

DEPARTMENT OF THE TREASURY
Fiscal Year 2004 Budget Request

SUMMARY OF TREASURY'S BUDGET REQUEST

<u>FY 2003:</u> Treasury Program Level Request (Pres. Budget, Amended)	\$15.943 billion
Bureau Transfers per P.L. 107-296 (USCS, USSS, FLETC)	- 3.994 billion
Related Function Transfer to DHS & DOJ	- <u>.931 billion</u>
Net Adjusted Program Level in FY 2003	\$11.018 billion
<u>FY 2004:</u> Total Treasury Program Level Request	<u>\$11.408 billion</u>

* * * * *

The President's Budget Request for the Department of the Treasury for FY 2004, after adjusting for the historic one-time transfers due to the enactment of the Homeland Security Act of 2002, reflects an increase of \$400 million over FY 2003. The Homeland Security legislation transferred select law enforcement bureaus and related functions from the Treasury Department to the Departments of Homeland Security and Justice, respectively. The resource levels reflected throughout this document refer only to those bureaus remaining in Treasury. Information regarding those entities that have transferred to either DHS or DOJ may be found in budget documents for their respective agency.

HIGHLIGHTS OF TREASURY'S REQUEST

The President's proposed FY 2004 Budget continues to recognize Treasury's key role in Government as ***economic policymaker, financial manager, and revenue collector***. The recent divestiture of a majority of Treasury's law enforcement portfolio has re-emphasized the importance of these areas, as well as strengthening our focus on the critical role the Department plays in the financial war against terrorism.

The Budget request also places increased importance on providing the customer service and program reliability that our customers demand and deserve. To deliver on these and other commitments, Treasury partners the principles of the President's Management Agenda and the Department's performance budgeting processes to: **(a)** link performance with dollars; and **(b)** serve as catalysts for identifying and eliminating those programs producing little or no real value to its customers and redirecting those resources to higher value programs.

FY 2004 KEY PRIORITIES

Treasury's FY 2004 budget request continues the Department's recent accomplishments and highlights Treasury's commitment to:

- ❑ *Ensure that the tax system is fair for all through a comprehensive compliance effort*
- ❑ *Increase Treasury's efficiency and effectiveness by streamlining operations*
- ❑ *Serve a critical role in the financial war against terrorism*
- ❑ *Maintain the integrity of our Nation's financial systems & safeguard our Nation's currency*

Treasury uses the principles of the President's Management Agenda as a foundation for accomplishing not only these key priorities, but the overall mission and goals of the Department.

Ensuring that the Tax System is Fair for All

Supports the following Treasury Strategic Goal:

- ✓ *Collect Revenue Due to the Federal Government*

A cornerstone of Treasury's mission is helping our citizens meet their tax responsibilities, while maintaining the fairness of the tax system for all and respecting taxpayer rights. This is the responsibility of the **Internal Revenue Service**, which manages the systems that collect most of the revenue needed to operate government. This responsibility entails:

- *Meeting the annual demands related to processing over 2.6 billion tax-related documents;*
- *Sending out over 95 million tax refunds;*
- *Providing quality service on taxpayer phone calls concerning tax law and account specific questions; and*
- *Maintaining a balanced and comprehensive enforcement presence.*

Continuing to work toward their mission of "providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all," the FY 2004 budget request for the Internal Revenue Service:

1. Focuses tax administration goals by directing new resources toward areas where dollar non-compliance is the highest while maintaining balanced reviews across all areas, ***ensuring tax legislation is applied fairly and equally to all taxpayers.***

2. Provides an ongoing level of **\$35 million** in FY 2004 for *continued implementation of a health coverage tax credit program authorized by the Trade Act of 2002*.
3. Invests **\$429M** to *continue the momentum of the Business System Modernization* effort for FY 2004, continuing to advance a key technological and business redesign effort, now in its fifth year of implementation.
4. *Improves the collection of unpaid taxes* through the utilization of private collection agents (PCAs).

□ ***Ensuring tax legislation is applied fairly and equally to all taxpayers.*** We need to improve voluntary compliance, which has been hovering at about 83% for over a decade. We collect another 3 percent through our own enforcement actions, which yield more than invested, but are more costly than collecting the taxes voluntarily. An additional concentration of IRS resources will enhance such voluntary compliance.

