



DEPARTMENT OF THE TREASURY

Since 2001, the Administration:

- Implemented a series of major economic policy changes—including the Economic Growth and Tax Relief Reconciliation Act in 2001 and the Jobs and Growth Tax Relief Reconciliation Act in 2003—which have helped the economy generate more than seven million new jobs. Since early 2003, real GDP has grown at an average annual rate of 3.6 percent;
- Improved taxpayer service by increasing the percentage of calls answered by the Internal Revenue Service from just 56 percent in 2001 to 82 percent in 2006, and by providing a new web-based service, which 25 million people use to easily check the status of their refunds;
- Helped protect the financial markets and their critical infrastructure following the attacks on September 11th;
- Led the international community in fighting the financial War on Terror, including efforts to safeguard the financial system from illicit abuse by North Korea and Iran; and
- Promoted knowledge about each of the 50 States, their history and geography, and the rich diversity of the national heritage through the 50 State Quarters® Program and the newly launched Presidential \$1 Coins Program.

The President's 2008 Budget:

- Supports Treasury's efforts to maintain the strength and competitiveness of the U.S. economy, including U.S. financial markets and institutions;
- Invests in increased tax enforcement and makes targeted changes in the tax code to improve tax compliance—reducing the “tax gap”;
- Continues to improve taxpayer service by expanding volunteer tax assistance and increasing funds for research to determine the most effective means to help taxpayers;
- Provides additional funding to support Treasury's efforts to address critical economic challenges and opportunities with foreign countries, including China; and
- Provides the resources necessary to continue fighting the financial War on Terror by disrupting the support structures of terrorists, narcotics smugglers, and proliferators of weapons of mass destruction.

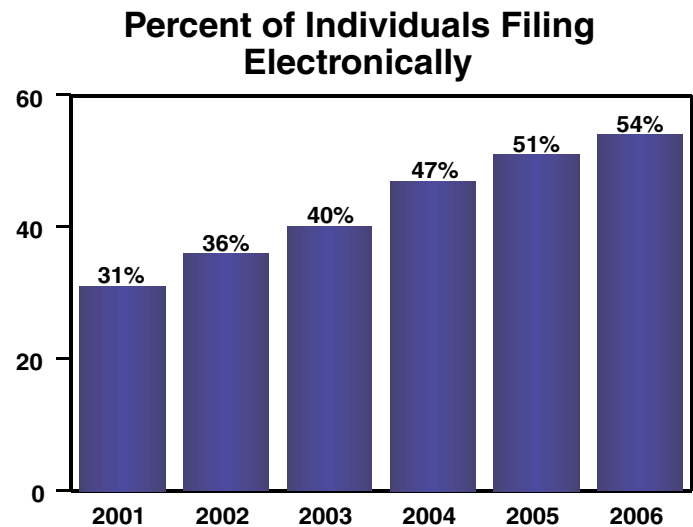
FOCUSING ON THE NATION'S PRIORITIES

Leading the Charge for a Strong Economy

The Department of the Treasury promotes global economic growth and stability and advocates for greater economic opportunity and prosperity for U.S. citizens and people around the world. Treasury has taken the lead in reducing the tax burden on working Americans and ensuring that financial regulatory regimes are flexible and effective. Treasury is also leading efforts to reform the major entitlement programs, Medicare and Social Security, to ensure they continue to meet their missions without placing undue burden on future generations of Americans. Treasury supports trade liberalization and fiscal discipline by negotiating and implementing international agreements that open markets and create new opportunities for U.S. exporters.

Improving Tax Fairness through Better Compliance

Most taxpayers comply with the law by filing and paying their taxes on time, resulting in a compliance rate of approximately 86 percent. In total, those who do not comply with the law underpay their taxes by \$290 billion per year (based on 2001 data). While this tax gap can never be entirely eliminated, the current compliance level is too low and non-compliant taxpayers impose an unacceptable burden on the rest of the taxpayers and on the economy. Treasury published an ambitious strategy in 2006 to reduce the tax gap while recognizing that this should not impose unacceptable burdens on taxpayers or hurt our economic competitiveness (www.ustreas.gov/press/releases/hp111.htm).



Source: Internal Revenue Service.

The President's 2008 Budget:

- Proposes 16 legislative changes to implement this plan, such as expanding third party information reporting and requiring brokers to report the cost basis for stock sales, which will raise an estimated \$29 billion over the next 10 years through improved compliance with existing tax laws (see the Stewardship chapter of the *Analytical Perspectives* volume of the Budget for more information); and
- Invests an additional \$410 million in programs at the Internal Revenue Service to reduce the tax gap including research, technology, enforcement, and taxpayer service. These investments will help the bureau increase revenue, determine and implement new ways to help taxpayers, and improve compliance among the minority of taxpayers who do not willingly pay their fair share.

