DEPARTMENT OF THE TREASURY

Since 2001, the Administration:

- Blocked the assets of 428 terrorist-related individuals and entities and 18 weapons of mass destruction proliferators worldwide;
- Increased collections of delinquent tax debt from $34 billion in 2001 to $47 billion in 2005, an increase of 38 percent;
- Safeguarded our Nation's currency through improved measures against counterfeiting;
- Increased the percentage of Treasury payments to individuals and businesses made electronically from 72 percent to 76 percent in 2005; and
- Facilitated increased electronic filing of tax returns from 31 percent in 2001 to 51 percent in 2005.

The President's Budget:

- Provides the resources necessary for the Department of the Treasury to fight the War on Terror by disrupting the support structures of terrorists and proliferators of weapons of mass destruction;
- Promotes economic opportunity and job creation by ensuring the ability of the Treasury to develop economic and tax policies that encourage savings, investment, and ownership;
- Maintains the tax enforcement funding increase provided in 2006 to improve tax compliance;
- Makes targeted changes in the tax code to improve tax enforcement; and
- Creates a new office to assess the dynamic economic effects of major tax policy proposals.

FOCUSING ON THE NATION'S PRIORITIES

Fighting the War on Terror

Overall, the budget priorities for the Treasury reflect the Department's dedication to promoting economic opportunity and job creation through lower, fairer taxes, strengthening natural security, and exercising fiscal discipline, and steadily improving the Department's operations to ensure it remains a world-class organization. In recent years, this Nation has become sharply cognizant of the fact that a country must be secure in order to be prosperous—the constant goal of the Treasury. Fighting the financial war on terror is therefore a top priority of the President's Budget.

The President's Budget places a priority on funding Treasury's efforts to detect and disrupt terrorist financing, the proliferation of weapons of mass destruction (WMD), narco-trafficking, money laundering, and other financial crimes. Through the Office of Terrorism and Financial Intelligence (TFI), Treasury gathers, analyzes, and produces financial intelligence about these threats and wields its economic authorities and influence to undermine these threats at home and abroad. TFI has achieved many successes in the past year, including:

- designating and financially isolating front companies, non-governmental organizations, and facilitators supporting terrorist organizations, such as al Qaeda, Jemaah Islamiyah, and Egyptian Islamic Jihad;
- striking a deep blow against the illicit financial networks of North Korea;
- implementing financial sanctions against Iranian, North Korean, and Syrian facilitators of WMD proliferation; and
- destabilizing the financial empire of the Rodriguez Orejuela drug lords in Colombia.

The 2007 Budget provides critical funding to expand the Department's tools and efforts in the War on Terror.

TFI's Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and proliferators of WMD. Since 2001, the United States has designated 428 terrorist-related individuals and entities; 320 of these designations have been carried out in coordination with our allies and designated at the United Nations as well. In addition, since June 2005, OFAC has prepared evidentiary packages related to the designations of 18 WMD-related entities worldwide. The Budget provides additional resources for OFAC to monitor and update existing designations and track the development of new support structures and funding sources.

TFI's Financial Crimes Enforcement Network (FinCEN) helps to safeguard the United States' financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity. This is accomplished primarily through the Bank Secrecy Act that requires financial institutions to report on financial transactions such as suspicious activities that may be indicative of financial crimes. FinCEN also supports law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence, and building global cooperation with financial intelligence units (FIUs) in other countries. FIUs collect information on suspicious financial activity from the financial industry in their countries and make it available to appropriate national authorities and other FIUs for use in combating terrorist funding and other financial crime. As part of such efforts, and as the United States' FIU, FinCEN hosted the 10th Anniversary Plenary meeting of the Egmont Group of FIUs, which now has 101 nations participating as members. In addition,

Attacking Proliferators of WMD

On June 28, 2005, the President signed Executive Order 13382, authorizing Treasury to target key nodes of WMD proliferation networks, including their suppliers and financiers. A Treasury designation cuts the target off from access to the United States' financial and commercial systems and puts the international community on notice about these dangerous entities. Based on evidentiary packages prepared by OFAC, the President designated eight entities in North Korea, Iran, and Syria for sanctions. Continuing investigations by OFAC then resulted in the designation of eight additional North Korean entities and two additional Iranian entities. These actions have exposed key players in the support structures of proliferation networks and impeded their access to the world's financial and business sectors. OFAC continues to investigate potential WMD targets worldwide.

over the last year, FinCEN strengthened oversight of Bank Secrecy Act compliance by establishing 41 information sharing agreements, to include agreements with 35 States.

