

DEPARTMENT OF THE TREASURY

Since 2001, the Administration:

- Proposed and implemented three major tax relief bills to help America's families, strengthen the economy, and create jobs;
- Blocked \$136.8 million in terrorist assets;
- Improved taxpayer services by providing free online tax filing (Free File) to millions of Americans; and
- Safeguarded our Nation's currency through improved measures against counterfeiting.

The President's Budget:

- Promotes job creation and economic growth through permanent extension of the 2001 and 2003 tax cuts;
- Deters tax evasion and fraud by increasing criminal investigations and audits; and
- Continues to fight the Financial War on Terror by freezing terrorist assets.

Department of the Treasury

John W. Snow, Secretary

www.treasury.gov 202-622-2000

Number of Employees: 115,897

2005 Discretionary Budget Authority:
\$10.8 billion

Organization: Alcohol and Tobacco Tax and Trade Bureau; Bureau of Engraving and Printing; Bureau of Public Debt; Financial Crimes Enforcement Network; Financial Management Service; Internal Revenue Service; Office of the Comptroller of the Currency; Office of Thrift Supervision; and U.S. Mint.



Secretary Snow promoting President Bush's Jobs and Growth package.

OVERVIEW

Established in 1789, the Department of the Treasury oversees and administers the Nation's finances. Treasury collects taxes and enforces the tax code, oversees currency production, regulates national banks, blocks terrorist assets, and advises the President on domestic and international economic policy. Treasury is on the forefront of the Administration's efforts to strengthen the economy. The President has helped Americans keep more of the money they earn by implementing three major tax cuts since 2001. The Department will continue to implement the President's agenda to promote job growth and prosperity in the coming years.

The 2005 Budget supports Treasury's efforts to update the Internal Revenue Service's (IRS) outdated information systems. Further, the Budget supports IRS efforts at deterring tax fraud by building up its enforcement resources and ensuring that tax evaders and promoters of abusive tax shelters are properly targeted. The Budget also provides funding for improved information sharing between law enforcement and financial institutions, helping to better target and freeze terrorist assets. Finally, Treasury is continuing its effort to safeguard our Nation's currency through improved anti-counterfeiting measures.

PROMOTING AMERICA'S PROSPERITY

Since 2001, the President has signed three tax bills to boost the economy. In combination, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) provided substantial tax relief and immediate stimulus to the economy, improving the potential for economic growth in the long-run. These Acts reduced taxes by an average of \$1,544 for 109 million taxpayers in 2003. In addition, the Job Creation and Worker Assistance Act (JCWAA) of 2002 provided businesses investment incentives as well as extended unemployment insurance benefits.

Treasury acted swiftly to ensure that the tax relief presented by both EGTRRA and JGTRRA was quickly delivered to taxpayers, thus providing stimulus to the economy. The reductions in tax rates enacted under EGTRRA above the 15-percent rate were reflected in lower withholding effective in July 2001. Most workers received the full benefit of the tax rate reductions through the change in withholding during the second half of the year.

In addition, the benefit of the new 10-percent tax rate bracket was provided in 2001 through rebate checks mailed out between July and September 2001. About \$36 billion in rate reduction rebate checks were sent to 85 million taxpayers. Stimulus was also provided in 2001 through reductions in estimated tax payments.

After the enactment of JGTRRA in 2003, the Department acted again, immediately announcing reductions in wage and salary withholding. Employers were requested to implement the withholding changes no later than July 1, 2003. The withholding reductions reflected the reduction in tax rates higher than 15 percent, the widening of the 10-percent tax bracket, and the expansion of the 15-percent tax bracket and the standard deduction for married taxpayers. In addition, many families with



Surrounded by Members of Congress who supported the legislation, President Bush signs EGTRRA on June 7, 2001.

