Mission Statement

Maintain a strong economy and create economic and job opportunities by promoting conditions that enable economic growth and stability at home and abroad, strengthen national security by combating threats and protecting the integrity of the financial system, and manage the U.S. Government's finances and resources.

Executive Summary

FY 2014 President's Budget by Function

Dollars in thousands

	FY 2012 Enacted	FY 2013 Annualized CR Rate	FY 2014 Request	FY 2012 to FY 2014 Increase/ Decrease	FY 2012 to FY 2014 Percent Change
Management & Financial	$1,346,631	$1,361,921	$1,315,533	($31,098)	-2.31%
Departmental Offices Salaries and Expenses	$308,388	$310,275	$311,775	$3,387	1.10%
Department-wide Systems and Capital Investments Program	$0	$0	$2,725	$2,725	0.00%
Office of Inspector General	$29,641	$29,822	$31,351	$1,710	5.77%
Treasury Inspector General for Tax Administration	$151,696	$152,624	$149,538	($2,158)	-1.42%
Special Inspector General for TARP	$41,800	$42,056	$34,923	($6,877)	-16.45%
Community Development Financial Institutions Fund	$221,000	$222,353	$224,936	$3,936	1.78%
Financial Crimes Enforcement Network	$110,788	$111,466	$103,909	($6,879)	-6.21%
Alcohol and Tobacco Tax and Trade Bureau	$99,878	$100,489	$101,211	$1,333	1.33%
Program Cap Adjustment Included in IRS Budget Request	$0	$0	($5,000)	($5,000)	0.00%
Net, Alcohol and Tobacco Tax and Trade Bureau	**$99,878**	**$100,489**	**$96,211**	**($3,667)**	**-3.67%**
Bureau of the Fiscal Service	$391,440	$393,836	$360,165	($31,275)	-7.99%
Legacy Treasury Direct User Fees	($8,000)	($1,000)	$0	$8,000	-100.00%
Net, Bureau of the Fiscal Service	**$383,440**	**$392,836**	**$360,165**	**($23,275)**	**-6.07%**
Tax Administration	$11,816,696	$11,887,741	$12,861,033	$1,044,337	8.84%
IRS Taxpayer Services	$2,239,703	$2,253,510	$2,412,576	$172,873	7.72%
IRS Enforcement	$5,299,367	$5,331,000	$5,666,787	$367,420	6.93%
IRS Operations Support	$3,947,416	$3,971,000	$4,480,843	$533,427	13.51%
IRS Business Systems Modernization	$330,210	$332,231	$300,827	($29,383)	-8.90%
Subtotal, Treasury Appropriations Committee	**$13,163,327**	**$13,249,662**	**$14,176,566**	**$1,013,239**	**7.70%**
Treasury Forfeiture Fund	($950,000)	($950,000)	($950,000)	$0	0.00%
Total, Treasury Appropriations Committee	**$12,213,327**	**$12,299,662**	**$13,226,566**	**$1,013,239**	**8.30%**
Treasury International Programs	**$2,661,388**	**$2,677,667**	**$2,899,279**	**$237,891**	**8.94%**
Economic Growth, National Security and Poverty Reduction (MDBs)	$1,958,538	$1,970,525	$2,103,029	$144,491	7.38%
Food Security	$165,000	$166,010	$165,000	$0	0.00%
World Bank Environmental Trust Funds	$324,350	$326,335	$427,450	$103,100	31.79%
Debt Relief	$186,500	$187,641	$175,300	($11,200)	-6.01%
Office of Technical Assistance (OTA)	$27,000	$27,156	$23,500	($3,500)	-12.96%
Middle East Transition Fund	$0	$0	$5,000	$5,000	0.00%
Total	**$14,874,715**	**$14,977,329**	**$16,125,845**	**$1,251,130**	**8.41%**

Overview

The Department of the Treasury's FY 2014 request includes the resources to lead a multitude of actions that help strengthen the U.S. economy, create job opportunities, and improve the housing market by taking important steps to restore confidence in the financial system while reinforcing U.S. international competitiveness. The Department is implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act); taking aggressive actions in the fight against financial crimes, money laundering, and threats to national security; promoting free trade and open markets; continuing its pursuit of comprehensive tax and fiscal reform; and strengthening efforts to improve stewardship over the U.S. Government's financial resources. Treasury is working to encourage lending to small businesses, promote economic prosperity, and monitor risk in the financial system. Treasury is also driving a departmental management agenda focused on governing strategically, working smarter, and leveraging advances in technology to gain greater cost savings for the American public, increase productivity, modernize operations, and support the Administration's management agenda.

