

# DEPARTMENT OF THE TREASURY

## AT A GLANCE:

**2006 Discretionary Budget Authority:** \$11.6 billion  
(Increase from 2005: 4 percent)

## Major Programs:

- Collecting taxes
- Managing and accounting for the public debt
- Administering Federal finances
- Combating financial crime and terrorist financing
- Regulating and supervising financial institutions
- Producing coins and currency



## MEETING PRESIDENTIAL GOALS

### *Promoting Economic Opportunity and Ownership*

- Reforming the tax code to make it simpler and fairer for average taxpayers.
- Ensuring a safe and sound banking system through regulation and supervision of banks and thrifts.
- Promoting and coordinating efforts of Federal agencies and the private sector to increase financial literacy for all Americans.

### *Protecting America*

- Combating terrorist financing and financial crime, especially through efforts of the new Office of Terrorism and Financial Intelligence, which will provide a comprehensive approach to Treasury's contribution to the War on Terror.

### *Agency-specific Goals*

- Producing the world's most accepted coins and currency and ensuring the integrity of the U.S. dollar.

### *Making Government More Effective*

- Providing new tax enforcement initiatives to promote fair and equitable tax enforcement and increase revenue.

**MEETING PRESIDENTIAL GOALS—Continued**

- Reducing paper processing as more people file electronically with the Internal Revenue Service.
- Consolidating the Community Development Financial Institutions Fund with other community and economic development programs.
- Focusing Internal Revenue Service customer service on telephone and Internet and away from walk-in service centers.

## PROMOTING ECONOMIC OPPORTUNITY AND OWNERSHIP

President Bush has brought tax relief to Americans in each year since 2001 and is working on making this tax relief permanent while reforming the complex tax system. The President has appointed a bipartisan panel to advise the Secretary of the Treasury on options to reform the tax code. The report that the panel will present this year should help move the Nation toward a simpler, fairer, more pro-growth system, which recognizes the importance of home ownership and charity to American society. Meanwhile, the Internal Revenue Service (IRS) is working to make it easier for taxpayers to comply with Federal income tax rules. Taxpayers used the *IRS.gov* website 739 million times in 2004 to download forms and publications, up 32 percent from 2003. Electronic filing, which is faster, easier, and far less prone to error than paper filing, increased by 16 percent in 2004 to more than 61 million individual tax returns. IRS estimates that 68 million, or half of all individual returns will be electronically filed in 2005.



### Need Customer Assistance?

Treasury's Office of the Comptroller of the Currency (OCC) assists consumers in resolving complaints about national banks and the credit cards issued by those banks. By resolving consumer complaints, OCC returned \$4.4 million in fees and charges to national bank customers last year. You can contact OCC's Customer Assistance Group toll-free by telephone, 1-800-613-6743, or by e-mail at [Customer.Assistance@occ.treas.gov](mailto:Customer.Assistance@occ.treas.gov). For more information about the OCC's Customer Assistance Group, including information on how to file a formal complaint against a national bank, visit OCC's Customer Assistance web page at [www.occ.gov/customer.htm](http://www.occ.gov/customer.htm).

A healthy banking system is fundamental to a strong national economy. Treasury maintains the health of the national banking and thrift system through the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS). OCC and OTS conduct on-site examinations and regulate financial institutions to ensure that institutions are properly capitalized and soundly managed. In addition, OCC and OTS ensure that bank and thrift customers have fair access to financial services by examining banks and thrifts for compliance with consumer banking laws. Finally, OCC and OTS act in conjunction with the Financial Crimes Enforcement Network (FinCEN) to enforce laws and regulations that prevent banks and thrifts from allowing criminals to launder

## **PROMOTING ECONOMIC OPPORTUNITY AND OWNERSHIP—Continued**

money through their institutions. In the next few years, the banking regulators will work on updating international uniform safety and soundness standards for banking institutions.