High Income Taxpayers. The budget invests **\$133 million** of new funding in FY 2004 to focus and target resources and staffing toward the most significant areas of non-compliance – particularly more examinations of high income non-compliance – resulting in more examinations of high-income taxpayers and businesses. It is anticipated that the number of audits in this category will rise from 93,000 in 2000 to 160,000 in 2004.

- Although specific FY 2004 Tax Enforcement staffing is up 1,075 FTE over planned FY 2003 levels (and 1,637 FTE from FY 2002), overall IRS staffing has only risen 998 from FY 2002. This is due to a series of **re-engineering** efforts across all operations to identify lower-value programs and projects and re-directing resources from those operations to front-line, value producing ones. *IRS is proposing a **realignment of \$166 million** in similar types of savings and re-directions to accomplish this goal.*

Improving Effectiveness of the EITC Program. Issuance of erroneous payments has been a concern for the Earned Income Tax Credit (EITC) program since its inception. Unlike most other tax credits, the EITC is reimbursable, i.e., it is a payment. However, unlike with other federal benefit payment programs, there is essentially no eligibility verification before EITC payments are made. Therefore, any erroneous claims that are honored by IRS result in payments that require significant additional investment of Federal resources to recover, and have proven difficult to retrieve. Although IRS has been given additional enforcement authorities to fight EITC overpayments in the past, these authorities do not **prevent** them in the payments process.

- Beginning in FY 2004, IRS will use an **integrated approach** to address potential erroneous claims before they are accepted for processing and before any EITC benefits are paid.
- The FY 2004 President's Budget requests an **additional \$100 million** to correct deficiencies of the EITC program. IRS will dedicate 60% of their additional FY 2004 funds to begin using this integrated approach in cases that have been determined to have a high likelihood of error. The remaining 40% will be used to invest in the necessary infrastructure to allow full implementation of the integrated approach.

- **Continued Implementation of the Trade Act of 2002.** In carrying out the provisions of the Trade Act of 2002 (P.L.107-210), the Treasury Department, through the IRS, was chartered with establishing and implementing a new health coverage tax credit program. This program provides a refundable tax credit to eligible individuals for the cost of qualified health insurance for both the individual and qualifying family members. As part of the FY 2003 President's Budget amendment, \$70M was redirected from within existing funds for the start-up costs of this program. In FY 2004, the IRS budget proposes an ongoing level of \$35M to continue implementation and operation of this new program.
- **Continue the Momentum of the Business Systems Modernization Effort.** The Internal Revenue Service is committed to providing excellent customer service and takes pride in the integrity of their systems. As a result, they are continually improving operations efficiency and performance by adopting best business practices and state-of-the-art technology.
- This multi-year endeavor is providing IRS with the technological tools and revamped business processes needed to deliver first-class customer service to American taxpayers and to ensure that compliance programs are administered efficiently and fairly.
 - FY 2002 and FY 2003 have been key transition years for IRS Modernization efforts, as the foundation of our Nation's tax system is being replaced, building a bridge to providing interactive and improved customer service. FY 2004 investments will build on those accomplishments.
 - The Department's FY 2004 budget provides **\$429 million** for the continuation of the Service's modernization effort in re-engineering business processes and developing new business systems to replace the antiquated and obsolete system. This amount compares to the FY 2003 amended level of \$380M.

The original FY 2003 President's Budget level of \$450M was amended to meet a \$70M startup need in FY 2003 for a new health coverage tax credit authorized by the Trade Act of 2002. The FY 2004 budget restores this funding back to the BSM account.