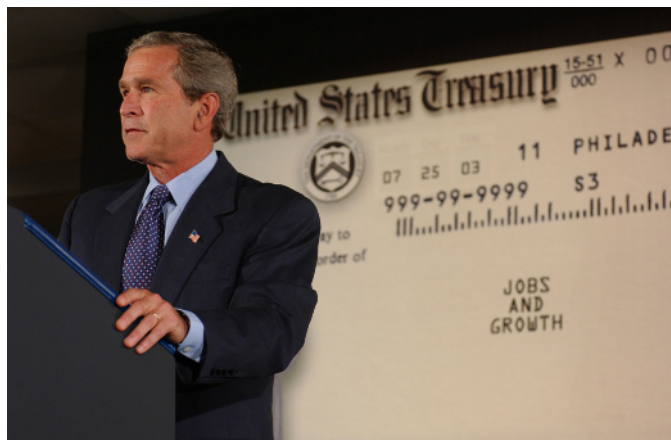
children received \$400 per child in advance child tax credit checks that were promptly sent out by Treasury in 2003.

MANAGING FEDERAL FINANCES

By collecting revenue, making payments, and administering the Government's finances, Treasury acts as the Government's financial manager. IRS is the main revenue collector for the Government, collecting \$1.7 trillion (93 percent of total collections) in 2003. IRS continues to modernize both its work processes and technology to improve customer service and make sure that all taxpayers meet their legal obligation to pay their fair share. In 2003, IRS answered 80 percent of taxpayer calls, up from only 59 percent in 2000.

The Budget also provides \$285 million in continued investments in technology modernization as IRS works to improve management and accelerate implementation of the modernization program.

Treasury administers the Government's payments through the Financial Management Service (FMS). FMS issues over 930 million non-Defense payments annually, valued at \$1.6 trillion. Social Security benefits, tax refunds, and veterans' benefits are all issued through FMS. In 2003, FMS issued over 684 million electronic payments and 244 million paper checks. FMS also manages the Government's non-tax delinquent debt portfolio by providing central debt collection operation services to Federal agencies and States. FMS collected \$3.1 billion in non-tax delinquent debt in 2003, up 9.2 percent from 2002. For 2005, the Budget proposes legislation to increase and enhance debt collection opportunities.



President Bush delivers remarks about printing and mailing tax relief checks at the Department of the Treasury's Philadelphia Financial Management Service Facility on July 24, 2003.

IRS is Using the Web to Help Taxpayers

2003 Accomplishments:

- IRS's website had 4.4 billion hits, an increase of 40 percent over 2002. Taxpayers downloaded 560 million forms, an increase of 28 percent over 2002.
- 2.8 million taxpayers prepared and electronically filed their taxes for free using the new Free File link on IRS's website. Electronic filing is quick, easy and far less prone to error than paper returns. Free File is available to 6 out of 10 taxpayers. It is provided by the Free File Alliance, a consortium of private sector services, under a public service agreement with the IRS.
- 18 million taxpayers used the "Where's my refund" link to verify that IRS had received and processed their returns and find out when their refund would be mailed or direct deposited. Further, 15 million taxpayers used this same feature to find out when they would receive their special advanced child tax credit check in the summer of 2003.

Try www.firstgov.gov or www.irs.gov to check out these services.

Directing the Earned Income Tax Credit (EITC) to Hard-working Low-income Families

IRS is simplifying EITC instructions and enhancing outreach to ensure that eligible taxpayers apply for the credit. The EITC rewards work and lifts families out of poverty. In 2003, 20 million Americans received \$36 billion in earned income credits. Unfortunately, due to mistakes and fraud, more than one EITC dollar in four is paid in error. The Budget proposes legislative changes to reduce errors by simplifying the EITC's overly complex rules. The 2004 Budget funded a new test program to fight EITC mistakes and fraud by asking high-risk claimants to certify their eligibility and by investing in new technology and work processes to more effectively target enforcement efforts. IRS's National Taxpayer Advocate, an independent internal voice for taxpayer rights, endorsed this program in her June 30, 2003 annual report to the Congress because it focuses on the twin problems of reducing erroneous payments and ensuring participation. By 2005, much of the 2004 technology and process investments will have been completed.

Treasury manages the Nation's debt through the Bureau of Public Debt (BPD). BPD manages the issuance of the Federal Government's securities portfolio. Last year, BPD issued approximately \$4.1 trillion by auctioning marketable Treasury securities and selling savings bonds. BPD continues to develop its TreasuryDirect system, which offers retail investors an online, user-friendly method to buy and redeem Treasury securities. In addition, and as a result of a 2004 Program Assessment Rating Tool (PART) evaluation, BPD has developed long-term performance measures and is setting interim targets to evaluate the success of TreasuryDirect.