Treasury's FY 2014 request reflects the Department's commitment to finding operational savings while including key investments in support of the Administration's goals. The Department proposes $2.9 billion for our International programs in order to promote our national security, open new markets for U.S. exporters, and address key global challenges such as food security and the environment and $14.2 billion for our operating accounts including substantial new investments in improved tax administration.

The FY 2014 Budget request for Treasury's operating bureaus is 2.3 percent below the FY 2012 enacted level, excluding the IRS. The Budget identifies $354 million in efficiency savings and $29 million in program reductions.

The Budget was developed to align with the Department's *FY 2012 to 2015 Strategic Plan*, Agency Priority Goals, and Federal Priority Goals.[1] This submission also serves as the Department's Annual Performance Report and Plan.

Treasury Strategic Goal: Repair and Reform the Financial System and Support Recovery in the Housing Market

Since the fall of 2008, Treasury has executed a range of new programs to help stimulate economic recovery and balanced growth while working to repair the credit and housing markets.

Supporting Small Businesses

The Small Business Jobs Act of 2010 created the Small Business Lending Fund (SBLF) and the State Small Business Credit Initiative (SSBCI). The SBLF helps increase the availability of credit to small businesses by providing capital to community banks and community development loan funds with assets under $10 billion. As of September 30, 2012, SBLF participants have increased their small business lending by $7.4 billion over a $36.5 billion baseline and by $740 million over the prior quarter. Over three-quarters of program participants (78 percent) have increased their small business lending by 10 percent or more. The SSBCI program supports state-level, small-business lending programs. In FY 2012, SSBCI approved $137 million for disbursement to states. SSBCI estimates disbursing cumulative totals of approximately $1.1 billion by the end of FY 2013 and the remaining $360 million by the end of FY 2014.

Implementing Financial Reform

During FY 2012, Treasury continued to implement the comprehensive financial reforms included in the Dodd-Frank Act. These reforms place tougher limits on risk-taking by financial institutions in order to

[1] Per the GPRA Modernization Act, P.L. 111-352, requirement to address Federal Goals in the agency Strategic Plan and Annual Performance Plan, please refer to Performance.gov for information on Federal Priority Goals and the agency's contributions to those goals, where applicable.

stabilize the financial system and protect American taxpayers and consumers.

In FY 2012, full operation of Treasury's new financial regulatory and oversight entities established by the Dodd-Frank Act commenced, including the Financial Stability Oversight Council (FSOC), the Federal Insurance Office (FIO), the Office of Financial Research (OFR), and the Office of Minority and Women Inclusion (OMWI).

The FSOC, chaired by the Secretary of the Treasury, monitors threats to financial stability and facilitates coordination across the financial regulatory community. The Secretary coordinates the federal regulators' risk retention rulemaking process. This rule will help align interests among mortgage originators, securitizers (i.e., firms that create and sell groups of mortgage loans as securities), and other investors that participate in the housing finance market. The Secretary also coordinates the rulemaking to implement the Volcker Rule and is actively engaged in activities to identify risks, promote market discipline, and respond to emerging threats to U.S. financial stability.

Treasury is represented at the international Financial Stability Board (FSB) by the Under Secretary of International Affairs. At the FSB, Treasury supports a leveling up of financial regulatory standards globally. This will decrease the risk of regulatory arbitrage to the global financial system, avoid an undue regulatory burden for U.S. firms, and protect our economy from risks emanating beyond our shores.