The Administration will again propose broad reform of the supervisory system for Government-sponsored enterprises (GSEs) in the mortgage market: Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. Part of this reform includes establishing a new safety and soundness regulator for the housing GSEs with powers comparable to other world-class financial regulators, and with the stature and resources necessary to carry out its responsibilities. The Budget places this new regulator in the Department of the Treasury. The Administration's proposal promotes a strong, resilient financial system and increased opportunities for affordable homeownership. (See the Credit and Insurance chapter in the *Analytical Perspectives* volume for a background discussion.)

Treasury's Office of Financial Education contributes to the Administration's pro-growth agenda by equipping Americans with the knowledge needed to improve management of their finances. The 2006 Budget continues its commitment to the Office of Financial Education, which facilitates private sector efforts to raise the level of financial literacy of Americans. Treasury coordinates the financial education efforts of 20 Federal agencies.

## PROTECTING AMERICA

### The Power of Sanctions: The Commercial Bank of Syria



In 2004, analysts and investigators from the Financial Crimes Enforcement Network, the Office of Foreign Asset Control, and the Internal Revenue Service Criminal Investigation division identified the Commercial Bank of Syria as an acute financial threat. The Commercial Bank of Syria served as a haven for the laundering of proceeds generated from violations of United Nations (UN) sanctions against the Saddam Hussein regime in Iraq and the UN's Oil For Food program in Iraq, and retained these proceeds in contravention of international law. Moreover, terrorists and their supporters used the bank and suspicious transactions were processed without oversight. On May 11, 2004, Treasury designated the Commercial Bank of Syria a "primary money laundering concern" under the USA PATRIOT Act. This designation exposed the bank to potentially serious countermeasures, including cutting the bank off entirely from the U.S. financial system. Since May, the Government of Syria has sought to avert such countermeasures by entering into negotiations with Treasury aimed at bringing the country into compliance with international anti-money laundering standards.

The President's Budget commits over \$100 million to Treasury's efforts to protect America through detecting and stopping financial crimes, money laundering, and terrorist financing. The Office of Terrorism and Financial Intelligence (TFI) fully integrates the operations and assets of the Office of Terrorist Financing and Financial Crime (TF/FC), the Office of Foreign Assets Control (OFAC), the Financial Crimes Enforcement Network (FinCEN), the Office of Intelligence and Analysis (OIA), and the Treasury Executive Office for Asset Forfeiture (TEOAF). The aims of the consolidated TFI organization are safeguarding the financial system against illicit use and wielding Treasury's array of economic tools against rogue nations, terrorist facilitators, money launderers, drug kingpins, and other national security threats. TFI is divided into two functional areas: intelligence and enforcement. OIA provides focused and operable intelligence in support of the Department's mission and policies. TFI's enforcement responsibilities—executed by the TF/FC, OFAC, and FinCEN—include designating and freezing the accounts of terrorists, drug kingpins, and their support networks; implementing U.S. sanctions policy; administering and enforcing the Bank Secrecy Act (BSA); linking law enforcement agencies with financial institutions to uncover illegal activities and schemes; and helping strengthen U.S. and international standards to prevent money laundering and terrorist financing. Finally, TFI provides policy guidance for IRS' Criminal Investigation's expert investigators in their anti-money laundering, terrorist financing, and financial crimes cases.

## PROTECTING AMERICA—Continued

One of the most visible and effective tactics of the comprehensive strategy has been public designation of terrorists and terrorist organizations. Since September 2001, the United States and our allies have designated 397 terrorist-related entities and frozen nearly \$147 million in terrorist assets worldwide.

IRS' special agents are experts at gathering and analyzing complex financial information from numerous sources and applying the evidence to tax, money laundering, and BSA violations. These agents apply their training, skills, and expertise to support the national effort to combat terrorism and participate in the Joint Terrorism Task Forces and similar interagency efforts focused on disrupting and dismantling terrorist financing.



Internal Revenue Service Criminal Investigation (IRS-CI) division special agents display possible hawala symbols found stamped on U.S. currency seized from Saddam Hussein upon his capture. Hawala is an informal funds-transfer system sometimes used by money launderers and terrorist financiers.