Based on findings in a Program Assessment Rating Tool (PART) analysis, FinCEN is making efforts to improve the efficiency of its collection, retrieval, and sharing of information collected under the Bank Secrecy Act by tracking the number of major filers of information (e.g., large banks) that submit information electronically against ambitious targets. And in the future, FinCEN is going to begin measuring the quality of information provided through new analysis of information filed and by surveying users of its new online information sharing environment—BSA Direct—to ensure users are receiving needed information in a timely manner and that the information is helpful, and determine if there are any problems with the information and format. The 2007 Budget provides additional resources to FinCEN to streamline data processing and enhance its e-filing capabilities to increase the ease of compliance with regulations and improve its abilities to track users' needs.

TFI's Office of Intelligence and Analysis (OIA) was created to focus expert analytical resources on the financial and other support networks of terrorists, WMD proliferators, and other key national security threats. Over the past year, OIA has assumed an increasingly important role in Treasury's efforts to combat national security threats in Iran, Syria, and North Korea. OIA's top strategic priority is to provide policymakers with relevant intelligence and expert analysis to support policy formulation and carry out Treasury's role in the War on Terror. Other OIA strategic priorities include providing intelligence support to senior Treasury officials on the full range of economic and political issues and communicating with other members of the Nation's Intelligence Community. The 2007 Budget provides funding to OIA to increase its analytical capacity and for critical infrastructure improvements, to ensure the Department has a reliable and secure system to receive and share intelligence information and comply with applicable information sharing directives promulgated by the Director of National Intelligence.

TFI's Office of Terrorist Financing and Financial Crime (TFFC) develops counterterrorism financing and anti-money laundering policy and initiatives at home and abroad. TFFC, along with interagency counterparts, has been a driving force behind the worldwide propagation of strong anti-money laundering standards via the Financial Action Task Force (FATF), the preeminent international body on money laundering issues. Over the past two years, critical new countries—from North Africa to the Persian Gulf region to Eurasia—have joined FATF-style regional bodies, and more than 150 nations have now committed themselves to adopting FATF's standards and to being evaluated against them. The Budget continues the Administration's support of TFFC's efforts to engage foreign countries and international organizations to identify and target entities that fund terrorist and other criminal activity.

FOCUSING ON THE NATION'S PRIORITIES—Continued

TFI also works with the Office of International Affairs to direct overseas specialists who promote sound and secure financial systems in countries such as Iraq, Afghanistan, and India. In addition, TFI provides policy guidance for the Internal Revenue Service's (IRS') Criminal Investigation staff. These IRS special agents are experts at gathering and analyzing complex financial information from numerous sources and applying the evidence to tax, money laundering, and Bank Secrecy Act violations. These agents 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. The Budget continues to support these critical efforts.

Strengthening Financial Institutions

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 charters, regulates, and examines approximately 1,930 national banks and 51 Federal branches of foreign banks in the United States, accounting for more than $5.8 trillion in assets, or 67 percent, of the Nation's commercial banking assets. Likewise, OTS charters, regulates, and examines approximately 866 thrifts with approximately $1.43 trillion in assets. OTS also provides for the registration, examination, and regulation of approximately 486 savings and loan holding company enterprises with consolidated assets of over $7 trillion. The mission of both agencies is to ensure a safe, sound, and competitive national banking and thrift system that supports the citizens, communities, and economy of the United States. On-site examinations ensure that institutions are properly capitalized and soundly managed; customers have fair access to financial services through institutional compliance with consumer banking laws; and institutions are complying with the Bank Secrecy Act and other laws that prevent banks and thrifts from allowing criminals to launder money or provide terrorists with financing through financial institutions. PART analyses of OCC's and OTS' oversight of banks and thrifts have shown that they contribute to the safety and soundness of the banking and thrift industry. In response to the PART, they are working with other Federal financial regulators to better align outcome goals to allow for greater comparison of program performance in the industry.