- **Improve the Collection of Unpaid Taxes while Protecting Taxpayer Rights.** During FY 2002, using the Program Assessment Rating Tool (PART), the Administration determined that the IRS Tax Collection program fails to collect a higher amount of taxes due and does not effectively enforce fair tax compliance. In fact, there is a large and growing inventory of identified cases where IRS still does not take further action. Therefore, the FY 2004 budget provides an initiative to use **private collection agents (PCAs)** to help collect such delinquent tax debts, allowing IRS to concentrate its enforcement resources on more complex cases and issues. PCAs have proven successful with over 40 states and other federal entities, such as the Student Loan program, in the past.
- By eliciting the assistance of PCAs, the IRS should eventually be able to handle more collection cases at an earlier stage in the process-- ***before the accounts become stale and uncollectible.***

- PCAs would hold no enforcement power and **all taxpayer confidentiality protections and rights would apply**, including the provisions of IRS Restructuring and Reform Act of 1998 (RRA 98). The IRS will closely monitor the activities and performance of the PCAs to ensure these protections are provided.
- **Regulatory and Legislative Proposals.** Although the vast majority of taxpayers and businesses do their best to comply with the law, some actively promote or engage in transactions structured to generate tax benefits never intended by Congress. Such abusive transactions not only consume valuable IRS resources, but also erode the public's respect for the tax laws. The Administration has proposed a number of regulatory and legislative changes designed to significantly enhance the current enforcement regime and curtail the use of abusive tax avoidance transactions, working towards **ensuring that the tax system is fair for all.**
- **Advancing the IRS Mission.** To continue to achieve their mission of "*providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all,*" the IRS has realized that organizational improvements and employee satisfaction lead to improved customer satisfaction. As a result, strategic objectives focus not only on the taxpayer, but also on the improvement of the bureau as a whole.
- Through implementation of the IRS Restructuring and Reform Act of 1998 (RRA 98), the IRS has improved many of its customer service performance problems.
 - In FY 2003 and FY 2004, IRS will roll out the first two phases of a multi-year effort to replace their taxpayer database. This new database will allow accurate tax account answers on a real-time basis and will also allow the IRS to develop new approaches to simultaneously improve tax collection and taxpayer assistance.
 - The tax code appears to be an abominable monster to the everyday American citizen. IRS and Treasury continue to work with Congress to clarify ambiguities and confusing issues in the existing tax code.

Increasing Treasury's Efficiency and Effectiveness by Streamlining Operations

Supports the following Treasury Strategic Goals:

- ✓ *Continue to Build a Strong Institution*
- ✓ *Support the Achievement of Business Results*

FY 2003 and FY 2004 will serve as defining years for Treasury, as well as for the rest of the federal government, as 22 agencies are transferred to the new Department of Homeland Security. This massive reorganization has given Treasury the opportunity to reevaluate not only those efforts related to Homeland Security, but all remaining functions to streamline operations and increase Treasury's, and ultimately the federal government's, efficiency and effectiveness.

During the FY 2004 budget process, bureaus were required to go through a rigorous application process in which programs producing little or no value were eliminated and the funds for those programs were redirected to programs expected to produce results. This process has forced the bureaus to reevaluate their own operations and prioritize funding based upon those producing the highest value.

Homeland Security Divestiture

- ❑ Pursuant to **Public Law 107-296**, the Homeland Security Act of 2002, certain law enforcement functions were transferred from Treasury Department to the Departments of Homeland Security and Justice, respectively.
 - The **Federal Law Enforcement Training Center**, the **United States Customs Service**, and the **United States Secret Service** were transferred to the Department of Homeland Security.
 - The **Bureau of Alcohol, Tobacco and Firearms** was split, with those functions related to firearms, arson and explosives transferring to the Department of Justice.
 - The legislation also created a new bureau within the Treasury called the **Alcohol and Tobacco Tax and Trade Bureau**, which is charged with enforcing federal laws and regulations relating to alcohol and tobacco.
- ❑ In addition to those accounts specifically laid out in legislation, through the FY 2004 budget process, other related accounts will be affected as well.
 - Appropriations for the **Counter-Terrorism Fund**, whose major function is to cover unanticipated costs related to counter-terrorism efforts, have been requested in the FY 2004 budget for the Department of Homeland Security.
 - In a step to streamline funding and operations, the **Inter-Agency Crime and Drug Enforcement (ICDE)** account is proposed for transfer back to the Department of Justice.
 - Portions of the **Departmental Offices, Department-wide Systems and Capital Investments Program (Wireless Radio Development Program)** and **Office of Inspector General** accounts were transferred to the Department of Homeland Security in order to provide those transferring bureaus a continued level of service and seamless transition to the Department of Homeland Security.
 - In support of the portion of the Bureau of Alcohol, Tobacco and Firearms that is transferring to the Department of Justice, portions of the Departmental Offices and Office of Inspector General accounts will also be transferred to the Department of Justice.
- ❑ The transfer of the Federal Law Enforcement Training Center, United States Customs Service, United States Secret Service, a majority of the Bureau of Alcohol, Tobacco and Firearms, Counter-Terrorism Fund and Inter-Agency Crime and Drug Enforcement accounts represents nearly **90% of Treasury's law enforcement mission** and almost **a third of Treasury's total FY 2003 budget**.

