predicament. American cities hold acres of abandoned land that could be—should be—redeveloped as the key ingredient to urban recovery. These abandoned properties include former factories and other contaminated sites called brownfields.

Brownfields are defined as abandoned or underutilized properties, such as old factories, where expansion or redevelopment is complicated by environmental contamination. These properties are found in every state and every congressional district.

Estimates range from 500,000 to 1 million brownfields sites nationwide, covering at least 178,000 acres, or roughly the combined land area of Atlanta, Seattle, and San Francisco. These sites are missed economic development opportunities.

Local officials, developers and environmentalists all consider brownfields a federally created problem in that under current law, a property owner may be fully responsible for all costs to remediate environmental problems once those problems are identified. One unintended consequence of the current environmental laws is that properties with suspected contamination are abandoned to avoid potential liability for high cleanup costs. The end result is that brownfields remain, marring the face of our communities and impeding economic development and job creation.

H.R. 4480, America's Brownfield Cleanup Act, provides a Federal program to encourage redevelopment by providing funding for demolition and environmental remediation costs for sites enrolled in a state voluntary action program. Specifically the proposed Brownfields Tax Credit Program would provide \$1 billion in Federal tax credits allocated to states according to population. The credit program would be administered by state development agencies in partnership with state environmental agencies, and would provide credits to brownfield redevelopment projects where the local government entity includes a census tract with poverty in excess of 20%. The redevelopment project may be located anywhere within a qualifying local jurisdiction. States would be able to provide preference to redevelopment projects based on the extent of poverty, whether the site is located in an enterprise zone or renewal community, whether the site is located in the central business district, the extent of environmental remediation, the extent of redevelopment, the extent of financial commitment to the redevelopment, the amount of new employment resulting from the redevelopment, and whether a past owner/polluter is expected to provide at least 25% of the remediation expenditures.

Brownfields tax credits would be allocated for up to 50% of demolition and remediation costs pursuant to an approved plan. Tax credits would be competitively awarded based on remediation and redevelopment plans. The proceeds of the sale would be non-taxable. The remainder of cleanup costs would be deductible or may be capitalized by the property owner, and the plan also includes incentives for original polluters to participate in redevelopment.

In September 2003, Chairman Tom Davis and I requested a Government Accountability Office (GAO) study regarding the EPA's Brownfields Program and the general state of brownfields redevelopment across the Nation. The GAO's findings were released in a report (GAO-05-94) on January 13, 2005 and entitled "Brownfield Redevelopment: Stakeholders Report That EPA's Program Helps to Redevelop Sites, but Additional Measures Could Complement Agency Efforts."

In the course of its work, GAO spoke with over 30 individuals and groups covering a wide range of stakeholders, including EPA, state and local government agencies, national groups with brownfields expertise, EPA brownfields grant recipients, real estate developers, property owners, attorneys, and nonprofit organizations. The majority of these stakeholders believe that a Federal tax credit, which would allow developers to offset a portion of their Federal income tax with their remediation expenditures, could complement EPA's Brownfields Program by attracting developers to brownfields on a broader national basis. Some of these stakeholders said that tax credits are an easily understandable and tangible incentive to the private sector and noted that other, similar tax credits—such as the affordable housing and historic preservation credits—have proven effective in stimulating redevelopment.

The final report stated that according to stakeholders, EPA funds "provide [] an important contribution to site cleanup and redevelopment by funding activities that

might not otherwise occur.” The report stated Stakeholders recommended three possibilities to improve or complement the EPA’s Brownfields Program. The first option would remove a provision that essentially bars landowners who purchased a brownfields site before January 2002 from grant eligibility. The second recommendation would simplify the administrative burdens for revolving loan funds. Finally, the report found that “stakeholders believed a Federal tax credit for developers’ remediation costs could attract developers to brownfield sites on a broader national basis.”

As Chairman of the Government Reform Subcommittee on Federalism and the Census, I convened a series of hearings to determine: (1) the state of brownfields redevelopment across the country; (2) the effect of the Federal and numerous state brownfields programs on remediation and redevelopment; (3) and what further actions Congress could take to encourage more aggressive remediation and redevelopment efforts. The Subcommittee held a total of five hearings on this matter.

Based on the GAO Report and these hearings, the Subcommittee wrote Report 109–616 titled “Brownfields: What Will it Take To Turn Lost Opportunities Into America’s Gain?” The Committee on Government Reform unanimously passed and reported to the Committee of the Whole House this Report on September 6, 2006. Mr. Chairman, I have attached a copy of the report to my submitted testimony so that it can be entered into the record. Among the 10 recommendations included in the report was a “Federal tax credit would be the most useful incentive in attracting financial investment in brownfields redevelopment projects.”

Mr. Chairman, a brownfields tax credit would constitute a powerful incentive to transform derelict brownfields sites into job-producing economic development. Without a federally created program, brownfields will remain, marring the face of U.S. cities. Redeveloping brownfields will revitalize our cities, returning to them the life and vitality once seen when these sites provided jobs and were anchors for our neighborhoods and communities.

Chairman CAMP. Thank you very much, and without objection, the report will be made part of the record. Now we have from Nebraska, Mr. Fortenberry. Welcome.

STATEMENT OF HON. JEFF FORTENBERRY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. FORTENBERRY. Thank you, Mr. Chairman. I appreciate it, and Ranking Member McNulty, thank you so much for the opportunity to testify today on tax-related issues. I’m pleased to have this opportunity to request your support for H.R. 3874, a very straightforward bill that I introduced to help the agricultural economy at no additional cost to the taxpayer.

Currently, Federal tax-exempt bonds can be used for a manufacturing facility. However, the definition of a manufacturing facility does not include property used for the processing of agricultural products. H.R. 3874 would correct this problem by providing tax-exempt financing to the processor of agricultural products.

The ability to provide lower cost financing for agricultural processing projects is crucial to America’s farmers and ranchers, and the efforts of states to create and maintain jobs. Farmers and ranchers must have a variety of avenues for their products if they are to compete effectively. States must have the necessary tools to attract these projects as well. This proposed change addresses both issues by facilitating additional markets for agricultural products and stimulating economic development, particularly in non-metropolitan areas.

It is important to emphasize that each state is limited by Federal law to a maximum amount of private activity bonds that may be issued annually. Expanding the provisions of the Code to permit the tax-exempt financing of land and depreciable property for the

processing of agricultural products, as is done in this legislation, results in no loss of revenue to either the Federal or state government.

I would greatly appreciate this Subcommittee's assistance in moving this important legislation which will enhance and promote needed economic development across our country.

Finally, I would like to add—to request your support for two other bills that I have introduced which have been referred to the Committee on Ways and Means. I believe we must work to adjust our tax laws to assist those who want to create new opportunities for their families and themselves. Last year I introduced two bills to promote entrepreneurship and long-term economic security. First, I propose allowing individuals to roll over portions of their retirement accounts into health savings accounts. Second, I propose to change the traditional IRA to allow small business investors to take loans from these retirement accounts similar to the existing loan provisions for the 401(k) plan. These bills address two key areas of concern for small businesses, providing increased access to insurance coverage and gaining access to capital.

Again, thank you for the opportunity, Mr. Chairman, to offer this testimony.

[The prepared statement of Hon. Jeff Fortenberry follows:]

**Prepared Statement of The Honorable Jeff Fortenberry, a Representative
in Congress from the State of Nebraska**

Chairman Camp and Members of the Subcommittee: Thank you for holding this hearing to discuss tax-related legislation. I am pleased to have this opportunity to request your support for H.R. 3874, a straightforward bill I introduced to help the agricultural economy at no additional cost to the taxpayer.

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Finally, I would like to request your support for two other bills I have introduced which have been referred to the Ways and Means Committee. I believe we must work to adjust our tax laws to assist those who want to create new opportunities for themselves and their families. Last year I introduced two bills to promote entrepreneurship and long-term economic security. First, I propose allowing individuals to roll-over portions of their retirement accounts into Health Savings Accounts. Second, I will propose to change the traditional IRA to allow small business investors to take loans from these retirement accounts similar to the existing loan provisions for the 401(k) plan. These bills address two key areas of concern for small businesses—providing increased access to insurance coverage and gaining access to capital.