The Alcohol and Tobacco Tax and Trade Bureau (TTB) is responsible for the administration of alcohol and tobacco laws and the regulation of the alcohol and tobacco industries. TTB

also collects approximately \$15 billion annually in alcohol, tobacco, firearms, and ammunition excise taxes and enforces the provisions of the Federal Alcohol Administration Act, which mandates that a Government warning label appear on all alcohol beverages for sale and distribution in the United States. In 2005, TTB anticipates that it will receive over 100,000 label applications and expects to process 70 percent of these applications within nine calendar days of receipt.

Tax Enforcement

The IRS is continuing its effort to improve enforcement of tax laws. IRS does not have current information on tax compliance to show the effectiveness of its programs. Through its National Research Program it is collecting compliance information to allow it to determine how well its programs work and to allow it to target enforcement efforts on the least compliant taxpayers. IRS is also enhancing its enforcement efforts by focusing on prosecuting promoters of abusive tax schemes and

Targeting Promoters of Abusive Tax Shelters

Billions of dollars are lost to the Government each year due to the promotion of illegal tax shelters. In 2002, IRS started a new program to fight this problem by shutting down promoters of these schemes. Most tax professionals are honest, but a few prey on both taxpayers and the Government by selling abusive shelters. For example, in 2002 alone, a promoter and 44 franchisees sold a sham Tax Toolbox to an estimated 3,500 taxpayers. This set of pamphlets, workbooks, CD-ROM and record-keeping aids falsely promises taxpayers they can legally reduce or eliminate Federal income taxes by setting up phony home-based businesses. Thanks to IRS and Department of Justice efforts, on June 10, 2003, the United States District Court, Middle District of Tennessee ordered a permanent injunction to stop this promoter from presenting himself as a tax attorney and guaranteeing refunds.

pursuing taxpayers illegally sheltering income through offshore accounts. The Budget supports fair tax enforcement by:

- Providing an increase of \$300 million for efforts to investigate and seek criminal prosecution of tax fraud and to examine more returns, particularly those involving abusive tax schemes (see accompanying vignette).
- Proposing legislation in 2004 to allow IRS to employ private collection agents (PCAs) to help collect known Federal tax debts and to pay PCAs from receipts. This legislation will help raise \$1.5 billion over the next 10 years and includes strong protections for taxpayer rights. Many States and Federal agencies already use PCAs. For example, Treasury's FMS used PCAs to collect \$73 million in non-tax debt in 2003.

REGULATING FINANCIAL INSTITUTIONS

The Office of the Comptroller of the Currency charters, regulates, and examines approximately 2,150 national banks and 53 Federal branches of foreign banks in the United States, accounting for more than 56 percent of the Nation's commercial banking assets. Likewise, the Office of Thrift Supervision charters, regulates, and examines approximately 936 thrifts with approximately \$1 trillion in assets. The mission of both agencies is to ensure a safe and sound and competitive national banking and thrift system that supports the citizens, communities, and economy of the United States.

Supervising the Market for Housing Finance

The Administration has proposed 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 in the Department of the Treasury, and providing this new regulator and the Secretary with the appropriate authority to oversee effectively these large and complex enterprises. The Administration's proposal promotes both a strong, resilient financial system and increased opportunities for affordable homeownership. (See the Credit and Insurance chapter in *Analytical Perspectives* for a background discussion.)

FIGHTING THE FINANCIAL WAR ON TERROR

We will lead by example. We will work with the world against terrorism. Money is the lifeblood of terrorist operations. Today, we're asking the world to stop payment.

President George W. Bush
September 2001

Many Treasury offices combine their forces to combat terrorist financing. The Executive Office for Terrorist Financing and Financial Crimes coordinates the U.S. process for designating and blocking the accounts of terrorists and those associated with financing terrorist activity, administers U.S. sanctions policy, and helps strengthen U.S. and international anti-money laundering and counter terrorist financing standards. The Terrorist Financing Unit of the Office of International Affairs works to maintain the international coalition against the financing of terrorism, especially by working with the Group of 7 Industrialized Nations (G-7) and International Financial Institutions (World Bank,

International Monetary Fund, etc.). The Internal Revenue Service-Criminal Investigation Division, the Financial Crimes Enforcement Network (FinCEN), and the Office of Foreign Assets Control all help detect, disrupt, dismantle, and block terrorist financing operations.