## AGENCY-SPECIFIC GOALS



In 2005, there will be a new face on the Nation's nickel. It will still be President Thomas Jefferson, but unlike we have ever seen him before.

The planned redesign of the \$100 note follows successful redesigns of the \$20 and \$50 notes with subtle background colors and other counterfeit deterrence features. A redesigned \$10 note will be in production and introduced into circulation in 2005.

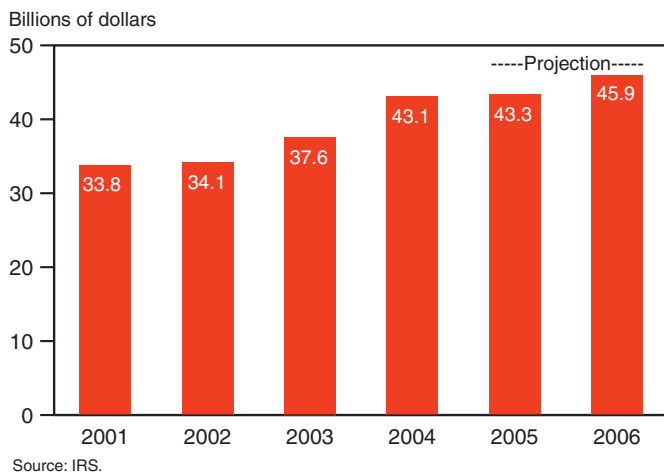
The U.S. Mint (Mint) and the Bureau of Engraving and Printing (BEP) are responsible for ensuring that our Nation continues to produce the world's most accepted coin and currency. At the end of 2005, the Mint will end its highly successful production of nickels in commemoration of the bicentennials of the Louisiana Purchase and the Lewis and Clark expedition. All nickels issued in 2006 will bear the likeness of Thomas Jefferson on one side, and an image of Monticello on the other side. During 2006, the Mint will also roll out the next installment of the popular 50 State quarters program, with quarters for Nevada, Nebraska, Colorado, North Dakota, and South Dakota.

During 2006, BEP will continue to focus its resources on producing the most secure currency for the Nation. BEP will pursue the redesign of the \$100 note as part of its current multi-year initiative to implement the most ambitious currency redesign in U.S. history.

## MAKING GOVERNMENT MORE EFFECTIVE

Treasury is working to reduce duplicative programs and maximize the efficiency of all its bureaus. For example, IRS officials are working to increase the effectiveness of their programs by helping to bring about fairer and more efficient tax compliance at a lower cost. The Budget invests \$265 million in new initiatives for these programs. This investment will provide additional audits, collection efforts, and tax fraud enforcement to increase revenue and promote compliance.

### Enforcement Revenue



To attack tax evasion most effectively, IRS is targeting its enforcement resources on high-risk taxpayers such as those potentially involved in abusive trusts or offshore tax evasion schemes. This focus on higher risk taxpayers has resulted in increased audits on higher income individuals and businesses. Audits of high-income taxpayers—those earning \$100,000 or more—topped 195,000 in 2004, a 40-percent increase from 2003 and a 74-percent increase from 2002. Audits of the largest businesses—those corporations with assets of \$10 million and over—climbed to 9,560, up 34 percent from 2003. One in six of these large corporations were audited in 2004. One sign of the success of this crackdown on

tax evasion is the increase in revenue resulting from enforcement actions, which reached a record \$43 billion in 2004 (see accompanying chart).

The American Jobs Creation Act of 2004 included an important new tax enforcement tool. Like many States and other Federal agencies, IRS will now be able to hire private collection contractors to supplement its own collection staff's efforts to ensure that all taxpayers pay what they owe. The legislation ensures contractors respect taxpayer rights. Treasury estimates these contractors will increase delinquent tax collections by at least \$1.4 billion over the next 10 years.