Again, thank you for the opportunity to offer this testimony.

Chairman CAMP. Well, thank you. I want to thank you all for your testimony. Mr. Udall, the couple you mentioned are living in the U.S. and are enjoying the benefits and privileges of living in the U.S. It seems to me that the entity that ought to not be taxing them is the European Union, not the place where they're getting the benefits and services from—did I understand your testimony properly, or?

Mr. UDALL. Chairman Camp, actually they are unable to live together because of the situation. So, he can spend 120 days in the United States, and if he stayed any longer than that, he would be taxed. So, they travel back and forth from—they're a married couple that's unable to live together. The problem is, it's very succinctly stated by the Treasury Department, who wrote me in their last—and I'll make this available to you. It says: The fundamental purpose of the Foreign Tax Credit provisions is to relieve double taxation of income earned abroad by U.S. taxpayers. Then it cites a Supreme Court case.

While I sympathize with your constituents' situation, the U.S. Foreign Tax Credit rules require individuals to pay foreign taxes to a foreign country to be eligible for the credit. Any change would require legislative action. So, they're stuck in this situation where he worked for the European Union, he paid his—basically, he paid his income taxes to the European Union. Germany ceded the ability to tax him, and so he's in a situation where he doesn't qualify. So, therefore, if he moves to the United States and lives with his bride, he then gets doubled taxed by the United States and by the European Union.

Chairman CAMP. If the European Union were defined as a country, he would get the tax credit?

Mr. UDALL. Could you say that again?

Chairman CAMP. Well, it's a definitional issue partially, isn't it?

Mr. UDALL. Yes. Oh, yeah. If we—

Chairman CAMP. Okay.

Mr. UDALL. If you defined the European Union as a foreign country under this provision of the Tax Code Section 901, it would be—

Chairman CAMP. Then they—

Mr. UDALL [continuing]. Taken care of.

Chairman CAMP. All right. Okay. Thank you. I appreciate that clarification.

Mr. UDALL. Thank you.

Chairman CAMP. Mr. Turner, you know, current law already provides for the deduction of costs to clean up brownfields. So, how would your legislation improve upon—that law has expired, and hopefully it will be extended in the extenders that we're going to be debating at some point. But how would your legislation proposed change that, or improve upon that?

Mr. TURNER. The issue of deductibility is certainly an important one for economic development, revitalization of brownfields. It permits, as I know you are aware, the treatment of expenditures for remediation as a deductibility expense instead of a capitalization expense. This would actually be a tax credit. For deductibility to have value for a redevelopment project, you have to have profitability occurrence. In most of these sites, the issue of the value of

the property being less than the environmental remediation expenses results in the deductibility would not be an incentive for redevelopment. By providing a credit, you're actually providing a subsidy that can be utilized to address the value of remediation versus the value of the overall project and result in attracting additional investment.

If we can get this land cleaned up, if we can get the buildings that are there demolished, these sites are very attractive. The utilities are there. The transportation structures are there. They're usually located in an area that is attractive for investment, but it's that overall cost where the remediation exceeds the value of the property that results in them lying abandoned.

Chairman CAMP. All right. Thank you. Mr. McNulty may inquire.

Mr. MCNULTY. Thank you, Mr. Chairman. I thank you all for your testimony. Congressman Murphy, what would the average company save under your proposal?

Mr. MURPHY. What would they save? It's not totally clear how much that would be. We do know that there was a cost to providing—to burning waste coal. It depends how much they use. Some companies try to use some elements now, but it requires special technology, and they would then have to invest in that in order to extract the waste coal.

One way of looking at this is what the Nation would save, and that's massive amounts. I do have some numbers nationwide for the Btu equivalents, for example, of burning waste coal. In replacing of crude oil, for example, it's over 2 billion barrels of oil equivalent, or natural gas, it's equivalent to over 11 billion Mcfs. So one has to put that into perspective. I don't have the exact numbers of how much that would—

Mr. MCNULTY. Okay. Did you get a revenue estimate from joint tax?

Mr. MURPHY. We have been waiting for the last month for that, but they promised it to us tomorrow.

Mr. MCNULTY. Okay. Mr. Chairman, the only other comment I would want to make would be about Mr. Chabot's testimony, because he was talking about the same bill that Congressman Lewis spoke about on an earlier panel.

I would just note that of all the bills we've listened to this morning, you know, some are newer, some have been around a while, some are controversial, but there are also some that have been around for quite a while and are not very controversial, and I think that one falls into that category.

As I said, Congressman Chabot brought it up on this last panel. The lead sponsor on the bill is Congressman Lewis, was a Member, a majority Member of the Committee on Ways and Means. His co-sponsor is Charlie Rangel, who is the minority, Ranking Minority Member on the Committee on Ways and Means, and I would just express the hope that it be our goal on this panel to move those pieces of legislation along to the full Committee so that we can get them out on the floor and get some action.

Chairman CAMP. Well, I sure appreciate that, and obviously this legislation would certainly help in rural housing, and that's cer-

tainly up my alley. So, I'm very sympathetic to both his proposal and your comments as well.

Thank you. I want to thank this panel very much. Appreciate your testimony. Thank you. Now we'll move to panel 4, the Honorable John McHugh, a Representative in Congress from the State of New York; the Honorable Earl Blumenauer, a Representative in Congress from the State of Oregon; the Honorable Steve King, a Representative in Congress from the State of Iowa; and the Honorable Michael Conaway, a Representative in Congress from the State of Texas.

Thank you very much for being here. You'll each have 5 minutes. We'll make your full testimony part of the record, of course. The microphones are a little bit directional, so if you could just speak directly into them, I think it will help a fading in and out problem we've been having all morning, but thank you for being here. We'll start with Mr. McHugh. Welcome to the Committee, and I look forward to your testimony.

**STATEMENT OF HON. JOHN MCHUGH, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NEW YORK**

Mr. MCHUGH. Thank you, Mr. Chairman, and Mr. McNulty, my esteemed fellow colleague from the great State of New York. It's an honor to be here, and I appreciate the inclusion totally of our statements, and I do have a formal statement, so thank you for that consideration.

Let me first of all say how much I appreciate being here with my colleague, Congressman King, and to express my appreciation to you, to the distinguished Ranking Member, to all the Members of the Subcommittee and the full Committee, of course, for taking the time out of this very, very busy final week and addressing some issues that obviously across the broad scale of concerns are very, very important.

I think it's a critically important part of the process that these kinds of hearings happen, Mr. Chairman and distinguished Ranking Member, and I commend you for it.

I think that for most Americans, the Tax Code is a thing of intimidation, certainly in some people's minds, even punishment, but as you have embarked here today, Mr. Chairman, it can also be an illustration of how we can use the Tax Code proactively and to have it serve as a path for resolving some of the more difficult, some of the more important challenges facing our Nation today. That's what brings me here, and I thank you so much for that invitation.

Because when we talk about things of importance, clearly, the affordability of health care has to rank, if not highest, certainly amongst the highest that face us. It is a very, very perplexing challenge that all of us have attempted to deal with as Members of this illustrious House over the past several years, and I suspect it is a challenge that will continue.

Having said that, you are all familiar with the figures. Over 46 million Americans who are currently uninsured, many more who are underinsured, who have technical coverage, but it is coverage that does not drive the kind of protections that most of us would

consider as adequate in providing health coverage that meets the need.

It's a huge problem, and I would suggest, Mr. Chairman, it's one that really defies a single answer. For all of its complexity, however, I would suggest there are some things we can, and of course, as my appearance here today would suggest, we should be doing.

As a loyal New Yorker, I'm a great fan of the New York Yankees Eastern Division champions for the ninth year in a row, I might add. But it was a great Yankee of years yesterday, Yogi Berra, who said it's *deja vu* all over again.