In coordination with other regulatory agencies, OCC and OTS issued interagency guidance in 2005 on a wide variety of specific topics, such as customer identification program requirements; the provision of services to foreign embassies and foreign political figures; and information sharing requirements under the USA PATRIOT Act. To address the specific issue of examination consistency, the agencies issued examination procedures that provide valuable guidance to both examiners and the banking industry. Additionally, in furtherance of their commitment to the efficient and effective management of their agencies and the tenets of the President's Management Agenda, in 2006, OCC and OTS will implement a performance measure to gauge the total cost of supervision relative to each $100,000 in assets regulated.

During 2007, OCC and OTS will continue to monitor the health of the banking industry and ensure it is sufficiently capitalized through risk-based examinations of institutions, and will also strive to reduce regulatory burden on institutions. OCC and OTS will continue to combat fraud and money laundering and protect the integrity of the financial system by building upon the success of the common examination procedures, guidance, and outreach programs. In addition, they will help address the banking industry's needs and issues brought about by Hurricanes Katrina and Rita and will work with other Federal agencies to monitor the long-term economic impact of the hurricanes and take appropriate bank supervisory actions. The work of OCC and OTS will continue to be funded by the entities they regulate, without appropriations from the Congress. In 2007, OCC will spend an estimated $605 million and OTS will spend an estimated $221 million on the supervision, regulation, and chartering of banks and thrifts.

Response to Hurricane Katrina

The Treasury Department assisted victims of Hurricane Katrina in a number of ways. The IRS granted tax filing and payment relief to all affected taxpayers, provided nearly 5,000 IRS employees to help the Federal Emergency Management Agency (FEMA) register hurricane victims on a dedicated toll-free disaster phone line, and provided a special information section on the IRS website. The Financial Management Service also responded by issuing 1.3 million FEMA disaster assistance payments valued at $2.6 billion, establishing a debit card program that issued 11,374 FEMA Assistance Cards valued at $22.7 million to evacuees in three Texas cities, and by providing guidance and relief to financial institutions in cashing Treasury checks for hurricane victims.

The Budget supports the Administration's continuing efforts to make multilateral development banks more efficient and effective and to improve the ability of debt-vulnerable poor countries to manage their debt. For more information, see the Department of State and Other International Programs Chapter.

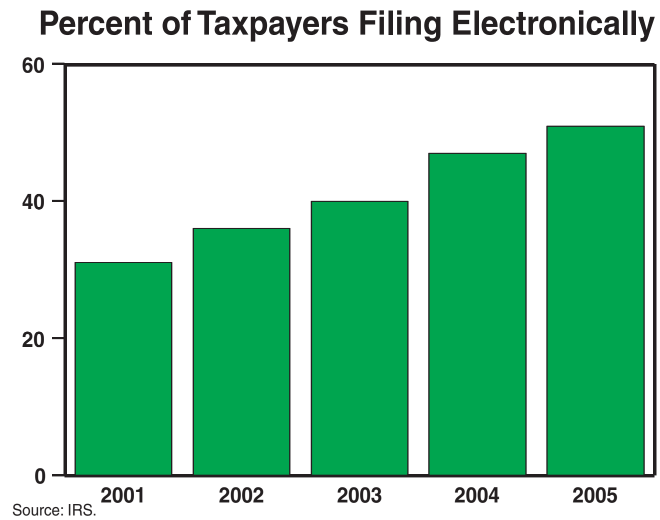
Securing the Nation's Currency

The United States 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. In 2006, the United States Mint will introduce new 24-karat gold bullion coins. These gold bullion coins will complement the popular 22-karat American Eagle gold bullion coins, and will give investors a second U.S.-produced option in the global precious metal market. In 2007, the popular 50 State Quarters® Program will introduce quarters representing Montana, Washington, Idaho, Wyoming, and Utah.

The 2006 Return to Monticello nickel bears a forward-facing President Thomas Jefferson.

During 2007, BEP will continue its efforts to design and manufacture the most secure currency for the Nation. The current plan includes introducing the new design of the $100 note in 2007, as part of its ambitious multi-year initiative to redesign and enhance the security of U.S. currency. The redesign of the $100 note follows the introduction of the redesigned $10 note in 2006. A PART review of the New Currency program found that the BEP was successful in meeting its production and timeline goals for the rollout of the new $20 note. BEP also will continue to work with the Advanced Counterfeit Deterrent Steering Committee to assess the impact of new currency on counterfeiting performance measures across Government.

