

**DEPARTMENT OF THE TREASURY
PRESIDENT'S ECONOMIC RECOVERY ADVISORY BOARD
AUGUST 27, 2010 MEETING**

The meeting was convened, telephonically, at 2:00 PM (EST), pursuant to notice, Paul Volcker, Chairman, presiding.

ADVISORY BOARD MEMBERS PRESENT:

Paul Volcker, Chairman
Anna Burger, Chair, Change to Win
John Doerr, Partner, Kleiner, Perkins, Caufield & Byers
William H. Donaldson, Former Chairman, SEC
Martin Feldstein, George F. Baker Professor of Economics, Harvard University
Roger W. Ferguson, Jr., President & Chief Executive Officer, TIAA-CREF
Jeff Immelt, Chairman & Chief Executive Officer, General Electric
Monica C. Lozano, Publisher & Chief Executive Officer, La Opinion
James W. Owens, Chairman & Chief Executive Officer, Caterpillar Inc.
Charles E. Phillips, Jr., President, Oracle Corporation
Penny Pritzker, Chairman & Founder, Pritzker Realty Group
David F. Swensen, Chief Investment Officer, Yale University
Laura Tyson, Dean Haas School of Business at the University of California at Berkley

ALSO PRESENT:

Austan Goolsbee, Staff Director and Chief Economist
Emanuel Pleitez, Designated Federal Official
Adam Hitchcock, White House Office of the Chief of Staff
John Oxtoby, White House
Tony Dowd, Office of Chairman Paul Volcker

The President's Economic Recovery Advisory Board (PERAB) convened to discuss and vote on *The Report on Tax Reform Options: Simplification, Clarification, and Enforcement* to be submitted to the President at 3:00 PM (EST) on August 27, 2010 via conference call. In accordance with provisions of the Federal Advisory Committee Act, Public Law 92-463, and Federal Committee Management Regulations, 41 C.F.R. 102-3, the meeting was open to the public via internet webcast.

ROLL CALL

Thirteen of the sixteen members of the PERAB were present, constituting a quorum consisting of a simple majority.

VOTING ON THE REPORT

The tax subcommittee submitted to the PERAB *The Report on Tax Reform Options: Simplification, Clarification, and Enforcement*. The PERAB voted 12-0 in favor of submitting the tax report to the President.

DISCUSSION

MR. GOOLSBEE: Thank you, everybody. This is the public meeting of the President's Economic Recovery Advisory Board. I'm Austan Goolsbee, the Staff Director. Today we'll be discussing, debating, and voting on the Tax Reform Report that they have been preparing since they were assigned that task by the President last year.

As the report makes clear, they had a specific charge given to them by the President, which was to come up with tax reform options in three areas. They were options for tax simplification, options for improving compliance with existing tax law, and options for reforming corporate income taxation.

They were asked not to consider any new taxes on people making less than \$250,000 a year, and the report is not a series of recommendations of the form of what PERAB members think ought to be done, but is, instead, intended to be an informative, rather than prescriptive report that goes through in each of those areas a lot of different policies.

The PERAB itself, for any of the press or public who is on who is not familiar with it, is a body of outside experts and members of industry, labor unions, academics, et cetera, who are not employees of the Administration, but provide outside advice. The report represented a wide spectrum of views, and there are many, many policies in it. They do not reflect, in any way, the Administration, nor do they reflect what each individual member of the PERAB thinks ought to be done. They are meant to be an almanac of the pros and cons of a lot of different issues.

As we start, we will need to legally have an official roll call. So, Emanuel Pleitez, the Designated Federal Officer for the PERAB, will conduct the roll call.

MR. PLEITEZ: Great. So, I'm going to list everyone's name, and if everyone just says that they're here on the phone. Chairman Paul Volcker.

CHAIRMAN VOLCKER: Here.

MR. PLEITEZ: Anna Burger.

MS. BURGER: Here.

MR. PLEITEZ: Is that a yes, Anna?

MS. BURGER: I'm here.

MR. PLEITEZ: Great. John Doerr.

MR. DOERR: Here.

MR. PLEITEZ: Bill Donaldson.

MR. DONALDSON: Here.

MR. PLEITEZ: Marty Feldstein.