The proposal that I have put forward is not new. It has been advanced by many of my colleagues over the past several years, but I would argue that given the realities of those more than 46 million Americans who are uninsured, it is a measure whose time has come. It is simply a means by which we can make health care coverage and insurance more affordable by providing through that proactive use of the Tax Code a way by which it can be purchased.

It saddens me to state, gentlemen, that in America today, there is really an unspoken, perhaps unrealized prejudice but nevertheless a real prejudice, and that belief is simply that those who don't have health care coverage in this country are somehow lazy, that they're shiftless, that they're unemployable, that they don't care. The reality in America today, the unspoken secret is, for those who are amongst the truly poor, they have health care coverage. It's called Medicaid. The states, to their credit, have stepped forward and provided state children's health care insurance programs, the SCHIP program, that the Federal Government has been instrumental in and so on and so forth.

The true burden of the unaffordability of health care falls upon the so-called working poor, those folks who are struggling each and every day, who get up, who go to work, who pay their taxes, who play by the rules, and yet in the ever escalating cost of health care coverage are unable to participate. That is where this suggested, I hope ultimately implemented, change to the Tax Code applies. It is a refundable tax credit, an above-the-line tax credit.

In the bill that I have provided and proposed, it would initiate \$1,000 tax credit for an individual filer, \$2,000 for a couple, with an additional \$500 per child. Beyond that, a \$500 tax credit thereafter for those moneys expended on health care coverage.

It would not just be a refund for those who do not itemize. It would be, as I said, an above-the-line deduction. For those, much along the lines as the earned income tax credit, the ITC, it could actually provide cash back, simply to provide the resources necessary to purchase adequate health care coverage.

There has been some analysis of this. Senator Mark Pauling of the Wharton School of Economics at the University of Pennsylvania, has said, depending on the amount of the tax credits, more than, more than 20 percent to 85 percent of the uninsured in this Nation might be covered by that.

So, I just think that while obviously there are a lot of demands on our tax dollars in this Nation today, given the magnitude of the challenge of health care and affordability of health care across the board, rural, urban, suburban, this would be one of the wiser ap-

proaches we could implement with respect to our income tax structure.

With that, I would yield back, Mr. Chairman, and I look forward to any questions you might have.

[The prepared statement of Hon. John M. McHugh follows:]

**Prepared Statement of The Honorable John McHugh, a Representative in
Congress from the State of New York**

Thank you, Mr. Chairman, for the opportunity to testify today on an issue of great importance—not only to the residents of my Central and Northern New York Congressional District, but also to citizens across the nation.

As you well know, tens of millions of Americans today live without health insurance—15.9 percent on national average and nearly 14 percent of them New Yorkers, according to recent estimates. In traveling throughout my District, I have found that the biggest fears associated with this issue span both the present and the future—that of spiraling health care costs for individuals and businesses, concerns about lack of coverage in the event of job change or job loss, and the shortage of accessible and affordable health care.

A number of months ago, I held a series of forums in my District to personally hear from health care providers about the challenges that communities such as mine face in ensuring access, availability and affordability of health care for our largely rural region. As the front line of defense in providing health care, their ongoing input on ways to improve its delivery continues to be critical. During our sessions, we spoke about a wide variety of issues, including recruiting and retaining health professionals, providing resources for rural-based care, establishing a health information technology infrastructure, and making insurance more available to all Americans.

Undoubtedly, all of these topics are important to ensuring our citizens receive quality health care. However, it is the latter of these issues that I wish to focus on today, Mr. Chairman.

In addition to the millions of individuals and families who cannot afford health insurance premiums, many Americans in large measure lack the ability to take Federal income tax deductions under our current tax laws. Low- and middle-income taxpayers who do not have employer-based insurance or are not self-employed simply need our help. My legislation, the Health Insurance Tax Relief Act, is designed to help remedy this situation by allowing taxpayers a refundable credit against income tax for the purchase of private health insurance. These tax credits would range from \$1,000 for an individual, \$2,000 for a married couple, and \$500 per child, with a cap of \$3,000 per family. For any insurance premium costs that exceed these amounts, an additional credit of 50 percent is also permitted.

Qualified taxpayers could easily claim the credit when filing their tax return and use it to either offset additional amounts they owe or to obtain a larger refund. A taxpayer could even benefit throughout the tax year by adjusting withholding tax amounts and realizing higher take home pay. The proposal also directs that advance payments of credit amounts be made to the provider of the taxpayer's health insurance.

I am fully aware this is not a new idea, Mr. Chairman, as refundable income tax credits for health insurance have become a recurring topic of conversation in recent years. Some of my colleagues have introduced identical or similar legislation in this and previous Congresses, which have gained the support of dozens of Members from across the nation.

Clearly, there is no one silver bullet that will solve our nation's health care crisis and this proposal is not meant to be the only approach we as a Congress could take in addressing affordability and accessibility issues. However, like my colleagues, I believe it is a good starting point. This change to the tax laws would be an important move toward closing the gap for so many individuals and families who work hard and pay taxes, but at the end of the month are still left without the financial resources to afford their own health insurance.

Again, Mr. Chairman, I appreciate the opportunity to discuss my legislation with you today and welcome any comments or questions.



Chairman CAMP. Thank you very much for your testimony. Now we'll move to the gentleman from Oregon, Mr. Blumenauer. You have 5 minutes, and we'll put your full statement in the record.

Mr. BLUMENAUER. Thank you.

Chairman CAMP. If you'll speak directly into the microphone. Thank you.

STATEMENT OF HON. EARL BLUMENAUER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. BLUMENAUER. Thank you. I appreciate the courtesy in being able to spend a few minutes with you and making some comments about ways to make the—reform the revenue system, and solve some serious problems that we're facing. I would like to just focus on one aspect of that, an effort to level the playingfield as it relates to our energy policies in this country.

You have an opportunity as Members of the Committee on Ways and Means to propose legislation that will help us stop picking winners and losers in the area of the energy arena. We have put tens of billions of dollars in subsidies into an energy industry that is reporting record profits. But at the same time, we have anomalies that create real problems.

Ethanol is treated differently for tax purposes if it is generated from corn or from cellulose fiber. There's no good reason. It's just that's what the political process is. I am hopeful, I am hopeful that you can take a step back and help us take the revenue system, be able to deal with anomalies like that that enable us to have a reasonable opportunity for technologies to advance. I would hope that you would look hard at the practice we have of how we score these various things that have produced strange anomalies in terms of the credit.

We don't have uniform tax credit provisions in terms of the duration. We had this scramble of late to be able to have the production tax credit that made it possible for wind energy resources, and yet we have an absurdly short window of time. I've heard from people in the industry that because it doesn't have—because there's a lack of certainty and too short of a window, that it adds 20 to 30 percent extra cost on wind energy projects. Certainly that wasn't the intention of Congress, and I would hope that with your help we could step back and deal with having a reasonable timeframe, I would suggest 10 years, to be able to allow this industry to develop and mature. It would promote greater utilization of wind energy, for instance, but other solar applications, any alternative energy technology, and then review it well before it expires so that we can again send the right signals to the communities and to the industry that's involved.

It is an opportunity for us to deal with items that have minuscule costs. Frankly, the energy industry items that I mentioned would be offset by the savings to the industry itself, and having a stable Federal energy policy will spark a new industry, tens of billions of dollars of economic activity, and reduce our expensive and dangerous dependence on foreign oil.

While I'm at it, I must reference one item that is brownfield Committee on Ways and Means now, just a simple adjustment in the Tax Code to treat bike commuters, if I may as chair of the Bike

Caucus, just put in a little plug. We have the Bike Commuter Act. We have commuters now, 50 percent of American commuters commute less than 5 miles, 5 miles or less. But for purpose of the Tax Code, we discriminate against those people who are burning calories instead of gasoline, treating them different than people who are driving their cars and getting tax subsidized parking from their employer or transit passes. Not particularly logical, one would argue.