RESTRAINING SPENDING AND MANAGING FOR RESULTS



Source: IRS.

In recent years, IRS has seen a significant shift in the ways Americans seek service. Fewer taxpayers are choosing to write or call, and even fewer taxpayers are using the walk-in taxpayer service centers, down 28 percent since 2003. Instead, more and more Americans are using electronic services, especially the IRS internet site. In 2007, IRS will continue focusing efforts on providing taxpayer service through these more efficient automated methods. This approach is consistent with the follow-up actions of the 2004 PART analysis of this program. Thanks to investments in technology, taxpayers can now access a vast amount of information on the IRS website (*www.irs.gov*), including frequently asked tax law questions and tax publications. For example, in 2005, 22 million taxpayers checked on their refund status using the IRS' internet based Where's My Refund? tool. They also can use automated features found at 1–800–829–1040 to answer tax questions. In addition, IRS has deployed a nationwide Internet Employer Identification Number to reduce the burden for businesses that file electronically and reduce total processing time required for processing accurate tax information.

The 2007 Budget funds continued investments in IRS technology modernization that support improvements in electronic filing options for taxpayers, tools to help IRS manage private debt collectors, and continued work to replace IRS' antiquated core taxpayer databases. IRS is revising its modernization strategy to emphasize incremental release of projects to deliver business value sooner and at lower risk.

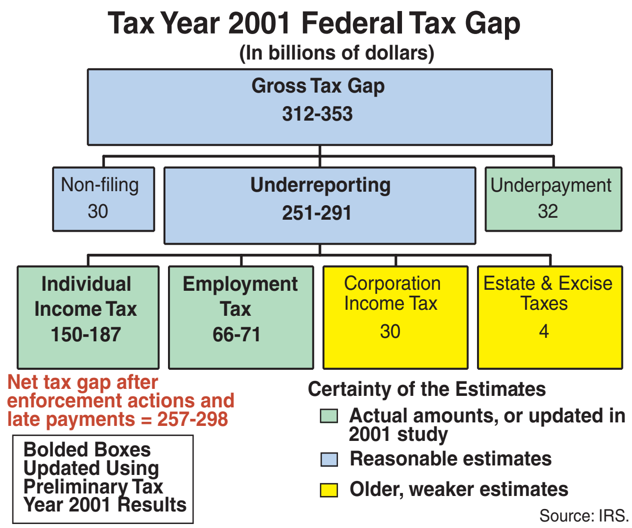
IRS continues to achieve savings and improve service through increased electronic filing (see accompanying chart). The free e-filing website, *www.irs.gov/app/freefile/welcome.jsp*, reduces burden and costs to taxpayers. Electronic filing is fast, easy, and far less prone to error than paper-filed returns. In addition, electronic filing saves the Government on average more than $2 per return.

In response to PART assessments on several tax enforcement programs, IRS is setting a long-term goal for improving tax compliance. IRS will improve voluntary compliance from the 83.5-percent level found in its 2001 study to 85 percent by 2009. IRS will achieve this improvement through

IRS Partners with Volunteer Organizations to Produce Better Service for the American Taxpayer

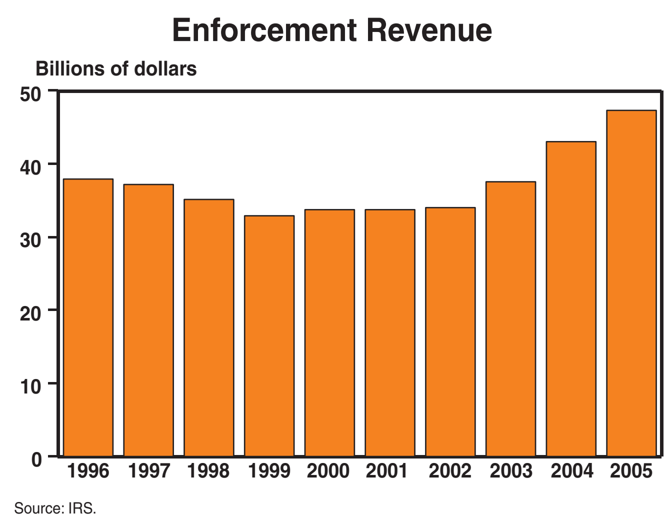
IRS outreach programs, conducted under the Volunteer Income Tax Assistance and Tax Counseling for the Elderly grant programs, offer free tax preparation services for low-income, elderly, and limited English proficient individuals and families, and persons with disabilities. There are currently 14,000 volunteer tax preparation sites nationwide. In the past five years, IRS has doubled the number of volunteer-prepared tax returns to more than two million. In 2005, IRS received the Connect America Partner of the Year Award, presented each year at the National Conference on Community Volunteering and National Service. IRS is the first Federal agency to receive the award.

targeted changes in the tax code, emphasizing tax enforcement and, as described earlier, focusing on automated taxpayer service tools and technology investments to increase productivity.