IRS has already achieved impressive successes in productivity improvements. Since 2002, IRS has improved its productivity in tax collection (by telephone and mail) and correspondence audits by more than 15 percent. The Budget proposes to streamline IRS' taxpayer service programs by reducing dependence on walk-in service centers and increasing reliance on more efficient telephone and Internet service. This proposal was developed, in part, as a result of a 2004 Program Assessment Rating Tool analysis of taxpayer service.

The Federal Government is working with the States to make filing taxes easier by providing more forms that can be filed electronically. The Budget funds the Modernized E-File Project at an estimated \$56 million, which has demonstrated success over the past several years.

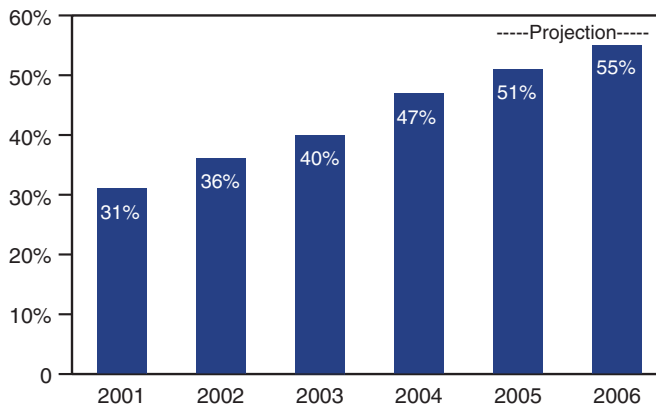
Electronic filing also benefits the Government through reduced processing costs. The Budget includes a legislative proposal to increase the Secretary of the Treasury's authority to mandate electronic filing from businesses and tax exempt organizations. This measure will assist the IRS in



moving to its goal of receiving 80 percent of all tax returns electronically. A corresponding decrease in the cost of paper processing is reflected in the Budget. In addition to improving efficiency, access to electronic tax data will improve IRS's ability to track organizations that finance terrorism.

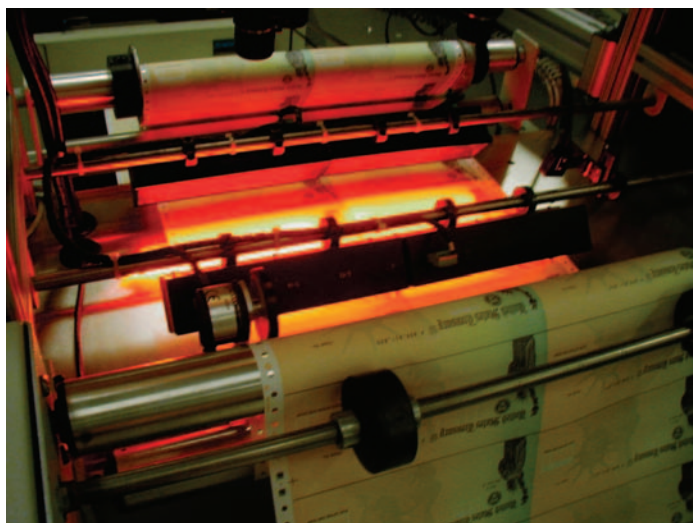
The IRS is also continuing its efforts to improve operations and lower costs by adapting best practices from the private sector. By successfully competing against contractor offers, teams of IRS employees found better and cheaper ways to do their jobs, which will save the Government and taxpayers \$185 million over five years.