The estimate from the Joint Committee on Taxation, it would only be \$78 million for a 5-year period from 2006 to 2007, but it would have a profound effect in terms of increasing the opportunities for cycling commuting. It will reduce congestion. It will make employees healthier. It will reduce problems with parking. I would think it's the right sort of signal we want to send from the Tax Code about the future that we're looking forward to.

I would hope that you would be able to take the long view and provide reasonable timeframes and stop this picking of winners and losers in a fashion that really isn't particularly rational.

At another day, I hope to come back to you and to talk about the need we're going to have from the Committee on Ways and Means to deal with a transportation fund that will have been entirely exhausted by the time the next transportation bill is done but time and your energy doesn't permit at this point. But it is something that needs to be on our radar screen.

[The prepared statement of Hon. Earl Blumenauer follows:]

Prepared Statement of The Honorable Earl Blumenauer, a Representative in Congress from the State of Oregon

I appreciate the opportunity to talk today about ways we can reform the tax system to spur innovation, save energy, and make our communities more livable.

Let me begin with a bill that I've introduced this Congress, which enjoys the bipartisan cosponsorship of 54 of my colleagues. H.R. 807, the Bike Commuter Act, amends the IRS Code to include "bicycles" in the definition of transportation covered by the qualified transportation fringe benefit.

Adding bike commuting to the Transportation Fringe Benefit program incentivizes a mode of transportation that can reduce traffic congestion, alleviate air quality problems, and conserve energy. These are all major issues that every community and every level of government is dealing with to see how they can create and pay for solutions.

The Bike Commuter Act is a simple and low-cost effort that sends the right message about how the Federal Government can provide creative solutions that help with difficult problems. The Joint Committee on Taxation this year scored the bill at \$78 million for the 5-year period from 2006 to 2011.

Incentives for bicycle commuting have enormous potential to reduce single occupancy vehicle trips. In fact, a Rodale Press survey found that Americans want to have the opportunity to bike to work instead of driving, with 40% of those surveyed indicating they would commute by bike if safe facilities were available. The Bureau of Transportation Statistics found that bicycling is the second most preferred form of transportation after the automobile—ahead of public transportation.

With over 50 percent of the working population commuting 5 miles or less to work, bicycling offers great potential for reducing single-occupancy vehicle trips.

Commuters want to save on energy costs. Employers want healthier workers. Communities are seeking to reduce traffic congestion, improve air quality, and enhance neighborhood safety. The Federal Government can assist in these efforts by promoting bicycle use through a small change to the Tax Code.

The Bike Commuter Act is one simple step for providing the right incentives and for the Federal Government to be sending the right messages but there are several others that we should focus on, especially as it concerns energy.

As energy prices have shot up over the last year there has been endless discussions about which new energy source, which new technology can wean us from our over-reliance on oil and other fossil fuels. We hear about hydrogen cars, wind farms,

solar energy, biofuels such as ethanol, and there is even some fascinating research going on in my home State of Oregon about how we can harness tidal action and waves to light and heat our homes.

These ideas and the research behind them are fascinating and I believe there is excellent potential behind each of these energy alternatives to move us towards a 21st Century energy plan.

However, one of the shortcomings I frequently see with our Federal policies is how we pick winners and losers through unequal incentives. Additionally, Congress, playing budgetary games, has often refused to put in place tax credits for extended periods of time and instead renews the credits year to year, or sunsets them early.

I find it extremely important that we provide the tax credits that create the opportunities to move our energy policies out of the 1950s, but Congress must get out of the way of dictating which "new" energy source or technology will get us there. Let's create a level playing field that brings these domestic sources to the marketplace, but let's let the market determine what it invests in based on demand, efficiency and cost.

A renewable energy portfolio standard (RPS) has passed the Senate several times. It would require 10 percent of U.S. electricity by the year 2020 to come from renewable sources. Unfortunately, this was dropped from the 2005 Energy Bill, because this is the right kind of balanced standard that let's the market determine what renewable resource to invest in. We need to set the bar high and then provide the incentives to get us there.

The marketplace also needs the reliability and predictability of these credits to have a long enough horizon to make the investments pencil out. I would suggest that a tax credit should be in the Code for a minimum of 10 years to give the marketplace the opportunity to utilize them and for Congress to evaluate a given credit and its impacts.

Another important element to the tax credits is to help bridge the gap in the initial infrastructure investments that pay dividends for years to come. Often times the up-front costs prevent, say a builder, from constructing in a manner that would more than pay for itself over time. It is unacceptable that we continue to build in a way today that costs families more in the long-run through increased energy costs when the products and building techniques are currently available.

The 2005 Energy Bill took some of these important steps, but most of the tax incentives and credits expire in 2 years. Congress should extend the tax credits to homebuilders that build homes projected to reduce heating and cooling energy use by 50 percent. Everyone wins—builders save dollars through tax credits, families save dollars through lower energy bills, and the nation reduces its dependence on fossil fuels and takes a step in addressing global warming.

Manufacturers of household appliances are currently eligible for tax credits for producing efficient models of dishwashers, washing machines, and refrigerators. These also end in 2007, which doesn't fully leverage the investments these manufacturers would make in researching more efficient models if the credits remained in place for a reasonable amount of time.

I thank the Committee for its time and I urge the consideration of the Bike Commuter Act, H.R. 807, as a simple and low-cost effort that levels the playing field for commuters and sends the message that Congress should be sending to our communities—that we support efforts to reduce energy consumption, ease traffic congestion, and encourage healthy activities as a part of our daily routines.

I will continue to support and legislate for tax credits that bring our energy policies to where they should be in the 21st Century.

Chairman CAMP. Thank you. Thank you very much for your testimony. Now the gentleman from Iowa, Mr. King. You'll have 5 minutes. Welcome to the Committee.

**STATEMENT OF HON. STEVE KING, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF IOWA**

Mr. KING. Thank you, Mr. Chairman, and thank you, Mr. McNulty. I appreciate the privilege to make remarks before this panel, and I'm raising the issue of the fair tax as a solution to our tax reform problems.

Many of the proposals that will come before this Committee bring some measure of relief to the American taxpayer. However, beneficial as they may be, they do little more than attempt to correct the many faults of our current income tax system, only in a piecemeal fashion.

Unlike these proposals, which are intended to simply tinker with the Code, H.R. 25, the FairTax, offers the American people a complete departure from the way we have been taxed in the past. This one bill will completely alter the Federal Government's tax collection practices, taxing consumption rather than production.

By doing this, we could completely untax productive behavior in the United States and give Americans all the incentive in the world to earn all they can, invest all they can, save all they can, keep all they wish, and decide when and how much to pay in taxes each year when they make their purchases.

Ronald Reagan once said what you tax, you get less of. It's vitally important that we keep this axiom in mind as we discuss various proposals to reform our Tax Code. With our current income tax system, the Federal Government has the first lien on all productivity in America. Because of this, as Ronald Reagan predicted, our economy is less productive than it otherwise could be.

The simple fact is that our Tax Code inhibits our production. I owned and ran a construction company for 28 years, and after my second audit by the IRS, I decided there had to be a better way for the Federal Government to collect its revenue. After years of careful thought and research and informative decisions, discussions, I came to the conclusion that a national sales tax is the only comprehensive tax reform plan out there that will spur economic growth, remove tax barriers that currently favor production abroad, to production here in the U.S. It'll level—maintain a level of progressivity and offer itself as a truly fair means of revenue collection and be completely transparent to the taxpayer.

H.R. 25 would replace all Federal income taxes, payroll taxes, excise taxes, estate taxes, gift taxes, interest income, pension income, alternative minimum tax, every Federal tax out there other than some user fees that I can find, and replace it with a national sales tax of an embedded 23 percent. That's on consumption of goods and services.

With a shift of taxation from production—from tax on production to tax on consumption, Americans will be able to take home their entire paycheck, and this will have a large stimulus effect on our economy.