IRS's 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 (BSA) violations. They 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.

Locating and Returning Assets to the Citizens of Iraq

Since March of 2003, Treasury's Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC) has led an interagency effort to identify, freeze, and repatriate assets held by or on behalf of Saddam Hussein and his Ba'ath party supporters. To date, Treasury has frozen \$1.9 billion in funds domestically that belonged to the former Iraqi regime. Under EOTF/FC's stewardship and with authority provided by the USA PATRIOT Act, the United States was able to take title to these assets and return over \$1.7 billion directly to Iraq for reconstruction, administration, and humanitarian assistance and \$207 million to the Development Fund for Iraq (DFI). In addition, over \$3 billion has been frozen outside the United States, with Treasury's active direction and involvement, of which over \$500 million has been transferred to the DFI. All of this is part of the larger effort to ensure that such funds are returned to the Iraqi people and not otherwise used to destabilize Iraq, attack coalition forces, or support terrorists.

Perhaps the most visible and effective tactic of the comprehensive strategy has been public designation of terrorists and terrorist organizations. Since September 2001, the United States and our allies have designated 345 terrorist related entities and frozen \$139 million in terrorist assets in over 1,400 accounts worldwide. In addition, FinCEN's unique role in linking the law enforcement and intelligence communities with financial institutions and regulators helps these entities uncover illegal activities and schemes. The President's Budget proposal provides FinCEN with resources to improve information sharing between the financial services and law enforcement communities. FinCEN is also enhancing its information systems to increase access to records filed under the BSA. Finally, the bureau is educating and assisting industries not previously regulated under the BSA, including precious metal, stone, and jewelry dealers and life insurance companies.

SAFEGUARDING OUR NATION'S CURRENCY

The United States 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 currency. In commemoration of the Louisiana Purchase and the Lewis and Clark expedition, the Mint will produce two new designs on the nickel in 2004 and 2005. It is the first time in 65 years that the design of the five-cent coin has been changed. One new design will feature a rendition of the original Indian Peace Medal commissioned for Lewis and Clark's expedition. The second will feature the boat that transported members of the Lewis and Clark expedition through the rivers of the Louisiana Territory. Monticello will return to the nickel in 2006. During 2005, the Mint will also roll out the next installment of the popular 50 State quarters program, with quarters for California, Minnesota, Oregon, Kansas, and West Virginia.



United States Mint Director Henrietta Holsman Fore with Gerard Baker, Superintendent, Lewis and Clark National Historic Trail, following the unveiling of the Peace Medal design for the spring 2004 nickel.

During 2005, BEP will continue its efforts to redesign our Nation’s currency to deter counterfeiting efforts. BEP introduced the new \$20 note in October 2003, and will introduce redesigned \$50 and \$100 notes in late 2004 and 2005, respectively. These notes will remain the same size and use similar portraits and images to maintain their unique and accepted appearance. BEP’s New Currency program was rated effective by the PART.

In 2004, the Administration will begin work on a plan to merge some or all of Mint and BEP functions to achieve significant cost savings for taxpayers. The Treasury Department will issue a merger plan that outlines these cost savings by July 1, 2004.

PERFORMANCE EVALUATION OF SELECT PROGRAMS











The Budget continues to focus on improving program performance. Four Treasury programs were reviewed for performance effectiveness using the Program Assessment Rating Tool (PART), which evaluated the programs’ design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on Treasury’s performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

Program	Rating	Explanation	Recommendation
Bureau of Public Debt (BPD), Administering the Public Debt	Effective	The PART found that BPD meets its annual performance goals and improves its targets for subsequent fiscal years, but lacks long-term performance goals.	As a result of the PART’s conclusions, BPD developed long-term performance goals and established interim targets.
Bureau of Engraving and Printing (BEP), New Currency Manufacturing	Effective	BEP’s New Currency Manufacturing Program seeks to efficiently produce a safe and secure U.S. Currency. The New Currency Program met initial production and timeline goals with the production of the \$20 note. The program has adequate long-term targets and timeframes and meets or exceeds its annual goals.	BEP will closely monitor its design and overhead costs related to the manufacturing of New Currency to ensure the most efficient production and distribution of future denominations.