MR. FELDSTEIN: Here.

MR. PLEITEZ: Roger Ferguson.

MR. FERGUSON: Here.

MR. PLEITEZ: Mark Gallogly. Jeff Immelt.

MR. IMMELT: Here.

MR. PLEITEZ: Monica Lozano.

MS. LOZANO: Here.

MR. PLEITEZ: Jim Owens.

MR. OWENS: Here.

MR. PLEITEZ: Charles Phillips.

MR. PHILLIPS: Here.

MR. PLEITEZ: Penny Pritzker.

MS. PRITZKER: Here.

MR. PLEITEZ: David Swensen.

MR. SWENSEN: Here.

MR. PLEITEZ: Rich Trumka. Laura Tyson.

MS. TYSON: Here.

MR. PLEITEZ: And Robert Wolf. We have a quorum, so we may continue.

MR. GOOLSBEE: Okay. And with that, I will turn it over to our Chairman, Mr. Paul Volcker.

CHAIRMAN VOLCKER: I must say, we have a good representation here for this meeting. Austan has given the mandate and what we've been doing. This has taken longer than we originally contemplated.

I think one thing that this work has made clear is something we already knew, but you see it again, that we have a very complicated tax system. And it's very difficult to simplify. There are a lot of competing interests, a lot of competing objectives, and I hope this report has made clear both the complications, and what some of the problems are.

I hope it's given the Administration, given the outside public, given the Congress, anybody interested a kind of sheet from which they can consider the various problems and alternatives that exist. So, I welcome this. It's been a useful project, I think, for the Board. It's really been led by Marty Feldstein, and a smaller group. Do you have anything to say, Marty?

MR. FELDSTEIN: Yes. Why don't I just say a little bit, and then call on the other three members of the group.

I think that this is a very detailed, but not technical report, that should be read widely by people who are interested in tax policy. It's about 100 pages long, so it's not a quick read. As Austan said, we're not presenting recommendations here, that was not our mandate, but, rather, discussing a series of options.

We spent a lot of time talking about simplification. What the report makes clear is the enormous complexity of the tax law for a typical taxpayer, not for somebody with complicated financial arrangements, but just an ordinary family trying to figure out how to make sure that they are complying with the rules, and also taking advantage of the options that are offered.

We talk about ways of consolidating tax rules for families, consolidating some of the many tax options for benefits for children, tax options for education. We also talk about consolidating the multiple incentives for savings and retirement, and spend a good deal of time talking about simplification for small businesses. If those kinds of changes were accepted by the Congress in a revenue-neutral way, we would have a much better tax system.

We also spent a lot of time talking about the corporate income tax. The United States has a very high corporate tax rate, higher than any other industrial country than Japan. And we also tax companies on their worldwide income, while others tax just on the income generated within their country.

So, the report discusses the adverse effects of our current system, and then talks about a variety of options for reducing the corporate tax rate, indicates ways in which that could be paid for, and also goes in some detail into the tax treatment of multinational companies from which we now get very little revenue, but distort significantly the behavior and the competitiveness of those companies. We talk about options for either lowering tax rates to make them more competitive in an international environment. We're shifting to a territorial system of a sort that other countries have, so there's a lot there for members of Congress and others to study, as they think about possible reforms.

And with that as an overview, let me turn to Bill Donaldson to offer any comments he has.

MR. DONALDSON: Thanks very much, Marty.

Let me just touch on the whole issue of compliance and compliance options, which is an area that we spent a good deal of time on. It's interesting to note that there is some \$345 billion in the last year, my records are available, which were -- the gross tax gap, tax not paid. And the net tax gap is roughly \$290 billion.

It's interesting that this gross tax gap, 71 percent comes from individual income tax areas. Compliance is high for incomes subject to withholding information. Compliance is low where the IRS does not receive third-party reports.

There are a number of options, which I'll just quickly go over, compliance options. The first is to dedicate more resources to enforcement and enhance the tools available to the IRS. The disadvantage of that are the costs associated with it. And, of course, the tradition is that you wouldn't want to spend more than \$1 to get \$1 of non-compliant income in a till.