Not only will Americans have more money to spend, they'll have more money to save and invest, which will give American businesses more access to capital. This in turn will allow greater investment in research and development and allow for economic expansion through every sector of our economy and help us keep on the high speed treadmill that leads the rest of the world. It will take America to a new level of our economic destiny.

With a move from our income tax system to a system of taxes on consumption, we will see retail prices fall in the United States as well. As companies are no longer forced to pass on embedded payroll taxes and compliance costs to consumers, competition will force prices down as much as 22 percent. While the 23 percent em-

bedded tax rate will in some cases offset decline in the prices in goods and services, it's important to note that consumers will, even in this scenario of price parity, have greater buying power, because they have access to their entire paycheck.

A shift away from our income tax system will increase the competitiveness of our manufacturers abroad. Right now American producers must pay payroll taxes and embedded income taxes as compliance costs in this country, but the exporters overseas do not have that disadvantage. So when our products are sold overseas, they're more expensive than those in domestic markets.

I think I'll just slip to the end of this statement, because I'd like to talk with you openly in the couple of minutes I may have left about the advantages of the FairTax. I have looked at this issue for 26 or more years, and I describe it this way. Every time I turn that Rubik's cube of the national sales, the FairTax around and look at it another way, it looks better and better and better. I don't find holes in it. I find that it gets stronger.

I look, for example—an example would be if you take an American made automobile and it's on the lot right now perhaps at a \$30,000 price, and up against let's say a Mazda that's made all in Japan. Now when you pass the FairTax, competition will drive those embedded Federal taxes out of the price of the American made product, in this case being a car, but they will stay in the Japanese Mazda, so the \$30,000 Chevy goes down to \$24,300 sticker price. The Mazda stays at \$30,000. You add the tax back into that, and the drive-it-off-the-lot price for the Chevy is going to be \$30,400, but the drive-it-off-the-lot price for the Mazda is \$39,000. That's an \$8,600 advantage, and it's a 28 percent marketing advantage.

So, that says that we keep American jobs here in the United States, and we export products overseas. We sell California wine to the French. That really changes our balance of trade.

I will just say, the FairTax fixes everything that any other tax policy fixes, and more besides. It will take us to the next level of our economic destiny.

Thank you.

[The prepared statement of Hon. Steve King follows:]

**Prepared Statement of The Honorable Steve King, a Representative in
Congress from the State of Iowa**

Mr. Chairman and Members of the Subcommittee,

Thank you for the opportunity to appear before you today.

Many of the proposals that are being brought before you have merit. But they have merit in the same sense that treating the symptoms of a serious disease rather than the underlying cause of the disease has merit. If we have no means of treating the underlying disease, then we treat the symptoms in the hope the disease will run its course and the patient will improve. If we have not yet accurately diagnosed the disease, then we alleviate the symptoms until the tests are completed and we can attack the underlying problem. On the other hand, if we understand the disease and we have the means to treat it, there is no merit in withholding curative treatment from the patient and only treating the patient's symptoms.

Yet that is precisely what this Congress is doing with our tax policy. We understand the destructive impact that the current tax system is having on the American people. We understand that the current tax system is driving high paying jobs overseas and destroying opportunity for the American people because we tax American producers heavily whether the goods are sold in the U.S. or abroad but impose no tax on foreign production sold here. We understand that the current tax system has a dramatic adverse impact on the standard of living of the American people by dis-

couraging work, savings, investment and entrepreneurship. We understand that the current tax system is obscenely complex and costly. We understand that the current tax system is unfair. We understand that the current tax system can barely be administered and fosters evasion at an ever accelerating pace notwithstanding ever more severe penalties and ever more intrusive reporting requirements.

Yet all Congress has done is tinker with an irretrievably broken tax system. We owe the American people a better tax system. And we should deliver one.

What would a better tax system look like? What are the criteria by which we should measure whether a tax system is good or bad?

A good tax system should not favor consumption over savings and investment. A good tax system should have the lowest possible marginal tax rates, removing to the greatest extent possible the disincentive to work, save and invest and providing the greatest opportunity for upward mobility. A good tax system should not put U.S. producers at a disadvantage with those who produce abroad; it should not provide an artificial incentive to move jobs and production overseas. A good tax system should impose the same tax burden on all forms of productive activity and should tax each activity at a uniform rate. A good tax system should treat human capital formation and physical capital formation alike. A good tax system should dramatically reduce the administrative and compliance burden on the public. Such a tax system would lead to a dramatic increase in the prosperity of the American people.

A good tax system should exempt the poor from tax and allow everyone to meet the necessities of life before paying tax. Once the necessities of life have been met, however, a good tax system should treat people equally without favoring one set of taxpayers over another. A good tax system should not play favorites or reward the politically powerful and well connected.

A good tax system should be transparent and understandable so the public understands it; it should not hide the true tax burden or obfuscate. A good tax system should be politically stable, so that the reform will last. The transition to such a system should be manageable and fair. Such a tax system would be honest and improve the American political system.

The tax reform proposal that best meets these criteria is H.R. 25, the FairTax.

The FairTax replaces the individual and corporate income tax, all payroll taxes and the estate and gift tax with a 23 percent national retail sales tax on all consumption of goods and service without exception. A prebate would be provided monthly in advance to all households. The prebate amount would be equal to the poverty level times 23 percent. An extra amount is provided to married couples to prevent a marriage penalty.

The FairTax eliminates the current tax bias against saving and investment. It would, therefore, promote capital formation, increase productivity and enhance the competitiveness of American workers. The FairTax would get the government out of the business of picking favorites among industries and investments and allow businesses to invest based on what makes business sense. The FairTax has the broadest possible tax base consistent with economic growth. It, therefore, has the lowest possible marginal tax rates. It will dramatically reduce the tax drag on work, savings and investment and promote economic growth and prosperity to the maximum degree.

The current tax system drives good jobs and businesses out of the U.S. Why? The current tax system taxes U.S. American producers—both workers and companies—whether the goods and services are sold in the U.S. or abroad. The current tax system imposes no tax burden whatsoever on foreign goods and services sold in the U.S. The U.S. tax system accords a nearly 20 percent advantage to foreign producers. And virtually every foreign country relies to a great degree on consumption taxes (usually VATs) that are imposed on U.S. goods sold there and rebated on foreign goods sold here. It should come as no surprise that we produce only $\frac{2}{3}$ of what we consume, that our great manufacturing companies are in decline and that high quality blue collar jobs are rapidly leaving the U.S. We have now lost our agricultural surplus and our services sectors are under intense pressure.

The FairTax remediates this problem by taxing foreign and U.S. goods alike when sold at retail. U.S. exports are not taxed. It levels the playing field. No other tax plan with wide support does this.

The FairTax treats investments in human capital and physical capital alike. Both are treated as investments and not taxed. No other tax plan does this.

The FairTax repeals the regressive payroll tax and entirely untaxes the poor. The prebate ensures that no poor American will pay tax on their consumption expenditures and dramatically reduces the tax rate on middle income Americans. No other tax plan does this.

The FairTax would eliminate the massive administrative burden on the American people imposed by the current system. For the first time in living memory, April

15th would be just another Spring day. What people earned would be what they keep. And every American would understand the tax system and how it worked.

By reducing marginal tax rates dramatically, the Fairtax reduces the incentive to engage in tax evasion. By radically simplifying the tax system, if audit resources are held constant, audit rates will increase and the likelihood of apprehending tax evaders will increase. Thus, the benefit of evading taxes will decline and the cost of tax evasion will increase and tax evasion will decline.

The FairTax offers us an unprecedented opportunity to make the lives of the American people better. It will enable U.S. workers and businesses to compete effectively in world markets. It will stop the hemorrhaging of high quality jobs that we are experiencing. It will promote entrepreneurship and enhance capital formation and productivity improvement. It will be fair and it will be comprehensible. It will reduce the tax gap and it will reduce compliance costs.

It is time to adopt the FairTax.