The FIO monitors all aspects of the insurance industry and advises the Secretary on insurance matters of national and international importance, as well as representing the United States on prudential aspects of international insurance matters, where, previously, the United States had not been represented by any specifically designated individual, office, or agency. In FY 2012, the FIO Director was elected to serve on the International Association of Insurance Supervisors (IAIS) Executive Committee and as Chair of its Technical Committee. Among other projects, FIO is actively engaged in the FSOC and the IAIS.

OFR provides data and analysis relating to the designation of nonbank financial companies for supervision by the Federal Reserve Board and enhanced prudential standards. The OFR is also continuing to enhance its Financial Stability Monitor—a dashboard of financial stability metrics and indicators—and has played a central role in the international initiative to establish a global Legal Entity Identifier (LEI).

Winding Down the Troubled Asset Relief Program

The actions taken under TARP, along with other emergency measures put in place by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC) helped prevent the collapse of the U.S. financial system and stabilize the economy. Today, Treasury is focused on winding down TARP by exiting the remaining TARP investments as soon as possible in a manner that maximizes returns to the taxpayer and promotes financial stability.

Taxpayers have realized a significant positive return on TARP's investments in banks. By the end of FY 2012, taxpayers had recovered more than $267 billion in repayments and other income - more than $21.5 billion above the total funds that were invested under TARP's bank programs.

Stabilizing the Housing Market

Using authority granted under the Emergency Economic Stabilization Act (EESA), Treasury established two central housing programs under TARP, the Making Home Affordable (MHA) program and the Hardest Hit Fund (HHF). Treasury also used its authority to support the Federal Housing Administration's (FHA) Short Refinance Program. Combined, Treasury committed $45.6 billion to fund these housing programs under TARP. MHA and HHF have disbursed $5.5 billion from inception through the end of FY 2012. More funds are expected to be disbursed over time as incentive payments are made for current participants and new homeowners entering into the programs.

For the FY 2014 Budget, Treasury has reduced the obligation to the FHA Short Refinance Program by $7 billion, which reduces the overall commitment to housing programs under TARP to $38.6 billion.

Treasury Strategic Goal: Enhance U.S. Competitiveness and Promote International Financial Stability and Balanced Global Growth

Supporting Economic Growth and Opportunity

In FY 2012, Treasury focused on bolstering economic growth for local communities and small businesses through funding for projects that would encourage job creation and further investment in distressed communities. The FY 2014 Budget of $225 million for the Community Development Financial Institutions (CDFI) Fund provides funding to promote economic development investments in low-income and underserved communities. Of the total request, up to $35 million for the Healthy Food Financing Initiative will support increased availability of affordable, healthy food options, as part of the Administration's goal of eradicating food deserts by 2017.

Treasury proposes to implement Pay for Success, a new program that aims to reward nonprofit and other investors who finance preventive social programs that can post savings to the federal government while achieving better outcomes for their target population. Emerging Pay for Success projects are hampered by an inability to leverage savings across levels of government and a lack of rigorous data that could help investors evaluate the risk associated with these ventures. A Pay for Success Fund will be designed to ensure that taxpayers get the best possible returns for funds expended, government assets are protected, and losses are minimized in relation to social benefits provided by paying exclusively for projects that show measurable outcomes resulting in greater federal savings and programmatic efficiency. In order to qualify, these projects will be required to utilize evidence-based approaches and provide data for program and policy evaluation. The budget proposes $300 million in new capped mandatory funding for this program.

Treasury's FY 2014 budget provides $5 million to administer a Financial Capability Innovation Fund that will support development of financial access and financial capability tools that facilitate and encourage saving among, and improve financial knowledge of, low and moderate-income families. As part of this effort, Federal agencies may partner with state and local governments to conduct pilots and similar activities to develop innovations in these areas.

Encouraging International Economic Growth and Stability

Treasury works bilaterally and multilaterally to foster strong, sustainable, and balanced global growth; to support free trade and open markets; to promote a level playing field for U.S. financial institutions; to maintain stable international financial markets; to encourage foreign investment in the U.S. while protecting national security; and to use our leadership positions in the International Financial Institutions in pursuit of U.S. policy goals. The Budget includes funding for Treasury to continue advancing these economic and national security policy priorities around the world, including those supporting the President's National Export Initiative to double exports by 2014.