The Budget proposes improvements in the tax law to help address the tax gap, which is the gap between taxes voluntarily paid on time and total taxes owed. These improvements include expanding third-party information reporting to include Government payments for goods and services, as well as debit and credit card reimbursements paid to merchants; clarifying joint liability for employee leasing companies and their clients; expanding IRS' authority to impose penalties on paid tax return preparers who help facilitate the filing of improper returns; and expanding IRS' authority to issue levies to collect employment tax debts prior to completing all administrative hearings. These changes are carefully targeted to areas where research shows significant compliance problems and where improvements can be made with as little burden on taxpayers as possible. The changes are part of the Administration's broader focus on finding appropriate ways to address the tax gap.

IRS continues its emphasis on increasing tax enforcement revenues, and has increased the collections of delinquent tax debt by 38 percent, from \$34 billion in 2001 to \$47 billion in 2005 (see accompanying chart). The Budget maintains the enforcement funding increase provided in 2006 to continue this success. The effort includes an aggressive campaign to stop promoters and taxpayers from marketing and buying abusive tax shelters, transactions that serve no purpose other than to reduce taxes. This has included a tough but balanced series of settlement initiatives to close illegal tax shelters, which, in the case of one type of tax shelter, brought in close to \$4 billion in taxes, interest, and penalties.



IRS had also targeted unprofessional and unethical behavior by tax practitioners with a revitalized oversight program by its Office of Professional Responsibility. Partnering with the Department of Justice, the IRS' aggressive promoter examination program has produced a goldmine of information on abusive tax shelters, particularly lists of investor/taxpayers that have engaged in abusive deals.

The Department of the Treasury is also 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). FMS issues 85 percent of the Government's payments, valued at \$1.5 trillion annually, including Social Security benefits, tax refunds, and veterans' benefits. In 2005, FMS issued 725 million electronic payments (20 million more than in 2004) and 227 million paper checks.

RESTRAINING SPENDING AND MANAGING FOR RESULTS—Continued

To increase the use of direct deposit, FMS began a nationwide campaign called Go Direct to encourage current Federal check recipients to switch to direct deposit. Direct deposit represents a significant savings over paper checks; each check converted from paper to electronic format saves the taxpayer about 75 cents and is more secure for recipients. A six-month Go Direct pilot campaign was extremely successful in convincing tens of thousands of Social Security and Supplemental Security Income recipients to switch to direct deposit. Go Direct was launched nationwide in the summer of 2005 and will continue through mid-2006, at which point it will be evaluated for future continuation and expansion.

Electronic collections increased 10 percent over last year, including over 76 million tax payments valued at $1.7 trillion collected through the Electronic Federal Tax Payment System. Streamlining the payments and collections processes and continually investing in state of the art technology is integral to processing these payments and collections accurately, timely, and more safely and securely for the taxpayer. The Budget provides funding for FMS electronic initiatives including: Pay.gov, a Government-wide web portal to collect non-tax revenue electronically; Paper Check Conversion, a system that converts checks into electronic debits, thereby moving funds more quickly; and Stored Value Cards, smart cards with electronic money that directly support military operations overseas.

FMS also serves as the Government's central debt collection agency, managing a portfolio of non-tax delinquent debt such as overdue or defaulted loans owed to the Government, penalties or fines assessed by Federal agencies, and overpayments made by Federal agencies. FMS collected a record $3.25 billion in delinquent debts in 2005. A PART analysis on this program found that it was effective at collecting delinquent debts and that it is capable of taking on additional debt collection responsibilities. As a result, the Budget proposes legislation to increase and enhance debt collection opportunities.