Thank you.

Chairman CAMP. Thank you very much. Now the gentleman from Midland, Texas. Mr. Conaway, you have 5 minutes. Thank you.

**STATEMENT OF HON. K. MICHAEL CONAWAY, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. CONAWAY. Thank you, Mr. Chairman. I appreciate the opportunity to get this on the record, and my good colleague from Iowa has said some of the things I've said.

My professional background is I'm a CPA, and I'm keeping my license current, because as I tell folks in Texas, I'm one election away from being back in public practice.

I've spent a career helping folks deal with and comply with and struggle with the Internal Revenue Code as we have known it over the last 30-plus years of my career. In 1986, there was a good sweep at trying to eliminate some of the complexities of the Code, but 20 years later, we are as complicated today in this Code as we've ever been.

Part of the reason is, is we have constantly used the Code to social engineer or to try to get outcomes, to drive outcomes in the public policy arena that we think are in collectively all of our own best interests, whether it's a— I'm not sure how a bicycle credit is going to work, but a bicycle credit, or help with health care.

The truth of the matter is, there's really only one true purpose for any tax collection scheme. That should be to produce the minimum amount of money needed to run the government. To the extent that we continue to try to engineer through the Tax Code, we will continue to have complications introduced into the Code and compliance issues that aren't necessary.

I am a cosponsor of the FairTax. I think that we ought to have that very open public debate. I think it's the right answer, but I want to have a broad spectrum of America help tell us that that is the right solution. Much of what we do with the Tax Code today in terms of business is try to help individuals comply with the way they're going to—comply with the Code. Many, many—far too many of our business decisions are driven based on the tax consequences. It has nothing to do with the economics, separate and apart from those tax consequences. When you're doing that, that is inefficiencies built into a system that we don't have to.

So, I would urge that the Committee begin what can be a long process of a full, fundamental, comprehensive rewrite of the Code to get us to something that's fair, something that's easy to comply with, something that most Americans would agree is the right way to do it, and eliminate the incentive or the concept of using that Tax Code for engineering purposes, or whatever the good reasons we may want to do this. Because as long as we have an income tax, we're going to have figure out what's deductible, what isn't taxable, what is taxable, what income is taxable and at what rates. We will be—we will use it for purposes other than, as I mentioned, collecting the minimum amount of money needed to fund this Federal Government.

One of the advantages of a national sales tax is that if it were in place and a segment of the economy out there came to us and said, you know, if you would just exempt us from the national sales tax for a little while, we would be able to do X, Y or Z. That's going to be very transparent, and that's going to be very difficult to do.

Currently, we are able to work those kinds of things into the existing Tax Code without a lot of transparency, without a lot of competition for other folks to say, no, that's really not the way we should do it. So, a national sales tax I think would help us wean ourselves from what I think is a very bad idea of using the Tax Code to engineer our societies, engineer our economy and do all the kinds of things that we do with each of those complicating factors that we have in the Code.

So, now, having said that, since we do have the Tax Code in place as it is, I'm going to pitch in for an extension of the deductibility of sales taxes in those states that don't have income taxes.

One of the ideas is that the Code ought to be fair, and in this instance, in states that have income taxes, and those taxes are deductible from their Federal income tax, Texas does not have a state income tax. We've enjoyed over the last year or two the deduction for sales taxes in lieu of income taxes.

So in the spirit of fairness, I'm going to ask for more complications in the Tax Code that I just spoke against as long as we've got it in place, and that would be that we extend the deductions for sales taxes for those states that don't have income taxes.

With that, Mr. Chairman, I'll yield back the balance of my time.
[The prepared statement of Hon. K. Michael Conaway follows:]

**Prepared Statement of The Honorable K. Michael Conaway, a
Representative in Congress from the State of Texas**

Mr. Chairman and distinguished Members of the Committee, it is an honor and a privilege to testify before you today about an issue that I've spent my career working on: Taxes.

As a CPA and small business owner, I have worked with our inefficient Tax Code and the many challenges that arise as a result of its complex nature. I believe that as Federal tax regulations have grown, economic efficiencies have decreased drastically. The best and most effective tax system for the Federal Government, would be one where individuals and businesses do not need to hire professionals to prepare their taxes. The complexities inherent to our Tax Code create a number of fundamental problems that must be addressed.

I believe in the natural efficiencies of the free market and the need to let the market forces operate without unnecessary government regulation. As a nation, we waste over 6.5 billion hours every year filling out tax forms, keeping records, and learning new tax rules. The cost of complying with Federal income taxes is roughly

\$200 billion annually. Unfortunately, the 6.5 billion man hours and \$200 billion spent, only demonstrate half of the economic losses caused by our Tax Code.

In addition, every year the IRS fails to collect over 15 percent of the tax revenues owed to the Federal Government. This 'tax gap' is estimated to be approximately \$345 billion per tax year. To put this amount into perspective, this year we will spend \$420 billion on all non-defense domestic discretionary spending and our estimated budget deficit for fiscal year 2006 year is \$260 billion. As you know, \$345 billion is a large sum, even by Federal Government standards. Yet, through our broken tax system, we allow this money to go uncollected each year. This loss in tax revenue is apparently unavoidable with our current Tax Code.

The IRS has increased its enforcement revenues from nearly \$39 billion in 2001 to \$47 billion in 2005 by increasing the number of audits of taxpayers. While I applaud their efforts, more audits are not going to fix this problem. Even if every single taxpayer received an unwelcome audit from the IRS, we would still have a tax gap. We need to radically change the tax system in a way that completely eliminates that gap.

When looking at proposals for fundamental tax reform, we should keep a few guiding principles in mind. The following principals were among ten outlined in a recent report by the AICPA on good tax policy: Equity and fairness, economy in collection, simplicity, economic efficiency, transparency, and minimizing the tax gap. It would behoove all of us, to keep these ideals in mind as we debate the future tax system.

Taxpayers in the same or similar financial situations should be taxed in the same manner. By treating like taxpayers equally the system becomes more economically efficient and transparent, with diminished incentives to evade taxes. Likewise, a tax scheme that is simple and provides for easy compliance greatly increases economic efficiency, while reducing costs associated with collections.

There is a proposal that will adhere to the aforementioned principles without requiring taxpayers to file tax returns, eliminate all Federal income, estate, and payroll taxes and reduce the 'tax gap' to zero—the Fair Tax.

The Fair Tax plan, H.R. 25 introduced by Congressman John Linder, is a Federal tax plan that would eliminate all Federal income, payroll, personal, gift, estate, capital gains, alternative minimum, Social Security, Medicare, self-employment, and corporate taxes. All of these taxes would be replaced with a simple progressive national retail sales tax. The plan includes tax rebates to ensure that no American pays Federal taxes while living at or below the poverty level. By taxing only what we choose to spend and not what we earn, the Fair Tax creates a system that is totally transparent and simple to comply with.

Opponents of this plan claim it is regressive, hitting the poorest Americans the hardest. However, this problem is avoided by providing a prepaid monthly rebate for every household to pay for the taxes on all necessities up to the poverty level. This important feature ensures that low income Americans are not taxed and keeps the system progressive.

Additionally, it is important to note that the prices for goods and services would not rise significantly under the Fair Tax. Under our current tax scheme hidden taxes make up to 20 percent of the cost of all retail prices. Income and corporate taxes are passed on to the consumer in everything we buy. By repealing the hidden taxes that are built into the retail price of an item and replacing them with a transparent national sales tax, all Americans will know exactly how much money they are contributing to the Federal Government every time they make a purchase.

The IRS readily admits that there is a systemic problem of noncompliance inherent in the Tax Code. There is a vast underground economy in this country, consisting of illegal immigrants and criminals operating outside the confines of our tax system. Illegal immigrants, paid "off the books" don't file tax returns. With the Fair Tax, those who live in the trillion dollar world of the underground economy would be forced to pay their fare share.