- This reorganization is not only streamlining Homeland Security efforts, but it is also allowing the Department to concentrate on its core responsibilities as economic policymaker, financial manager and revenue collector, as well as focusing its law enforcement effort on fighting the war against terrorism on the financial front.

Consolidated IG Function

As a partial result of the transfer of nearly 70% of the Office of Inspector General account to the Department of Homeland Security and the Department of Justice, the FY 2004 President's Budget proposes a consolidation of the Inspector General services at Treasury, the Office of Inspector General and the Inspector General for Tax Administration.

- The **Office of Inspector General** was created in 1978 by the Inspector General Act Amendments to oversee Treasury functions.
- The **Inspector General for Tax Administration** was created as part of the Internal Revenue Service Restructuring and Reform Act of 1998 to oversee operations at the Internal Revenue Service.

The combined **Inspector General for Treasury** will be responsible for providing oversight to the remaining Treasury bureaus. This amalgamation of the two oversight functions within Treasury represents the Department's ongoing commitment to reduce duplicative efforts and improve the way the government conducts its business.

Serving a Critical Role in the Financial War Against Terrorism

Supports the following Treasury Strategic Goal:

- ✓ *Combat Money Laundering and Other Financial Crimes*

The divestiture of nearly 90% of Treasury's law enforcement mission provides Treasury the opportunity to place an even greater focus on their role in the financial war against terrorism. Treasury continues to play a critical role in combating terrorist finance by serving as **Chair of the interagency Policy Coordinating Committee**, which is responsible for coordinating the day-to-day development and implementation of policies to combat terrorist finance and provide policy analysis on terrorist finance issues.

The three entities within Treasury responsible for combating terrorist financing: the **Financial Crimes Enforcement Network (FinCEN)**, the **Office of Foreign Assets Control (OFAC)** and the **Internal Revenue Service Criminal Investigation Division**.

The Financial Crimes Enforcement Network (FinCEN) fosters interagency and global cooperation and serves as a link between the law enforcement/intelligence communities and financial institutions and regulators in fighting domestic and international financial crime.

- Their strategic analyses of domestic and worldwide money laundering developments, trends, and patterns provides U.S. policymakers a platform on which important decisions concerning terrorist

threat can be made.

- FinCEN works toward these ends through information collection, analysis, and sharing, as well as technological assistance and innovative, cost-effective implementation of the Bank Secrecy Act (BSA) and other Treasury authorities.
- FinCEN continues to support Operation Green Quest, the FBI's Terrorism Financing Operations Section, the Policy Coordinating Committee Action Group on Terrorist Financing, and the National Money Laundering and Terrorist Financing Strategy of 2002 (formerly the National Money Laundering Strategy).
- FinCEN's FY 2004 funding level reflects a significant increase over their FY 2003 President's Budget level. This increase will allow FinCEN to:
 - Improve information sharing between the financial services and law enforcement communities and enhance their ability to provide useful information to these entities regarding trends, patterns, and issues related to suspicious financial transactions and other money laundering/financial crimes which fuel terrorism and other criminal activities;
 - Effectively administer additional requirements mandated by the USA Patriot Act of 2001 and subsequent regulatory requirements, including expanding the capacity to provide direct access to BSA data to meet increased demand;
 - Monitor the establishment of anti-money laundering programs in all financial institutions;
 - Expand the Bank Secrecy Act (BSA) to new industries and accelerate efforts to enable electronic filing of BSA data more efficiently through the Patriot Act Communications system;
 - Strengthen and expand mechanisms for the exchange of information globally to enhance the global fight against terrorism and money laundering that fuels criminal activities.

