

DEPARTMENT OF THE TREASURY

The President's Proposal:

- Strengthens the integrity of the nation's tax system by deterring tax evasion (especially among high income taxpayers), reducing fraud and improper benefit payments in the Earned Income Tax Credit program, and utilizing the private sector to collect more efficiently legitimate tax debt owed to the government; and
- Supports the war on terrorism by vigorously pursuing terrorist financing activities and reinforcing the Department of the Treasury's capability to track and seize terrorist assets.

The Department's Major Challenges:

- Improving compliance with tax laws;
- Managing modernization at the Internal Revenue Service;
- Improving services to our taxpayers; and
- Shutting down sources of terrorist financing.

Department of the Treasury

Kenneth Dam, Acting Secretary

www.ustreas.gov 202-622-2000

Number of Employees: 116,675

2003 Spending: \$11.1 billion (debt financing and tax credits account for another \$357.7 billion)

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

The Department of the Treasury's core responsibilities are:

- managing our nation's finances;
- fighting the financial war on terrorism; and
- safeguarding our nation's currency.

2003 will be a year of great change for the Department of the Treasury. The Homeland Security Act of 2002 transferred the U.S. Customs Service, the U.S. Secret Service, and the Federal Law Enforcement Training Center to the Department of Homeland Security and transferred the firearms, arson, and explosives functions of the Bureau

of Alcohol, Tobacco, and Firearms (ATF) to the Department of Justice. Formerly part of ATF, Treasury's Alcohol and Tobacco Tax and Trade Bureau administers and enforces the alcohol and tobacco laws. (The President's Budget proposals concerning these bureaus are discussed in the Departments of Homeland Security and Justice chapters.) Treasury will have transferred almost a third of its resources as part of this reorganization, including most of its law enforcement functions.

Streamlining the department to its core financial responsibilities will better enable Treasury to meet its challenges.

Performance Evaluation of Select Programs

Treasury performance evaluations this year showed both effective and ineffective programs. The results and policy proposals for two critical programs are summarized in the following table. For further details on these and other Treasury programs, please see the Department of the Treasury chapter in the *Performance and Management Assessments* volume.

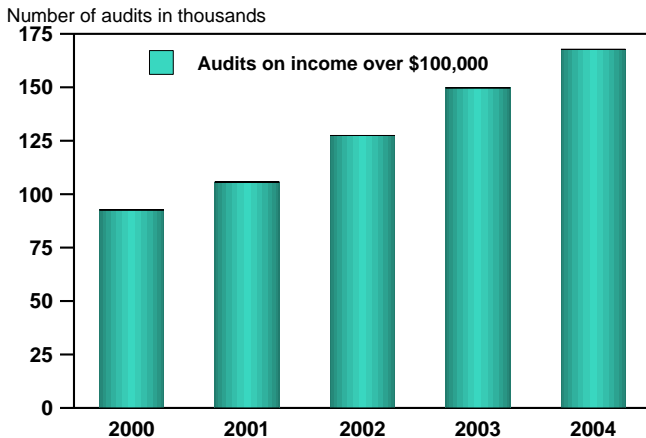
Program	Rating	Explanation	Recommendation
Internal Revenue Service (IRS) Tax Collection	Results Not Demonstrated	This program secures known delinquent tax debt. While it yields \$18 billion per year, it fails to collect far more, and does not effectively enforce fair tax compliance.	The budget includes an initiative to use private collection agents to help secure delinquent tax debt and includes an increase in IRS enforcement funding.
Office of Foreign Assets Control (OFAC)	Results Not Demonstrated	This program administers and enforces economic and trade sanctions against targeted foreign countries, terrorism sponsoring organizations, and international narcotics traffickers. Treasury's OFAC and our allies have frozen over \$124 million in terrorist assets since September 2001, but the program does not have strong annual and long-term performance goals.	OFAC is in the process of establishing annual and long-term performance goals that directly tie to their core missions. This will enable program partners and the public to evaluate more precisely OFAC's success in enforcing economic and trade sanctions.

Managing Our Nation's Finances

The IRS is the government's principal revenue collector. Although IRS has improved performance over the past few years, further improvement is needed: only 68 percent of taxpayer calls were answered in 2002, only 81 percent of tax law answers met IRS quality standards, and compliance efforts are too low. IRS needs to improve the way it does business and modernize its computer systems to achieve vital performance breakthroughs. To this end, the IRS is in the midst of a major effort to reengineer its work processes and modernize its technology. In 2003 and 2004, IRS will roll out the first two phases in a multiyear effort to replace the taxpayer database. This new database will allow accurate tax account answers on a real time basis. The new database also will allow the IRS to develop new approaches to improve tax collection and improve taxpayer assistance. The budget proposes \$10.4 billion for IRS and includes four major efforts to improve performance:

- The budget provides \$133 million to expand efforts to enforce fair tax compliance among high income taxpayers and businesses. (See accompanying chart.)