The Number of Individuals Filing Electronically Has Steadily Increased

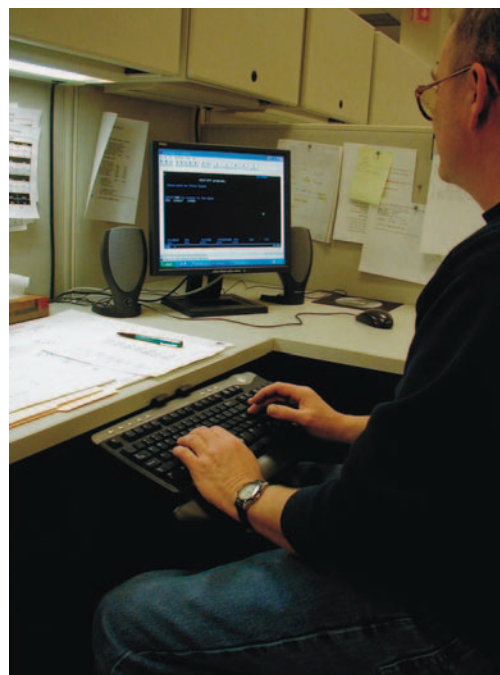


Source: IRS.

In addition to easing the filing burden on taxpayers, the Department of the Treasury is improving its payments and collections processes and moving toward an “all-electronic Treasury.” Treasury administers the Government’s payments and collections systems through the Financial Management Service (FMS). In 2004, FMS issued over 705 million electronic payments and 235 million paper checks. FMS annually issues over 940 million non-Defense payments, valued at \$1.5 trillion, including Social Security benefits, tax refunds, and veterans’ benefits. Streamlining the payments and collections processes and continually investing in state-of-the-art technology is integral in processing these payments and collections accurately, timely, and more safely and securely for the taxpayer.



The high-tech laser printers (shown above) FMS uses at its Regional Financial Centers to print benefit and tax refund checks are capable of producing more than 60,000 checks per hour. Still, there's no comparison to the efficient, safe, and secure transfer of funds capable with the push of a button, as shown in the photo on the right. The Federal Government saves 62 cents for every check converted from paper to electronic format.



## **MAKING GOVERNMENT MORE EFFECTIVE—Continued**

The Budget provides funding for FMS' electronic initiatives, such as: Pay.gov, which is a Government-wide web portal to collect non-tax revenue electronically; Paper Check Conversion, which converts checks into electronic debits thereby moving funds more quickly; and Stored Value Cards, which directly support military operations overseas. FMS also collects the Government's non-tax delinquent debt such as: loans owed to the Government, fines or penalties assessed by an agency, and overpayments made by Federal agencies. FMS collected \$3 billion in non-tax delinquent debt in 2004.











In 2006, The Bureau of Public Debt (BPD) will continue its efforts to improve the efficiency of the securities services it offers to retail investors. The cornerstone of this effort is BPD's new Treasury-Direct system, which, when fully implemented, will enable investors to purchase and manage all of their Treasury securities holdings online through a single portfolio account. The system currently offers both Series I and EE savings bonds in electronic form and holds more than \$1.3 billion in more than 250,000 accounts.

The Alcohol and Tobacco Tax and Trade Bureau (TTB) is responsible for the regulation of the alcohol and tobacco industries, and the collection of approximately \$15 billion annually in alcohol, tobacco, firearms, and ammunition excise taxes. TTB protects the consumer by ensuring that alcohol beverages are labeled, advertised, and marketed in accordance with the law, facilitates the import and export trade in beverage and industrial alcohols, promotes voluntary tax compliance, and enforces the provisions of the Federal Alcohol Administration Act. In 2006, TTB anticipates receiving and screening more than 100,000 label applications, more than 400,000 tax returns and operational reports, and more than 4,000 applications for permits to enter the alcohol and tobacco industries. In 2006, TTB will process an estimated 16 percent of its label applications electronically, up from just three percent in 2003. The Budget proposes to establish user fees to cover the costs of TTB's regulatory functions under its Protect the Public line-of-business. The new user fees include filing fees for Certificate of Label Approvals, proposed formulas, and permit applications. The industry should pay for the benefits it receives from TTB's regulatory efforts.

The 2006 Budget proposes to consolidate the Community Development Financial Institutions Fund into a new economic and community development program to be administered by the Department of Commerce. The new program would be designed to achieve greater results and focus on communities most in need of assistance. Treasury will continue to oversee the New Markets Tax Credit program.



**Update on the President’s Management Agenda**

The table below provides an update on the Department of the Treasury’s implementation of the President’s Management Agenda as of December 31, 2004.