The Office of Foreign Assets Control administers and enforces economic sanctions and embargo programs against targeted foreign governments and groups that pose threats to the national security, foreign policy, or economy of the United States.

- Consistent with President Bush's November 7, 2001 address, the United States continues to attack terrorists where it hurts them the most – their bank accounts.

*Since September 2001, Treasury's Office of Foreign Assets Control and our allies have frozen over **\$124 million** in terrorist assets.*

- Only days after September 11, 2001, OFAC was responsible for drafting and implementing Executive Order 13224, which invoked Presidential authority contained in the International Emergency Economic Powers Act and froze the assets of 29 entities and individuals linked to Osama Bin Laden and his Al-Qaeda network. Since then, 228 additional entities and individuals, most of them the result of OFAC research and investigation, have been designated as Specially Designated Global Terrorists under the Order.

This designation and asset blocking process has served as the spearhead of the President's financial war on terrorism.

The Internal Revenue Service Criminal Investigation (IRS-CI) Division specializes in analyzing complex financial information and determining whether that information is in violation of tax laws, money laundering laws, and the Bank Secrecy Act. In addition, IRS-CI is heavily involved with the Joint Terrorism Task Forces (JTTFs) and similar partnerships focused on disrupting and dismantling terrorist financing.

Maintaining our Financial Systems & Safeguarding Our Nation's Currency

Supports the following Treasury Strategic Goal:

- ✓ *Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coins and Currency*

The **Office of the Comptroller of the Currency** serves as the Administrator of National Banks, chartering new banking institutions only after investigation and due consideration of charter applications and supervising existing national banks through the promulgation of rules and regulations for the guidance of national banks and bank directors.

The **Office of Thrift Supervision** charters, regulates and examines Federal thrifts, cooperates in the examination and supervision of state-chartered thrifts and reviews applications of State-chartered thrifts for conversion to Federal thrifts. They also review applications for the establishment of branch offices.

The **Financial Management Service** will continue to improve the quality of Federal financial management, fully implement debt management services operations, modernize Government-wide accounting and reporting infrastructure, and progress toward an all-electronic Treasury.

The **Bureau of the Public Debt** will continue its management and vital support to applications and systems used for Federal borrowing and debt accounting, re-enforcing its mission of providing quality debt management services to financial institutions, individuals, foreign governments, and over 200 Government trust funds.

The activities of the **United States Mint** and the **Bureau of Engraving and Printing**, along with the health of our Nation's economy, are jointly responsible for ensuring that our nation's currency retains its status as the world's most accepted currency.

The **United States Mint**, under its funding provisions for both investment and operations, responds to the needs of retail commerce by producing a reliable supply of coinage, including the newly designed fifty state commemorative quarters. Equally important, the Mint will continue its major role in promoting national patriotic themes with collectable coins.

The **Bureau of Engraving and Printing** is in the process of redesigning our Nation's paper currency to counter the trend of computer generated counterfeiting. Building on past security features, the new design, known as *NexGen*, may begin circulation in the \$20 note as early as Fall 2003, with the \$50 and \$100 note to follow 12 to 18 months later.

Foundation for Success -- the President's Management Agenda

Supports the following Treasury Strategic Goals:

- ✓ *Support the Achievement of Business Results*
- ✓ *Improve Customer Satisfaction*
- ✓ *Improve Employee Satisfaction*
- ✓ *Cost-Effectively Finance the Federal Government's Operations*
- ✓ *Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards*

Treasury continues to work toward becoming a results-driven, *world class* organization. FY 2002 served as a key year for Treasury in implementing the five initiative areas of the President's Management Agenda. Accomplishments for FY 2002 include:

Strategic Management of Human Capital – Treasury's vision for managing its human capital is to retain a diverse, high-caliber workforce – *a workforce that places the right employees in the right place at the right time* to fulfill the Department's global mission efficiently and effectively. The Department believes that high levels of satisfaction within the portfolio of Treasury employees will lead to enhanced service provided to the American citizen, thus yielding higher **customer satisfaction** from both stakeholders and service users. Departmental Offices has participated in a Gallup survey of all employees to serve as a baseline for measuring **employee satisfaction**. Most bureaus already participate in measuring employee satisfaction.