Option two is expand information reporting from income sources, third-party coverage. The disadvantages of that, it puts a lot of burden on third-party people. Option Three would be small business bank accounting, where small business would be required to use designated bank accounting. And the disadvantage of this would be to require members of small business to open and pay for separate bank accounts at considerable expense.

Option four would be to clarify the definition of a contractor. Businesses are not required to withhold payroll taxes and so forth for contractors. To define what a contractor is. The disadvantage of that, would require repealing of so-called Rule 530. Option five is to clarify and harmonize employment tax rules on self-employment. Require S Corporations and LLC members to report. The disadvantage of that would come, primarily, from owners of small business. Option six would be voluntary disclosure program, so-called Amnesty Program. And the last would be extend holding periods for capital gains exclusion on selling of residences. The current two-year rule, the disadvantage of this, it would disadvantage taxes -- put taxes onto people who move frequently. There's a lot of detail to that, but that's a rough rundown for areas where action could be taken, and some of the costs, and disadvantages of taking action.

I guess I turn it over to Laura Tyson.

MS. TYSON: Thank you very much, Bill. Well, I would start by saying that this was a process that -- talk a little bit about the process. We really did stick with our mandate. We only really looked in these three areas broadly of compliance, and simplification, and the corporate tax system.

We did rely on a large number of experts from very different points of view. We did, also, rely on a lot of tax reports. I think Chairman Volcker said that in a way, there may be no surprises here. There has been a lot of work done previously by outstanding panels, both set up by government, and by think tanks, really looking at a lot of these issues, so we drew on that.

I also want to emphasize that there was outstanding dedicated staff support through Austan and the Council of Economic Advisors, and the Treasury. This did, as Chairman Volcker said, take longer than usual, but that was really because this turned out to be an incredibly demanding activity. We really wanted to make sure that we identified as many options in these areas as we could, and that we carefully laid out the pros and cons for each option, which is why it took a long time, and why the report is long.

I think Marty also pointed out something important, which we tried to make the report, despite its technical focus, and despite its length, something that could be read widely, because these issues require that individual taxpayers, and individual citizens really understand the challenges that we confront. So, that's about the process.

Let me just highlight a couple of other areas that haven't quite been mentioned. One is, in thinking about tax simplification, is there a way to simplify the process? This notion of having over time a simple return, so that, essentially, a large number of taxpayers who don't actually have complicated systems have a lot -- most of their income being taxed through withholding, might receive a form that essentially comes to them saying does this -- is this a correct assessment? I think that's a very important area that we need to consider.

In the area of that tax gap, which Bill mentioned, I would just point out one thing that's really quite interesting. We don't have up-to-date measures of the size of the tax gap. The measures we have go back nearly a decade. Imagine running a company where you don't have information about your accounts receivables that are up-to-date for more than a decade? Why is that the case? Well, we really have not invested enough in the enforcement and data retrieval, and information processing capabilities of the Internal Revenue Service. So, one of the things that is true, whether you're thinking about tax simplification to simple filing mechanisms for millions of Americans, or assessing the tax gap, there is implicit here the need for better information systems, and more personnel.

Hasn't been mentioned the AMT yet. Clearly, we heard from everyone that the major thing that could be done to simplify the taxes for tens of millions of Americans would be to eliminate the AMT; or two, essentially, certainly modify it, simplify it. The problem is that it's very expensive. It's very expensive even if

you do it -- limit the simplification and reduction to households making \$250,000 a year or less. You still get a 10-year cost in the range of a trillion dollars, which shows you, in a way -- that very simple number and measure shows you, in a way, how complicated it will be to simplify the U.S. Tax Code, and, at the same time, if we're making tax reform for revenue, offsetting the simplification through revenue.

Finally, just let me speak about the corporate tax system for a minute, because we did spend a lot of time on this. The experts we spoke to, again, across a range of different political opinions, and representing very different groups, basically said the corporate tax system is deeply flawed, and deeply in need of reform. It is, also, deeply complex. So, just let me point out, and particularly complex in the international area. And Marty has already dealt with that, so just let me say a couple of other things about other areas.