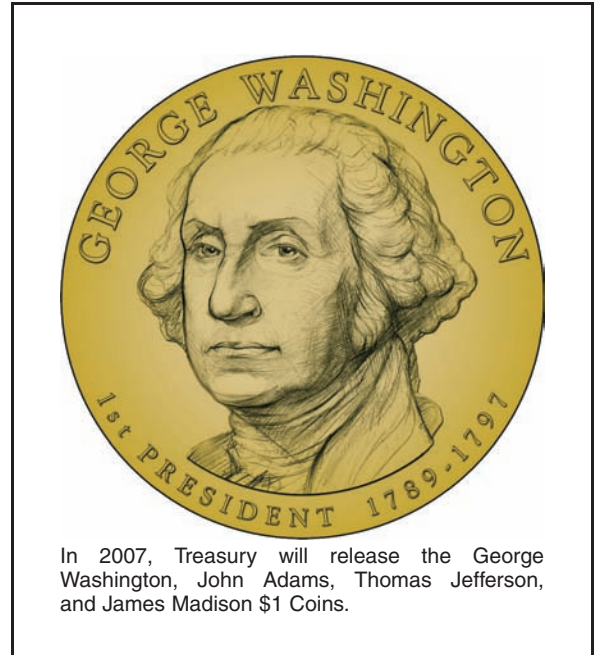
Maintaining the Competitiveness of U.S. Capital Markets

The challenge facing U.S. regulators today is preserving the public interest while preventing excessive regulatory burden on financial markets and institutions. In an effort to encourage a responsible and measured approach, Treasury initiated a review of the issues affecting the

competitiveness of the U.S. capital markets. Treasury advocated for the Financial Services Regulatory Relief Act of 2006, which reduced regulatory burdens for a number of financial institutions, and has begun implementing the Basel II capital accords, which will allow U.S. banks to continue to compete effectively in the global marketplace. Treasury has also worked to implement the Bank Secrecy Act in ways that reduce the burden of compliance for financial institutions while maintaining robust controls to prevent money laundering. Treasury will host a conference on capital markets and economic competitiveness in early 2007.

Furthering International Economic Dialogue

The United States encourages other countries to build consumer-driven economies rooted in open markets, to foster freedom, democracy and free enterprise, and to promote free trade. For example, in September 2006, President Bush and the President of China agreed to create a bilateral Strategic Economic Dialogue. The Dialogue is a forum for addressing issues such as maintaining sustainable growth without large trade surpluses, continued opening of China's markets, and environmental policy. President Bush has designated the Secretary of the Treasury to lead the Dialogue for the United States. The 2008 Budget provides resources to support Treasury's role in furthering U.S. discussions with foreign countries, including China. Treasury also provides resources for other international programs, including the U.S. contribution to international financial institutions and multilateral development banks.



Combating Terrorist Financing

The President's Budget places a priority on detecting and disrupting terrorist financing, the proliferation of weapons of mass destruction, drug-trafficking, money laundering, and other financial crimes. In 2006, the Treasury Department worked closely with the Departments of State and Justice and the intelligence community to disrupt targets related to al Qaeda, Hizballah, Jemaah Islamiyah, as well as to disrupt state sponsorship of terror. Treasury has also been a driving force in influencing more than 170 nations to commit themselves to adopt and implement strict anti-money laundering standards and to be evaluated against them.

Creating an All-Electronic Treasury for the 21st Century

Treasury issues 85 percent of the Government's payments, valued at nearly \$1.5 trillion annually, including Social Security benefits, tax refunds, and veterans' benefits. In 2006, the Financial Management Service at Treasury continued the transition from paper checks to electronic transactions by issuing 77 percent of its 964 million civilian payments electronically, up from 72 percent in 2001. Each check converted from paper to electronic format saves taxpayers 80 cents. The Department is also collecting more of the \$2.9 trillion in payments to the Government electronically, saving 19 cents for each \$1,000 collected. The Budget continues investments in technology at Treasury that will increase electronic payments and collections.

Department of the Treasury
(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Internal Revenue Service	10,546	10,438	11,095
Financial Management Service.....	234	233	235
Departmental Offices	228	228	269
Bureau of the Public Debt	175	176	173
Inspectors General.....	149	149	159
Alcohol and Tobacco Tax and Trade Bureau.....	90	90	94
Financial Crimes Enforcement Network.....	73	71	86
Community Development Financial Institutions Fund.....	54	41	29
All other	-133	—	-4
Total, Discretionary budget authority	11,416	11,426	12,136
<i>Memorandum:</i>			
<i>Budget authority from enacted supplementals.....</i>	<i>2</i>	<i>—</i>	<i>—</i>
<i>Additional funding requirements</i>	<i>—</i>	<i>3</i>	<i>—</i>
Total, Discretionary outlays	11,359	11,299	12,010
Mandatory Outlays:			
Payment where earned income exceeds liability for tax	36,166	36,461	37,573
Legislative proposal	—	—	-337
Payment where child credit exceeds liability for tax.....	15,473	14,931	14,367
Legislative proposal	—	—	-55
Payment where health care credit exceeds liability for tax.....	94	102	110
Legislative proposal	—	—	4
Payment where alternative minimum tax credit exceeds liability for tax	—	—	349
Interest payments on advances to the black lung disability fund trust fund	-695	-717	-739
Legislative proposal	—	—	-2,315
Continued Dumping Subsidy Offset Act.....	226	452	440
Internal revenue collections for Puerto Rico.....	360	448	408
Legislative proposal	—	—	76
All other	-2,229	-1,213	-632
Total, Mandatory outlays	49,395	50,464	49,249
Total, Outlays	60,754	61,763	61,259
Credit activity			
Direct Loan Disbursements:			
Community Development Revolving Loan Fund.....	7	5	5