However, I must caution the Committee about adopting a 'hybrid' type scheme that would include components of a national sales tax along with either payroll or income taxes. Such a proposal would fail to eliminate the complexities of the current system and would allow some of the inefficiencies to remain.

Bearing in mind such a massive tax overhaul could not happen overnight, I would also like to take the opportunity to champion provisions that allow the deductibility of sales taxes in lieu of state income taxes. Not renewing this deduction before 2006, would amount to a tax increase for taxpayers in states that do not have income taxes, such as Texas. The American Jobs Creation Act of 2004, reinstated the deduction of sales tax in lieu of income taxes. If we allow the sales tax deduction to expire at the end of this year, we will have to defend what is in effect a \$1.5 to \$3 billion a year tax increase on selected citizens.

In closing, I would like to reiterate my support for a comprehensive overhaul of our current tax collection scheme to bring clarity, transparency and fairness to the system. I thank the Committee for its time and hard work and I look forward to working with you to find a working solution to reforming our tax system.

Chairman CAMP. Thank you. I know we have a vote on, so I'll try to be brief. Mr. King, and to the same extent, Mr. Conaway, the FairTax, as I understand it, does not tax any property or services purchased for business or investment, or for export, for that matter. So, there still will be a determination of what you're doing and why and how. That doesn't end.

So, tell me, how would this be administered, given that there wouldn't be any national filing? Would it be up to the states then to determine the proper use, you know, for oversight, administration of this, in your mind?

Mr. KING. My answer to that is, yes, for the most part, in that it's either 44 or 45 states have a state sales tax. Their department of revenue already has the system and the network in place to do that, and they do make decisions on what's taxable and what isn't, consistent with their state law.

So, it's not a new experience to be making those decisions in the tiebreaker, say, for example, if you're buying a lawnmower to cut the grass around your gas station versus one to cut the grass around your house, those decisions would be—that definition would always have to be worked and massaged and would be some adjustment to do with that.

But most of the administration would be through the state departments of revenue. We propose that we pay them a very small percentage for collecting that, as well as the retailer a very small percentage for collecting the tax, which will be the first time we've ever rewarded someone for being a tax collector other than a payroll check.

Chairman CAMP. Do you see any Federal oversight or administration in that process at all then? It's all done by the state department of revenues?

Mr. KING. I think we have to have a Federal oversight, because if you had a state that was unwilling, then they would not as vigorously enforce that, and they may see it as a competitive opportunity for them compared to a state next door that is more actively enforcing.

I have not worked out myself what entity that will be. But I am determined that it's essential that we eliminate the IRS as an agency so that it can't roll back on us again. That's the one piece that I think is essential. Then I've also introduced the legislation to repeal the Sixteenth Amendment so that it can't go back on us. But I don't believe we should make it a condition of the passage of the FairTax, because if we did that, the bar is too high. But if we give people the money they earn, they will want to repeal the Sixteenth Amendment.

Chairman CAMP. Thank you. Mr. McNulty may inquire.

Mr. MCNULTY. Thank you, Mr. Chairman. I did want to pursue this issue of the national sales tax a little bit, but I don't want to

miss votes and I don't want to prevent the Members from getting to vote, so we'll save that for another day.

I do want to commend Congressman McHugh on the scope of his bill. I haven't had a chance to take a look at the details of your bill, John, but earlier on another panel we were discussing this issue of so many people being uninsured in the country and how that number has grown dramatically in the last 5 or 6 years from 39 million up to the figure that you cited, which is 46 million. We really need to do something about this. The bill we were discussing earlier would provide tax benefits to self-employed individuals, which I certainly support. But I ask the question, what about an employee who works for a corporation which does not provide health care coverage? Would that be covered under that particular bill? Of course the answer was no. But that person would be covered under your bill, because it would cover any taxpayer who was purchasing health care coverage for his or her—themselves and their family. So, I want to commend you for the scope of that, because I think that's a critical issue, ought to be at the top of the agenda, and thank you for contributing to a solution.

Mr. MCHUGH. Thank you very much, Michael.

Chairman CAMP. Thank you. I want to thank you as well, and I want to thank all of you for your excellent testimony. Thank you for appearing before the Subcommittee. Appreciate it.

The Subcommittee on Select Revenue Measures is now adjourned.

[Whereupon, at 12:12 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of Dan Fedor

I am writing to submit for the hearing record on Member Proposals on Tax Issues in the 109th Congress scheduled for Tuesday September 26, 2006 in B-318 Rayburn House Office Building, beginning at 10:00 a.m.

Congresswomen Berkley (NV) introduced H.R. 4887 which would amend the Internal Revenue Code of 1986 to exclude from gross income amounts awarded to qui tam plaintiffs. This bill was referred to the House Committee on Ways and Means the day it was introduced on March 7, 2006.

The qui tam provision of the Federal False Claims Act clearly states that the relator is entitled to receive *at least 15 percent* but no more than 25 percent of the proceeds (see Title 31 Money and Finance 31 USCS | 3730(d)(1)). If the proceeds are then to be included as gross income the relator does not actually receive the minimum 15 percent according to the qui tam provision. It appears that the language in the qui tam provision is incorrect/(misleading to potential relators) or that it was an oversight and amounts awarded to qui tam plaintiffs should be excluded from gross income.

The qui tam provision has had the effect of privatizing government legal remedies by allowing private citizens to act as "private attorneys general" in the effort to prosecute government procurement and program fraud. Although most of the early successes in qui tam actions have been against defense contractors, more and more actions are being filed that involve other governmental agencies such as Health and Human Services, Environment, Energy, Education, NASA, Agriculture and Transportation. U.S. recoveries for qui tam cases, as of the end of 2003, have totaled \$7.8 billion.

As a United States citizen and taxpayer I am concerned with government funds being wasted on fraudulent activities. The qui tam provision of the Federal False Claims Act has been, and continues to be, a very effective and successful tool in combating government procurement and program fraud. Bolstered by amendments passed by Congress in 1986, this law has armed private citizens, who have independent and direct knowledge of fraud, with a weapon to prosecute government contractors, and others who are defrauding the Government, and share in the recovery.

As a result of the 1986 amendments, qui tam actions have increased dramatically and have been the most effective and successful means of combating procurement and program fraud. Since 1986, qui tam recoveries have exceeded \$1 billion with most of the successes involving fraud in Defense and Health Care programs.

The amendments that were passed in 1986 did not specifically exclude the private citizens' (relator's) recovery from being included in their gross income and therefore inappropriately taxed the award amount. H.R. 4887 addresses this issue and excludes the relator's recovery from gross income.

The IRS states that all winnings from the lottery; a game show and awards from a civil judgement are to be included in gross income. I am aware that when a plaintiff receives a settlement from a jury or even when a person wins money on a game show or through a lottery drawing those proceeds are to be included in that persons gross income and are taxable as such. It is appropriate for the United States Government to tax such awards/winnings as income as the government has not received any portion from such a transaction. A qui tam settlement is significantly different due to the fact that the government already received a substantial recovery due to the relator bringing a civil action for a violation of section 3729/3730 for the United States of America. Therefore, in addition to the government receiving the recovery from the settlement they then include the relator's award in their gross income and impose income tax on that amount (double dipping).

As private citizens become aware that the qui tam provision of the Federal False Claims Act is misleading with respect to the recovery award, they may not be as motivated to come forward with knowledge of fraudulent activities. Some opponents to H.R. 4887 may take a position that the relator still does receive a financial reward even if it is taxed and it is less than the minimum 15 percent (per the qui tam provision). However, there are significant negative career implications one encounters by filing a qui tam suit under the Federal False Claims Act. Career implications that must be considered based on the amount of the award and the ability for a relator to support his/her family in the future once the qui tam suit becomes public information.

I was pleased to see that Congresswomen Shelley Berkley introduced H.R. 4887 to address this oversight thus ensuring that the qui tam provision of the Federal False Claims Act remains a strong motivator for citizens to bring forward knowledge of fraudulent activities.

I appreciate your time and attention.