More High Income Earners Will be Audited



Source: Internal Revenue Service.

- The budget includes legislation to allow IRS to employ private collection agents (PCAs) to help collect known tax debts and to pay PCA fees from receipts. Many states and other federal agencies already use private collectors, with encouraging results. For example, Treasury’s Financial Management Service (FMS) used PCAs to collect \$43 million in non-tax debts in 2002. This legislation includes strong protections for taxpayer’s rights.
- In support of the President’s initiative to reduce erroneous payments, the budget includes an increase of \$100 million to lower erroneous earned income tax credit payments.

- The budget includes \$429 million to support the IRS modernization effort.

Ensuring Earned Income Credits go to the Right People

The Earned Income Tax Credit (EITC) provides \$32 billion each year to 20 million hard-working, lower-income Americans. It rewards work and lifts families out of poverty. Unfortunately, it is also far too complex and is prone to error and fraud. Its 54-page instruction book confuses even tax professionals. More than one dollar in four is paid in error. EITC reforms effective in 2002 simplify eligibility rules and the computation of benefits. This should reduce errors. In addition, the budget includes a \$100 million increase to help ensure only eligible taxpayers receive payments and to clarify EITC rules.

IRS is expanding its use of web applications to improve service to taxpayers. Private industry partnered with IRS in 2002 to provide free Internet filing of federal tax forms starting in early 2003. Additionally, taxpayers are able to check the status of their refund on the web. IRS also is partnering with the Social Security Administration to provide online employer identification numbers.

Treasury manages the government’s payments through the FMS. Each year FMS issues nearly 950 million non-Defense payments, with a dollar value of more than \$1.2 trillion, to a wide variety of recipients, such as those who receive Social Security, IRS tax refunds, and veterans’ benefits. In 2002, FMS issued 666 million

Web Applications Improve Service to Taxpayers

- *Free Tax Filing on the Internet.* More than six out of every 10 taxpayers are now able to prepare and file their tax returns for free on the Internet. Electronic filing is quick, easy, and far less prone to error than traditional paper returns. This service is provided by the Free File Alliance, a consortium of private sector companies, under a public service agreement with IRS.
- *Internet Tax Filing Confirmation and Refund Status.* 130 million taxpayers who file Form 1040 tax returns are able to confirm that the IRS has received and processed their return. 97 million taxpayers expecting a refund are able to check the date the refund will be mailed or deposited directly to their bank account.

For more information about these two services, visit www.firstgov.gov or www.irs.gov.

payments (73 percent) by electronic funds transfer and 253 million paper checks. FMS also collected \$2.3 trillion in federal receipts, of which \$1.8 trillion (79 percent) was received electronically.

The budget also proposes to repeal a Treasury-administered provision in the 2001 Agriculture Appropriations Act, the Continued Dumping and Subsidy Offset Act of 2000, that annually pays approximately \$230 million to complainants in antidumping/countervailing-duty cases. These corporate subsidies effectively provide a significant “double-dip” benefit to industries that already gain protection from the increased import prices provided by countervailing tariffs. While the Administration does not believe that these payments are inconsistent with U. S. treaty obligations, repeal of the provision would allow the funds to be directed to higher priority uses.

Treasury manages the nation’s debt through the Bureau of Public Debt (BPD). BPD oversees the \$6.3 trillion federal debt, including the \$3.6 trillion held by the public. Last year, BPD issued approximately \$3.7 trillion of debt by auctioning marketable Treasury securities and selling savings bonds, and paid off \$3.5 trillion in securities. BPD introduced its new TreasuryDirect system in 2002, by offering the first ever all electronic Series I inflation-indexed savings bond (www.treasurydirect.gov). This is the first step of an E-Government initiative to offer retail investors a direct all-electronic means to buy and hold Treasury securities. A key factor in achieving this important goal is the multiyear effort to convert all savings bond holdings to paperless form.



The Bureau of Public Debt is phasing out paper bonds in favor of web-based electronic bonds.