Program	Rating	Explanation	Recommendation
Financial Management Service (FMS), Debt Collection	Effective	This program manages the Government's non-tax delinquent debt portfolio by providing central debt collection operation services to Federal agencies and States. The program collected \$3.1 billion in delinquent debt in 2003. The PART found that the program has a clear purpose, is well designed and managed, and meets and exceeds its annual performance targets.	The Budget proposes legislation to increase and enhance debt collection opportunities in several areas. In addition, FMS will develop a more ambitious long-term performance measure, set interim targets, and take actions necessary to achieve this long-term measure.
Internal Revenue Service (IRS), Submissions Processing	Results Not Demonstrated	The program lacks outcome goals and IRS does not yet have full cost estimates for its various activities.	Implementation of the Integrated Financial System will allow IRS to accurately calculate the full costs of submissions processing activities. IRS will develop short and long-term outcome goals for this activity.

UPDATE ON THE PRESIDENT'S MANAGEMENT AGENDA

The table below provides an update on Treasury's implementation of the President's Management Agenda as of December 31, 2003.

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

With the transfer of some of its major components to the new Department of Homeland Security in 2003, Treasury revised its Strategic Plan and is developing a new Department-wide comprehensive human capital strategic plan. Treasury's near-term plan is to apply competition to roughly 4,500 positions to identify the best service provider. Through the use of competitive sourcing the BEP has determined that a private sector contractor is the most cost-effective choice for handling certain tour operations and the current Government provider is best for providing machine parts support. Treasury had 60 material weaknesses in its accounting systems at the close of 1998 and has diligently corrected these down to only nine at the close of 2003. The Department secured an unqualified financial audit for the fourth year in a row, performed monthly three day closes, and for the past two years, completed its accountability report in just 45 days after the end of the year. While the Department has improved its business cases for information technology investments, the IRS modernization effort has experienced continued delays and many systems still need to be certified and accredited for security. The Department is also working to rationalize IRS's budget structure and ensure that all major programs have outcome and unit costs performance measures.

DEPARTMENT OF THE TREASURY

(In millions of dollars)

	Actual		Estimate	
	2001	2003	2004	2005
Spending				
Discretionary Budget Authority:				
Internal Revenue Service	9,003	9,845	10,200	10,674
Financial Management Service.....	257	221	227	231
Bureau of Public Debt.....	184	190	174	175
Tax and Trade Bureau.....	68	79	80	82
Financial Crimes Enforcement Network.....	38	52	57	65
Departmental Offices	265	253	240	240
Community Development Financial Institutions	118	75	61	48
Inspectors General.....	132	135	140	143
Recoveries from Federal sources for settlement of claims	—	-279	—	—
Other	267	107	—	—
Subtotal, Discretionary budget authority	10,332	10,678	11,179	11,658
Legislative Proposal.....	—	—	—	-885
Total, Discretionary budget authority ¹	10,332	10,678	11,179	10,773
Total, Discretionary outlays	9,823	10,517	11,124	10,850
Mandatory Outlays:				
Payment where earned income credit exceeds tax liability				
Existing law	26,123	31,961	33,551	34,148
Legislative proposal	—	—	—	-440
Payment where health care credit exceeds tax liability				
Existing law	—	3	65	89
Legislative proposal	—	—	—	82
Payment where child credit exceeds tax liability ...	982	6,435	7,447	11,486
Treasury Forfeiture Fund				
Existing law	282	222	248	251
Legislative proposal	—	—	—	-251
All other	-3,051	5,310	2,906	-3,983
Total, Mandatory outlays	24,336	43,931	44,217	41,382
Total, Outlays (excluding Interest on the Debt)	34,159	54,448	55,341	52,232
Credit activity				
Direct Loan Disbursements:				
Community Development Financial Institutions	9	10	10	10
Total, Direct loan disbursements	9	10	10	10
Guaranteed Loan Commitments:				
Air Transportation Stabilization Board.....	—	1,433	30	—
Total, Guaranteed loan commitments.....	—	1,433	30	—

¹ For comparability, 2001 data reflect transfers related to the creation of the Department of Homeland Security.