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
<b>Status</b>					
<b>Progress</b>					

*Arrow indicates change in status since evaluation on September 30, 2004.*

Treasury has strengthened its management and is working to achieve results at all its bureaus. Treasury implemented a new Department-wide comprehensive human capital strategic plan and accountability system, setting the stage for continued progress in narrowing skills gaps, establishing leadership succession strategies, and ensuring that employees are held accountable for results. As a result of competitive sourcing studies, the Treasury Department anticipates savings of \$185 million over the next five years. IRS employees developed an efficient organization plan. The Department has a strong competitive sourcing plan to generate more savings over the next year. In financial performance, Treasury received a clean audit opinion on its financial statements for the fifth year in a row, performed monthly three-day closes, and for the past three years, completed its accountability report in just 45 days after the end of the fiscal year. In addition, the Department has improved the security of its information technology systems and is improving its capital planning process. This year the Department will focus its efforts on developing an Enterprise Architecture and ensuring that its information technology projects are within 10 percent of cost, schedule, and performance goals. Finally, the Department improved its budgeting by reporting the full cost of program performance.

Initiative	Status	Progress
Eliminating Improper Payments		

In 2005, an estimated 22 million families will receive \$39 billion in Earned Income Tax Credit (EITC) payments to reward work and lift them out of poverty. Unfortunately, due to mistakes and fraud, more than one EITC dollar in four is paid in error. The IRS is piloting new strategies, such as qualifying child certification, to target the most significant causes of error. (Because this is the first quarter that agency efforts in the Eliminating Improper Payments Initiative were rated, progress scores were not given.)

**Department of the Treasury**  
(In millions of dollars)

	2004 Actual	Estimate	
		2005	2006
<b>Spending</b>			
Discretionary Budget Authority:			
Internal Revenue Service .....	10,185	10,236	10,679
Financial Management Service.....	228	229	236
Departmental Offices .....	240	220	232
Bureau of Public Debt.....	174	174	177
Inspectors General.....	140	144	150
Tax and Trade Bureau:			
Existing law .....	80	82	62
Legislative proposal .....	—	—	29
Financial Crimes Enforcement Network.....	58	72	74
Community Development Financial Institutions Fund.....	63	56	8
All other .....	-497	-6	-5
Total, Discretionary budget authority .....	10,671	11,207	11,642
Total, Discretionary outlays .....	10,591	11,412	11,755
Mandatory Outlays:			
Payment where earned income exceeds liability for tax:			
Existing law .....	33,134	33,790	34,132
Legislative proposal .....	—	—	-81
Payment where child credit exceeds liability for tax:			
Existing law .....	8,857	13,516	13,180
Legislative proposal .....	—	—	-34
Payment where health care credit exceeds liability for tax:			
Existing law .....	82	91	103
Legislative proposal .....	—	—	99
Interest payments on advances to the black lung disability fund trust fund:			
Existing law .....	-651	-675	-696
Legislative proposal .....	—	—	-3,343
User fees Tax and Trade Bureau:			
Legislative proposal .....	—	—	-29
Continued Dumping and Subsidy Offset Act:			
Existing law .....	214	293	1,608
Legislative proposal .....	—	—	-1,608
Internal revenue collections for Puerto Rico:			
Existing law .....	336	404	303
Legislative proposal .....	—	—	56
All other .....	2,672	-2,160	-2,354
Total, Mandatory outlays .....	44,644	45,259	41,336
Total, Outlays .....	55,235	56,671	53,091

**Credit activity**

**Department of the Treasury—Continued**  
(In millions of dollars)

	2004 Actual	Estimate	
		2005	2006
Direct Loan Disbursements:			
Community Development Revolving Loan Fund.....	7	7	—
Total, Direct loan disbursements .....	7	7	—
Guaranteed Loan Commitments:			
Air transportation stabilization fund .....	30	—	—
Total, Guaranteed loan commitments.....	30	—	—