Fighting the Financial War on Terrorism

Treasury combats terrorist financing through the Internal Revenue Service-Criminal Investigation Division, the Financial Crimes Enforcement Network (FinCEN), and Office of Foreign Assets Control (OFAC). These organizations are invaluable in detecting, disrupting, dismantling, and blocking terrorist financing operations. Since September 2001, OFAC and our allies have blocked terrorist-related assets totaling \$124 million worldwide.

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 violations. They apply their training, skills, and expertise to support the national effort to combat terrorism, including participation in the Joint Terrorism Task Forces and similar joint efforts focused on disrupting and dismantling terrorist financing.

The most visible and immediately effective tactic of our comprehensive terrorist financing strategy has been designating and blocking the accounts of terrorists and those associated with financing terrorist activity.











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 proposal provides FinCEN with significant budgetary increases to improve information sharing between the financial services and law enforcement communities. FinCEN will use these resources to expand the Patriot Act Communications System, a highly secure network that allows financial institutions to electronically file Bank Secrecy Act forms.

Safeguarding Our Nation's Currency

The United States Mint and the Bureau of Engraving and Printing (BEP) are responsible for assuring that our nation retains its status as producing the world's most accepted currency. According to the U.S. Secret Service, \$47.5 million in counterfeit money was discovered in circulation in 2002. Of this amount, 39 percent was computer generated, compared with only 0.5 percent of the counterfeit currency seized in 1995. The rapid growth of desktop publishing and other computer technologies have contributed to this increase in counterfeiting.

BEP is in the process of redesigning our nation's currency to counter this trend. The new design, known as NexGen, will affect the \$100, \$50, and \$20 notes. Introduction of the NexGen \$20 bill could begin as early as fall 2003, with introduction of the other notes 12 to 18 months later. The NexGen notes will remain the same size and use similar portraits and images to maintain their unique and accepted appearance. The NexGen design will build on past security features with the addition of subtle background colors and other new security features that are designed to deter counterfeiting. The redesign effort will be introduced with an extensive public education campaign to inform the public and business sector about the NexGen currency and also how to detect counterfeit currency.

Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
<p>Treasury is exploring competition of more than 5,000 commercial positions to determine the best means of delivering services such as IRS tax form distribution centers (500 positions), IRS building maintenance (100 positions), and Mint customer service (48 positions). These competitions should begin to yield savings in 2003 and 2004. Treasury can now produce accurate financial reports three days after the end of each month. In 2001, Treasury met the goal to produce audited financial statements by November 15th, two years ahead of the Administration's goal to require agency financial statements 45 days after the end of the year. However, the Department will not be able to correct significant weaknesses in IRS's tax accounting systems until late 2006. In addition, the Department must improve its ability to manage its critical technology investment programs. Finally, IRS is developing outcome measures and working to rationalize its budget structure. These efforts, and other improvements in performance measures, will make it easier to manage Treasury's programs to yield maximum results.</p>					

Department of the Treasury
(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Internal Revenue Service	9,485	9,917	10,437
Financial Management Service	199	221	229
Financial Crimes Enforcement Network	48	51	58
Alcohol and Tobacco Tax and Trade Bureau	73	80	80
Public Debt	188	191	174
Mint	13	—	—
Interagency Law Enforcement	108	108	—
Departmental Offices	431	443	419
Total, Discretionary budget authority	10,545	11,011	11,397
Mandatory Outlays:			
Internal Revenue Service	32,966	36,551	37,523
Internal Revenue Service - Legislative Proposal	—	300	1,289
Financial Management Service	2,316	1,590	1,443
Financial Management Service - Legislative Proposal	—	—	386
Alcohol and Tobacco Tax and Trade Bureau	341	355	307
Alcohol and Tobacco Tax and Trade Bureau - Legislative Proposal	—	—	57
Public Debt	130	131	131
Comptroller of the Currency	-36	-21	-22
Office of Thrift Supervision	-10	—	—
Federal Financing Bank	51	50	58
Federal Financing Bank - Legislative Proposal	—	2	5
Departmental Offices	-136	231	-100
Departmental Offices - Legislative Proposal	—	—	-221
All other programs	-2,419	-2,534	-2,522
Other - Legislative Proposal	—	—	-1,851
Total, Mandatory outlays	33,203	36,655	36,483
Credit activity			
Direct Loan Disbursements:			
Community Development Financial Institutions Fund	18	10	10
Total, Direct loan disbursements	18	10	10
Guaranteed Loans:			
Air Transportation Stabilization Guaranteed Loan Financing	429	1,433	—
Total, Guaranteed loans	429	1,433	—