Through Treasury's active and sustained engagement with China, the U.S.: improved market access for U.S. companies in China's financial services market; obtained commitments from China to negotiate and ultimately abide by international rules on export financing to provide a level playing field for U.S. companies; and secured commitments to provide nondiscriminatory treatment to all enterprises in China including state-owned enterprises. In 2012, U.S. exports to China reached historic highs increasing nearly 36 percent over the 2009 levels.

In 2012 Treasury also worked through the Group of Twenty (G-20) to promote strong, sustainable, and balanced growth, including efforts to foster more flexible, market-determined exchanges rates and to boost domestic demand in surplus economies, notably China. China's current account surplus has fallen from a peak of over 10 percent of GDP before this administration took office to under 3 percent as of March 2013. The renminbi has appreciated on a real bilateral basis over 16 percent against the United States dollar since June 2010.

Treasury serves an integral role at the International Monetary Fund (IMF), which is the most important tool for the U.S. in promoting global financial stability. As the leading financial crisis first responder, the IMF promotes growth, reduces poverty, and helps prevent and resolve financial crises. In order to preserve U.S. leadership in the IMF, the Administration seeks legislation for a U.S. quota increase with a corresponding roll back in the U.S. participation in the IMF's New Arrangements to Borrow (NAB), as well as for governance reforms that will preserve the U.S. veto on the IMF's Executive Board. U.S. support for the quota and governance reforms reinforces the central position of the IMF in the international monetary system at a time when emerging economies explore establishing new and parallel financial institutions.

In 2012 financial instability in Europe continued to pose a risk to the strength of the U.S. and global recoveries. Treasury worked with its European counterparts to encourage the establishment of two powerful tools to help stem the contagion to the larger economies in Europe and restore confidence in the European banking system: the European Stability Mechanism and the Outright Monetary Transactions loan facility. Recent turmoil in Cyprus, however, demonstrates the need to remain vigilant.

Treasury's $2.9 billion FY 2014 International Programs budget request provides a cost-effective way to promote our national security, support the next generation of export markets, and address key global challenges like environmental degradation and food security, while fostering private sector development and entrepreneurship.

Of the total, $2.1 billion is requested for General Capital Increases (GCIs) and replenishments at the Multilateral Development Banks (MDB). Our investments in these institutions represent outstanding value for money, leveraging scarce development resources to advance key U.S. national security and economic objectives. Treasury's investments in the MDBs represent roughly $3 billion of the Administration's Function 150 budget request yet they leverage nearly $100 billion in annual development commitments.

The FY 2014 request includes funding for complex global challenges. This includes $135 million for the Global Agriculture and Food Security Program (GAFSP), $30 million for the International Fund for Agricultural Development (IFAD) and $427.5 million for Environmental Trust Funds administered by the World Bank.

The FY 2014 request also includes $23.5 million for the Office of Technical Assistance (OTA). OTA works with finance ministries and central banks of developing countries strengthen their capacity to manage public finances, which encourages stability abroad, supports broad U.S. development, foreign policy, and national security objectives ultimately, reducing these countries' reliance on development assistance.

Finally, the request includes $5 million for a portion of the U.S. contribution to the Deauville Partnership Transition Fund, a multi-donor trust fund administered by the World Bank and created under the U.S. chairmanship of the G-7. This is a new request to assist Arab countries that are members of the Deauville Partnership with Arab Countries in Transition (currently Egypt, Tunisia, Jordan, Morocco, Libya, and Yemen). The fund will help promote a broad reform agenda, to anchor these historic political transitions with an economic foundation that secures inclusive growth.

Treasury Strategic Goal: Protect Our National Security through Targeted Financial Actions

The Department's financial intelligence and enforcement activities have had a significant impact in combating money laundering and terrorist financing.