Expanded Electronic Government – The Department is working toward building a comprehensive, citizen-centered IT infrastructure. Treasury is also encouraging increased participation by the bureaus in all 24 of the e-government initiatives across Treasury. Specific efforts in FY 2002 and FY 2003 include:

- ❑ The **Internal Revenue Service** has made significant progress towards achieving the Congressional goal of having 80% of all tax and information returns filed electronically by 2007. During 2002, IRS partnered with the **Free File Alliance**, a consortium of private sector companies, to provide free Internet filing of 2002 federal tax forms and has also provided functionality to allow taxpayers to check the status of their refund on the web. **Free Tax Filing** is a premier IRS e-gov initiative. Progress is currently underway to improve other parts of the Internet-based system, including providing online employer identification numbers.
- ❑ In FY 2002, the **Financial Management Service** issued 73% of all payments (666 million of 919 million) by electronic funds transfer. FMS also collected 79% (\$1.8 trillion of \$2.27 trillion) of all federal receipts electronically.
- ❑ In 2002, the **Bureau of Public Debt** introduced the *TreasuryDirect* system, by which retail investors can purchase electronic Series I inflation-indexed savings bonds. This is the first step toward the Bureau's goal to convert all savings bond holdings to paperless form.
- ❑ **HR Connect** is Treasury's first enterprise-wide application, a web-based human resources solution that has fundamentally transformed the standard HR service delivery model by putting information, services and processes directly in the control of managers and employees. *HR Connect* provides standardized information with results-driven decision-making capability, fully supporting the

technological benchmark for true government-wide HR reform under both the E-gov and Human Capital initiatives of the PMA.

Operating in eight bureaus (including IRS), HR Connect will continue to provide services to those bureaus transferring to the Department of Homeland Security and the Department of Justice.

Improved Financial Performance – Treasury acts as principal custodian of the revenue collected and debt issued on behalf of the Federal Government. In order to fulfill this responsibility, the Department is working to streamline financial management practices, develop sound costing methodologies, and integrate financial data with performance data. As **best in government**, Treasury has set the standard for the rest of government, with all of its bureaus now closing their financial statements within **3 days after the close of each month** and within **45 days after the end of each year**.

*This availability of **real-time data** has brought the Department up to speed with the private sector and has enabled bureau and Department management to make **results-driven decisions**, instead of spending the majority of time aggregating data.*

Budget and Performance Integration – Treasury is dedicated to the fiscal stewardship of each congressionally authorized dollar by linking investments with specific, measurable results. Integrating performance information into the budget decision-making process allows agencies to more directly focus their resource decisions on strategies and programs that produce desired results.

- ❑ During the FY 2004 budget process, bureaus were required to go through a rigorous application process in which programs producing little or no value were eliminated and the funds for those programs were redirected to programs expected to produce results.
- ❑ Also, in FY 2002, Treasury issued its first **combined Performance and Accountability Report**. The pairing of these two reports provides annual data for both internal and external stakeholders to assess Treasury's performance in a timely manner and allows decision-makers to base their decisions on recent and reliable data.

Competitive Sourcing – The Department is committed to evaluating the merits of its internal efforts, by understanding competitive sourcing options – migrating to those outsourced options when it produces the most value for the American people based on cost and value, while retaining those specific functions that are inherently governmental. As a result of the Department's expertise in this area, it has been sought after as a **consultant** by many agencies within federal government including NASA, Department of Agriculture, Department of Transportation and the State Department. The Department will identify opportunities to integrate other elements of the PMA into competitive sourcing and will work toward the ultimate competitive sourcing objective by identifying new potential targets for A-76 studies. Specific accomplishments for the Department in FY 2002 include:

- ❑ Completed competitive sourcing studies on 192 FTE through direct conversion or streamlined studies.
- ❑ Identified, planned and commenced on-going studies on 6,071 FTE throughout the Department.
- ❑ Developed and implemented a web-based automated Federal Activities Inventory Reform (FAIR) Act inventory data collection system that enabled Treasury to submit the FAIR Act inventory to OMB early. **Treasury was the first Department across government to submit the inventory.**