We did talk a lot about the need to find a way to reduce the marginal corporate tax rate by broadening the base. But when you look at the broadening the base, you see you get right into issues of our tax system that have to do with how we treat debt versus equity, financing. And also a -- something which I, frankly, didn't realize going into it, I think many discussions of business taxation focus on the fact that we have a high corporate tax rate, but a low share of corporate revenue as a share of total taxes. A major reason for that is that so much of our business activity over the years has shifted from the corporate form to non-corporate form. And that, we stand out among other nations that we looked at in terms of the share of business income that is not going through a corporate form, and, therefore, not subject to corporate taxation. So, there are issues in the corporate tax part of the document, which lay out why, although we have a high corporate tax rate, we have a low corporate tax revenue intake. And they point out the complexity of the system, and the very significant need for reform.

So, now let me turn over, I think, to -- who do I turn over to?

MR. FERGUSON: You can turn it to me, if you want. It's Roger.

MS. TYSON: Roger. Okay. Roger Ferguson, who was a member of our subgroup. Roger.

MR. FERGUSON: Great. Thank you, Laura.

The ones who have spoken ahead of me have covered much of the territory, so I will be brief. And I do want to focus in on just a few areas. One is the individual side to this. Others have talked a great deal about the business side. But as we looked then to the taxes that affect the average American, the moderate income individuals, and households, we discovered that we have loaded into our tax code a plethora of different options and approaches, each one of which probably made some sense when it was put forward. But when you take a look at it now, it looks to be very much an untended garden, if you will. So, an area that I focused on in my trying to contribute here has been efforts to simplify, to streamline without losing the underlying goals and objectives.

One that was particularly close to me and what I do is a simplification of the savings and retirement incentives. We discovered there are more 20 provisions in the tax code that provide incentives to save for retirement, and for other purposes, like education and medical expenses. We all understand that the goals and objectives of those various provisions are appropriate in the sense of increasing savings, particularly for retirement, and other things. Yet, as we listened closely, we heard that there are a number of concerns, that this profusion of provisions has led to confusion on the part of individuals that may reduce the take up by workers for retirement plans, for example, or the desire and ability of employers to offer such plans, again, focused on retirement, but not just retirement.

So, I think we have a range of approaches and proposals for simplification. In each case, we've laid out pros and cons. But, certainly, while many will be focused on the corporate side of this, let us not lose track of the impact that we've had on individuals, and households. And I really do commend the sections that deal with simplification for individuals, as an area that also really needs to be addressed.

Again, we do not have firm recommendations. We have laid out options with the pros and cons, but I do think it was a very, very good effort to cover the waterfront of the options that might be available.

Let me conclude my brief remarks there. Marty, let me turn it over to you to figure out how you want to proceed from here.

CHAIRMAN VOLCKER: I think the other members ought to have a chance to ask questions here.

MR. GOOLSBEE: Yes, if any of the other members would like to make statements, it seems like that that would be the order of the day.

MS. LOZANO: Austan, this is Monica Lozano. And I just wanted to thank the work of the Commission, and also call out the efforts that they put into understanding the effect of our tax code on small business. And in both the simplification, as well as the compliance area, there are some very good recommendations that would impact small business in both of those, so I just wanted to call that out, and thank them for the focus on that sector.

CHAIRMAN VOLCKER: Appreciate that. Any other comments, or questions? We have a good attendance here. We're going to have to take a vote. And if we approve it, as I hope we will, the report will immediately go to the President of the United States. You arrange the vote, Austan?

MR. GOOLSBEE: I think Emanuel has to call for a vote, do you not, Emanuel?

MR. PLEITEZ: As the presenting officer, I'll call for a vote. Someone has to motion, a member has to motion for a vote.

MR. FERGUSON: I'll move that.

CHAIRMAN VOLCKER: So, we've got a motion, and a second. And proceed, Emanuel.

MR. PLEITEZ: I think we have a question. Did anyone have a question?

MR. OWENS: Jim Owens. I was just wondering, I mean, the report lays out a lot of conflicting, I guess, opportunities to reform the tax code, including pros and cons. How do we anticipate that this will be used by the Administration? This is a report, very exhaustive, very well-written, but depending on which of the smorgasbord of suggestions that were reflected, it might have very different implications for, I think, our global competitiveness.