Successful Implementation of International Sanctions

In 2012, the Office of Foreign Assets Control (OFAC) continued to aggressively pursue investigations of both U.S. and foreign financial institutions that appeared to have violated U.S. economic sanctions. OFAC's $619 million settlement with ING Bank N.V. constituted the U.S. Department of the Treasury's largest sanctions-related enforcement action to date. OFAC also concluded its investigations and entered into settlements with Standard Chartered Bank, HSBC Holdings Plc, and Bank of Tokyo-Mitsubishi UFJ for a combined $515.5 million. Those four cases alone targeted more than 23,840 apparent violations of U.S. sanctions programs involving Burma, Cuba, Sudan, Iran, and Libya. OFAC's enforcement actions, in concert with parallel actions by federal and state prosecutors and domestic and foreign regulators, promoted compliance with the regulations administered by OFAC throughout the global financial industry. Additionally, the Department has engaged in an aggressive international outreach campaign since the passage of Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010

(CISADA) involving foreign governments, regulators, and financial institutions throughout the world to warn about the potential consequences of engaging in sanctionable activity. As a result of Treasury's efforts, most foreign financial institutions have chosen to dramatically reduce their business with Iran.

Collection of Major Asset Forfeitures Supports Deficit Reduction

The Treasury Forfeiture Fund received over $1 billion in forfeitures and recoveries in FY 2012 and is projected to collect close to $2 billion in FY 2013. The success of Treasury's asset forfeiture program allows the Department to make priority investments in law enforcement and national security, without requesting additional resources from taxpayers. Further, it enables Treasury to contribute to deficit reduction with a proposed permanent cancellation of $950 million from the Forfeiture Fund's unobligated balances.

Treasury Strategic Goal: Pursue Comprehensive Tax and Fiscal Reform

Treasury is committed to shrinking the deficit over the next decade through a balanced mix of spending reductions and tax reforms.

Agency Priority Goal: Increase Voluntary Tax Compliance

Treasury continues to work to increase voluntary tax compliance through the fair and uniform application of the tax code. Improvement of both service and enforcement, along with reforms to simplify the tax law, are essential to ensure that the U.S. tax system remains the most effective and fairest voluntary compliance system in the world.

The FY 2014 budget supports this goal through targeted investments in taxpayer services and web-based technology that will facilitate self-service transactions and simplify the taxpayer experience. Additionally, the budget requests resources for additional tax law enforcement and implementation of recent tax legislation, including resources to assist taxpayers in understanding the tax law changes included in the Affordable Care Act and other recent tax code changes.

Enforcement of the Tax Code

The 2014 Budget includes an Enforcement account increase of $367 million from the 2012 enacted level to help close the tax gap through various strategic investments. The enforcement program will protect revenue by identifying fraud and preventing issuance of questionable refunds including tax-related identify theft; increase compliance by addressing offshore tax evasion; make use of new information reporting to reduce underreporting; strengthen examination and collection programs; expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers; and strengthen return preparer compliance. This increase is supported by a $412 million program integrity cap adjustment, including a $5 million transfer to the Alcohol and Tobacco Tax and Trade Bureau (TTB). The IRS investments in these enforcement activities will return $6 for every $1 invested once new hires reach full potential in FY 2016. The 10-year (FYs 2104-2023) tax enforcement program integrity cap adjustment proposal will generate $46.5 billion in additional revenue and cost $13.8 billion for a net deficit savings of $32.7 billion.

Taxpayer Services

The FY 2014 Budget includes a Taxpayer Services account increase of $173 million from the FY 2012 enacted level to support targeted investments in services that help taxpayers understand and meet their tax obligations. Taxpayer Services plays a key role in lowering the tax gap. Activities in IRS Taxpayer Services appropriation support voluntary compliance by addressing millions of taxpayers' questions in their efforts to comply with the law and are an integral component of IRS's compliance activities. For example, during the 2012 tax season, IRS taxpayer service representatives answered over 19 million phone calls and 50 million automated calls. The 2014 Budget also provides $301 million for the Business Systems Modernization Program to invest strategically in state-of-the art capabilities, such as online taxpayer services, that utilize and leverage the database infrastructure that is now in place. The IRS budget request reflects a concerted effort to expand the self-service and alternate service options available to taxpayers, increasing the accuracy of information provided to taxpayers while decreasing taxpayer reliance on expensive in-person and over-the-phone IRS assistance.