In 2007, the Bureau of the Public Debt (BPD) will continue its efforts to improve the efficiency of the securities services it offers to retail investors. BPD developed TreasuryDirect as the centerpiece of Treasury's effort to achieve all-electronic issuance of retail securities, allowing investors to conduct their investment and account management activities online through a single portfolio account. The system currently offers both Series I and EE savings bonds and marketable Treasury securities for purchase. TreasuryDirect holds more than $3.1 billion in 464,000 accounts. A PART review of BPD found that the program meets its annual performance goals, such as reducing the time it takes to release auction results from one hour in 2001, to two minutes, plus or minus 30 seconds, in 2005.

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 2007, 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 2007, TTB will process an estimated 30 percent of its label applications electronically, up from just three percent in 2003.

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, 2005.

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status	↑			↑	
Progress					

Arrows indicate change in status rating since prior evaluation as of September 30, 2005.

Treasury has demonstrated that it is effectively managing its human capital programs by closing skill gaps, shortening hiring timelines, addressing and sustaining diversity, strengthening its performance management programs, and using its accountability system to drive continuous improvement. As a result of competitive sourcing studies, the Treasury Department anticipates more than $200 million in savings over the next five years, and it has studies underway to produce additional savings in the future. In financial performance, Treasury received a clean audit opinion on its financial statements for the sixth year in a row, closed its monthly accounting in just three days, and for the past three years completed its accountability report by November 15, 2005. In addition, Treasury again issued the Government-wide Consolidated Financial Report on December 15, 2005, 75 days after the close of the fiscal year. The Department is still working to correct significant material weaknesses in its financial accounting systems.

In 2005, the Department made progress in its capital planning process including developing its Enterprise Architecture and improving the security of its information technology systems. In 2006, the Department will focus on both ensuring and demonstrating that its information technology projects are within 10 percent of cost, schedule, and performance goals. Finally, the Department improved its budgeting and performance management by reporting the full cost of program performance, and by implementing a Treasury Performance Dashboard of program performance "vital signs."

Initiative	Status	Progress
Eliminating Improper Payments		

In 2006, an estimated 22 million families will receive $40 billion in Earned Income Tax Credit (EITC) payments to reward work and help lift them out of poverty. Unfortunately, due to mistakes and fraud, about one EITC dollar in four is paid in error. IRS is piloting new strategies, such as qualifying child certification, to target the most significant causes of error.

The Budget introduces a new initiative to improve the management of the Federal Government's credit portfolios. Treasury's FMS is included in this initiative as the Government's primary collector of $45 billion in delinquent debt at the end of 2005. This initiative will be included in the scorecard beginning in the second quarter of 2006.

Department of the Treasury
(In millions of dollars)

	2005 Actual	Estimate 2006	Estimate 2007
Spending			
Discretionary Budget Authority:			
Internal Revenue Service	10,236	10,545	10,591
Financial Management Service	229	234	234
Departmental Offices	220	231	258
Bureau of Public Debt	176	175	178
Inspectors General	144	149	153
Alcohol and Tobacco Tax and Trade Bureau	82	90	64
Legislative proposal	—	—	29
Financial Crimes Enforcement Network	72	73	90
Community Development Financial Institutions Fund	55	54	8
All other	−225	−7	−5
Total, Discretionary budget authority	10,989	11,544	11,600
Total, Discretionary outlays	10,662	11,529	11,617
Mandatory Outlays:			
Payment where earned income exceeds liability for tax	34,559	35,098	35,645
Legislative proposal	—	—	−188
Payment where child credit exceeds liability for tax	14,624	14,113	13,538
Payment where health care credit exceeds liability for tax	90	94	109
Legislative proposal	—	—	720
Interest payments on advances to the black lung disability fund trust fund	−675	−695	−717
Legislative proposal	—	—	−2,282
Alcohol and Tobacco Tax and Trade Bureau User Fees Legislative proposal	—	—	−29
Continued dumping subsidy offset act	296	249	1,928
Internal revenue collections for Puerto Rico	421	372	362
Legislative proposal	—	69	95
All other	−3,373	−3,261	−2,215
Total, Mandatory outlays	45,942	46,039	46,966
Total, Outlays	56,604	57,568	58,583
Credit activity			
Direct Loan Disbursements:			
Community Development Revolving Loan Fund	8	7	—
Total, Direct loan disbursements	8	7	—