CHAIRMAN VOLCKER: Yes. Well, we were instructed, as has been indicated, not to take a position on any of these things. And I must say, the people working on the report were very assiduous about avoiding any sense that we, they, or the group as a whole was leaning in one direction or another. But I think the value of the thing is to kind of, as clearly as possible, set out these competing considerations, and hope that the Administration, in particular, whom we have this addressed, but also to the Congress, or anybody else interested by clarifying trade-offs will help draft some legislation, or some administrative practices that will help. And that's all we can hope for. I don't know if anybody else has any other comment on that.

MS. TYSON: I guess I would only say, Paul, I think the report, we would hope, would also be useful to the other subgroups of the PERAB, itself, so that, for example, in the discussion of jobs by the Jobs Task Force, or the discussion --

CHAIRMAN VOLCKER: I think that's true. And there's some areas here that I think appropriately PERAB could take a further look at, at their own initiative. This corporate tax area, which you've all emphasized, is a very interesting area.

MS. TYSON: Yes.

CHAIRMAN VOLCKER: And the comment goes directly to the corporate tax area. We'll have to consider whether we want to do something on our own in that area, I think. Any other comment or question? I guess we can call the roll.

MR. GOOLSBEE: Now, recall the format. You can vote yes, vote no, vote abstain, and you're allowed to make any statement that you'd like that will go into the public record along with your vote.
Emanuel.

MR. PLEITEZ: So, we'll start with Anna Burger.

MS. BURGER: Yes.

MR. PLEITEZ: John Doerr.

MR. DOERR: Yes.

MR. PLEITEZ: Bill Donaldson.

MR. DONALDSON: Yes.

MR. PLEITEZ: Marty Feldstein.

MR. FELDSTEIN: Yes.

MR. PLEITEZ: Roger Ferguson.

MR. FERGUSON: Yes.

MR. PLEITEZ: Mark Gallogly is not here. Jeff Immelt.

MR. IMMELT: Yes.

MR. PLEITEZ: Monica Lozano.

MS. LOZANO: Yes.

MR. PLEITEZ: Charles Phillips.

MR. PHILLIPS: Yes.

MR. PLEITEZ: Jim Owens.

MR. OWENS: Yes, with maybe the qualification that I hope we'll come back and take a deeper look, including maybe with recommendations related to some of these corporate tax issues that have been surfaced. I think it's a quagmire. But that's a yes.

MR. PLEITEZ: Thank you, Jim. Penny Pritzker.

MS. PRITZKER: Yes.

MR. PLEITEZ: David Swensen. I think he had to exit the call. Rich Trumka is not here. But Thea Lee, if you want to make a comment. No comment. Laura Tyson.

MS. TYSON: Yes, with praise for Austan's leadership, and the team in the Administration that helped us so much with the process.

MR. PLEITEZ: Thank you. And Robert Wolf is not here. So, with that --

CHAIRMAN VOLCKER: You didn't ask for my vote.

MR. PLEITEZ: And Chairman Paul Volcker.

CHAIRMAN VOLCKER: Yes. And let me say, I think it's remarkable that here we are in August before a weekend, and we have what, only three people missing from the group.

MR. PLEITEZ: Correct.

CHAIRMAN VOLCKER: That reflects a certain interest in this subject, and the group, generally, and I appreciate that.

This report is late in one sense, late when it was originally scheduled, and I was certainly one who wanted it later because we could do a better job. And I think we have done a better job, so I appreciate that, and I appreciate the cooperation of all of you. With that vote, we will send it off to President Obama.

MR. PLEITEZ: Great. So, it is a 12 to zero vote to submit to the President.

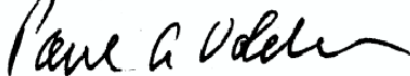
MR. GOOLSBEE: Thanks everyone, for taking the time, for the members, and for the public. This will now be posted as the official document up on the PERAB website, so anybody can certainly print it out, or take a look at it. Thanks, everybody.

ADJOURNMENT

The meeting of the President's Economic Recovery Advisory Board adjourned at 2:33 PM (EST).

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

Paul Volcker, Chairman, President's Economic Recovery Advisory Board

A handwritten signature in black ink, appearing to read "Emanuel Pleitez", written in a cursive style.

Emanuel Pleitez, Designated Federal Officer