Treasury Strategic Goal: Manage the Government's Finances in a Fiscally Responsible Manner

In FY 2014, Treasury will implement a number of initiatives to improve operational efficiency and effectiveness.

Government-wide Financial Management

The FY 2014 Budget includes additional funding for the Office of Financial Innovation and Transformation (FIT) which is working in coordination with the Government-wide CFO Council to improve financial management, reduce costs, increase transparency, and improve delivery of agencies' missions within Treasury and across the federal government. Treasury also proposes to transfer FIT from the Departmental Offices to The Bureau of the Fiscal Service (Fiscal Service) to allow closer collaboration with the bureau that most closely aligns with its mission.

Restoring Gulf Coast Communities

The budget includes resources to administer the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) which established the Gulf Coast Restoration Trust Fund to maintain the civil and administrative penalties arising from the *Deepwater Horizon* oil spill. Treasury will serve oversight, administrative, compliance, and audit roles to help ensure that funds are expended as required by the RESTORE Act, and will work with the newly established Gulf Coast Restoration Council to administer these funds in supporting economic and environmental restoration in the Gulf Coast region.

Agency Priority Goal: Increase Electronic Transactions with the Public to Improve Service, Prevent Fraud, and Reduce Costs

Treasury has implemented a multi-pronged effort to expand the use of electronic transactions in conducting the business of government, including through electronic payroll savings bonds, electronic benefit payments, and electronic tax collection. These efforts have resulted in reduced costs, improved customer service, and decreased susceptibility to fraud. The payroll sale of paper savings bonds and the sale of paper savings bonds at financial institutions have already been discontinued, and businesses are now required to pay taxes electronically rather than by paper coupon. The Department will continue to make progress toward its "Paperless Treasury" initiative by paying benefits electronically and working to increase the electronic filing (e-file) rate. Treasury's paperless initiatives are estimated to save $500 million over five years from

FY 2011 to FY 2015. The IRS's e-file program has been highly successful, saving the department millions of dollars every year. For example, in 2012, it costs 23 cents to process an e-filed return—a fraction of the $3.36 it takes to process a paper return. With e-file, taxpayers get their refund faster, with fewer data processing errors. The individual tax e-file rate is now over 80 percent.

The Fiscal Service

In FY 2014, Fiscal Service will continue functional integration of the former Financial Management Service (FMS) and Bureau of the Public Debt (BPD) to include the FIT transfer. This will improve the planning and implementation of FIT's initiatives by more closely aligning strategic direction with operational implementation, which is performed by Fiscal Service. Under this structure, the Fiscal Assistant Secretary will maintain high-level policy guidance and oversight of FIT.

Achieving Small Business Procurement Goals

In FY 2014, the Department will build on its success in achieving small business contracting goals. In FY 2012, Treasury met or exceeded all of its small business contracting goals and exceeded its overall Small Business contracting goal. The Department more than doubled its contracting goals for Women Owned Small Businesses and for Small Disadvantaged Businesses. During FY 2012, Treasury awarded $890 million in contracts to small businesses, which is an increase of $80 million above the FY 2011 total.

Securing Americans Value and Efficiency (SAVE)

The Administration held its fourth SAVE Award contest for federal employees to submit ideas to improve the operations of government. Treasury plans to adopt two ideas: savings in postage from an electronic transcript delivery process, and replacing existing interior lighting with LED technology for energy savings.

Savings Proposals

Treasury's FY 2014 Budget includes efficiency savings of $354 million and program reductions of $29 million. Treasury's bureaus have found savings from: space optimization for the IRS, manufacturing support systems and spoilage reduction for the BEP, payment reorganization for the Fiscal Service, and numerous administrative and personnel efficiencies across multiple bureaus.