Sincerely,

Daniel M. Fedor

Statement of John E. Shuey

Thank you for the opportunity to express my thoughts on the need for, and process of, Tax Reform. I am sure you will be overwhelmed by responses to your call for testimony, so I will be brief.

First, I would want to emphasize my conclusion, based on more than 2 years of research into the problems of our present tax regimen and the potential alternatives to it, that the time has come to totally rethink how and when our nation collects the taxes necessary for its operation. In order to adequately address the needs of both the government and our economy going forward, any continuation of the tinkering and massaging of the income and related taxes that has led us into our present complex, anticompetitive, burdensome, and unfair system is no longer sufficient nor acceptable.

To meet the needs of Twenty-first Century America, it is imperative that the Internal Revenue Code in its entirety be abandoned, and replaced with a new system that has at least the following attributes:

- It must be seen by all Americans as being fair. No longer can we afford a system where Congress picks winners and losers among our citizens and industries based on which way the political winds might be blowing at a particular moment;
- It must fully replace the revenues collected by the taxes it replaces;
- It must provide relief for the less fortunate of our citizens, particularly that group commonly referred to as the "working poor";
- It must enable our businesses to compete on a level playing field, both in world markets and at home;

- It must be broad-based, spreading the burden of funding government across a wide spectrum of citizens, residents, and visitors, thus keeping marginal rates as low as possible;
- It must make Social Security and Medicare fiscally secure as far into the future as possible;
- It must be a net plus to our economy, stimulating growth and job creation; and
- It must be simple, completely visible, much less susceptible to fraud and evasion than the current system.

Of all the alternatives now offered: Keeping and further massaging the present system, a flat tax, Value-Added taxes, Transaction taxes, and Consumption taxes, only one meets all of the above criteria —a Consumption tax. Further, of the variations of Consumption tax that have been proposed, the one that is the simplest, fairest, and most likely to exceed the above requirements is H.R. 25/S. 25, commonly referred to as the Fair Tax.

Although I am sure that Subcommittee Members and staff are familiar with the general provisions of H.R. 25, I would point to first a few that make its approach unique and then to some of the projected benefits to be derived from its adoption as drafted.

H.R. 25 is unique in that it was created by asking the American people what they wanted out of a tax system, and then having a team of respected economists design a tax system that met those demands. It is not a product of special interests . . . unless you think of the American People as a special interest. Today, more than 600,000 citizens work as volunteers on behalf of the Fair Tax.

In essence, H.R. 25 replaces the personal and corporate income tax and all Federal payroll taxes with a national consumption tax. The tax is levied only once, at the point of purchase on *new* goods and services. The simplicity of H.R. 25 frees Americans from our current overwhelming Tax Code and unshackles the U.S. economy.

H.R. 25:

- Abolishes the IRS;
- Closes all tax loopholes and brings fairness to taxation;
- Maintains our current Social Security and Medicare benefits;
- Brings transparency and accountability to tax policy;
- Allows American products to compete fairly both at home and abroad; and
- Reimburses the tax on purchases of basic necessities, thus untaxing the poor.

Because of a generous rebate, H.R. 25 is as progressive as the current income tax system. H.R. 25 is based upon a taxpayer's ability to pay because consumption above the poverty line is by definition the ability to pay the tax. Below-poverty-line consumption is not taxed by the Fair Tax.

The poor are exempted from paying taxes under this system, and often have negative tax rates, while those who take the most out of society by consuming more pay the most in taxes.

People can make choices about how much to pay in taxes by deciding when to buy and what to buy (used goods are not taxed under H.R. 25).

There are no exceptions, no exclusions, and no loopholes to be exploited by special interests.

H.R. 25 restores the upward mobility of the poor and the middle class. Because the payroll tax is repealed in its entirety, wage earners get to keep their whole paycheck.

Under H.R. 25, inherited wealth is taxed when spent.

Lower-income wage earners and the middle class lower their tax rates and dramatically increase their ability to consume, save, or invest.

Income for family of four	Current income tax rate with payroll tax	FairTax
\$22,500	17.9%	0.0%
\$45,000	24.1%	11.5%
\$67,500	27.3%	15.3%
\$90,000	31.3%	17.3%

Because H.R. 25 encourages savings and investment, virtually all economic models project a much healthier economy under H.R. 25:

- GDP will grow between 10.5 and 14 percent;
- Real investment will grow by 76.4 percent;
- Exports will jump by 26.4 percent;
- Capital stock will increase by 42 percent;
- Interest rates will drop between 20 and 30 percent; and
- Real wages will increase by 8 percent.

There is of course much more information and data available relating to H.R. 25 and its potential to favorably impact our people and our economy. I am sure Representative Linder and his staff will be providing most of it to you.

Again, thank you for this opportunity to speak in favor of H.R. 25. I wish you well in your important deliberations on behalf of our nation and people.

Statement of John Hassinger

This is it! Here, finally, is the answer to the huge problem the Federal Government has become. First, let me summarize the problem, then the answer.

Every person who works for the Federal Government wants more money and job security, just like the rest of us. For example, in Washington D.C. in a drab stone building, and in one of thousands of dusty cubicles, sits the operations manager of The Department of Very Important Stuff. He spends his days plotting and planning, his nights dreaming and scheming, intent on expanding his domain and increasing its importance, so he can hire more staff. Why? Because the more people he has working for him, the more responsibility he can demonstrate and the more easily he can justify his next pay increase at review time. Not only that, if in the rare event his funding is cut, he can reduce staff and do their jobs personally, thereby cushioning himself against layoff. If they could, these people would take *all* our income, put the money through the system, then mail each of us checks, not because they dislike us, but because it would help justify their bureaucratic existence.

This, as I see it, is the present condition of our Federal bureaucracy.

Furthermore, as layer upon layer of invisible Federal employees have continuously worked in this ever expanding manner in order to maintain employment, the Federal Government has steadily grown until today it is the nation's largest employer.

As a result of this absurdity, both husband and wife must work, one to pay the bills, the other to pay the taxes to support this sea of bureaucrats.

Gargantuan amounts of money pour into Washington and are funneled into bloated, pork, earmarked programs. Then, with straight faces, wide-eyed innocent-looking bureaucrats whine for ever more cash and power, always hungry, never satisfied, continually working to expand their empires.

So what's to be done to clean up this awful mess?

Surprisingly, this isn't difficult: the expenditures of the Federal Government simply need to be tied directly to the economy so that our beloved bureaucrats will have more money when times are good and less when times are bad, just like those of us who live in the real world.

This will give all Federal employees, including the manager of the Department of Very Important Stuff, the needed incentive to do things that will steadily and persistently promote a good economy, such as: foster low interest rates, enthusiastically apply pressure to institute tort reform, and return to a gold standard so there is no more inflation.

Ah, this sounds wonderful. This is fine. Everyone can now bask in the warm sunshine of prosperity.

But wait a minute! I haven't told you how we can achieve this.

Here's how: instead of taxing people when they earn money, give them their whole paycheck to spend.

No Social Security deductions, no Federal income tax deductions, no 1040's, and no IRS in people's lives.

Instead, people would pay tax when they *spend* money rather than when they *earn* money.

Everyone, including the wealthy, businesses, *and the government*, would pay a consumption tax when they purchase software, clothing, automobiles, haircuts, doctor services, and so on. All of us would pay the tax when we consume, but we would all begin with our entire paycheck.

Therefore, the more items and services people buy, the more Federal sales tax is collected, and the more money the Federal Government receives.

I guarantee this will cause an instantaneous attitude change in Federal employees. When a consumption tax, the fair tax, replaces the income tax, Social Security tax, and all other taxes, bureaucrats will get out of our way and the economy will explode with growth. If enacted as written, it is estimated that in the very first year the Gross National Product will jump 10%.

Please buy the FairTax book, read it, and support this effort. This is *the* solution to the problems with Social Security, Medicare, and jobs leaving this country.

And it is the way once and for all to get the Federal Government on our side.

