

U.S. DEPARTMENT OF THE TREASURY

Press Center



Written Testimony by Secretary Timothy F. Geithner on the Treasury Budget

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**Senate Committee on Appropriations
Subcommittee on Financial Services and General Government**

Chairman Durbin, Ranking Member Moran, members of the Subcommittee, thank you for the opportunity to testify about the President's Fiscal Year (FY) 2012 Budget for the Department of the Treasury.

Congress has given Treasury a very broad mission, with responsibilities that touch many aspects of the lives of Americans.

Treasury is responsible for raising the resources necessary to fund critical Government functions, from national defense to protecting national parks. As the government's financial manager, we process payments on a daily basis of almost \$100 billion, including Social Security payments to 54 million Americans each month. We design and deliver tax credits to help support business investment and help families finance a college education. We design and enforce the financial sanctions necessary to prevent the spread of nuclear weapons and the finance of terrorism.

Treasury plays an important role in helping shape the President's overall economic policies.

Our lead policy responsibilities include tax policy, international economic policy, and the stability of the U.S. financial system, which is the focus of the recently established Financial Stability Oversight Council that I chair.

Unlike most Federal agencies, Treasury's annually appropriated budget is about people more than programs, with most of the resources we seek from Congress directed to supporting the talented public servants charged with these important economic and financial responsibilities. Salaries and operating costs make up 96 percent of our budget, and most of the rest is for investments in technology they require to function.

In the President's Budget for FY 2012, the Administration requested slightly more than \$14 billion, \$13.3 billion of which is for the Internal Revenue Service (IRS). This request includes efficiency savings and program reductions across all Treasury bureaus, as well as a number of targeted investments to allow us to better address some of the most important economic challenges facing the United States.

Let me begin by summarizing the core economic and financial priorities that shape this budget request.

Strengthening Economic Growth

As we work to strengthen the economy and help get more Americans back to work, we are responsible for a range of initiatives designed to help support business investment.

As part of the Small Business Jobs Act of 2010, Treasury is implementing two new programs - the Small Business Lending Fund and the State Small Business Credit Initiative - designed to improve access to capital for small businesses.

We are working to encourage private sector investment in start-ups and small businesses operating in moderate and low-income communities through investments in the Community Development Financial Institutions Fund and the New Markets Tax Credit Program.

Assisting Homeowners and Repairing the Housing Market

In the face of the worst housing crisis in a generation, Treasury plays an important role in the Government's programs to prevent avoidable foreclosures and support the continued repair of the housing market.

Treasury's Home Affordable Modification ProgramSM (HAMPSM), which is one of several critical homeownership assistance programs under our Making Home Affordable[®] initiative, has helped more than 630,000 families stay in their homes. By setting affordability standards and providing a framework for homeowner assistance that the private sector can follow, HAMP has also driven industry improvements that have resulted in 2 million additional modifications outside the program. We continue to refine and strengthen our housing programs and are taking additional steps to help ensure Americans are better served by their mortgage companies, including publishing a quarterly compliance scorecard for each of the 10 largest HAMP servicers and requiring all Making Home Affordable-participating servicers to assign a single point of contact to each homeowner requesting a HAMP modification.

Another key priority is comprehensive housing finance reform. In February, the Administration laid out a plan to wind down Fannie Mae and Freddie Mac and reform our nation's housing finance system. We look forward to working with Congress in the coming months to develop legislation that will help create a safer and more stable housing finance market.

Repair and Reform of the Financial System

Our programs to help strengthen and reform the financial system have made very substantial progress, but we still face a number of challenges ahead.

The financial recovery bank programs under the investment portion of the Troubled Assets Relief Program (TARP) are now estimated to provide a substantial positive return to the taxpayer. On March 30, we announced that TARP's bank programs officially turned a profit. Moving forward, we're working to exit our remaining investments and continue recovering tax payer dollars. Ultimately, we expect TARP's bank programs will produce a lifetime profit of nearly \$20 billion.

We are also continuing to work in cooperation with the Federal Housing Finance Agency to protect taxpayers and reduce the ultimate cost of the Government's support for the housing market through the Government Sponsored Enterprises (GSEs). In the President's FY 2012 budget, the net cost of rescuing Fannie Mae and Freddie Mac is projected to drop by 44 percent from \$131 billion today to \$73 billion over the next ten years as those companies continue to pay back dividends on the government's investment. In fact, in each of the last two

quarters, the net cost of the government's investment in Fannie Mae and Freddie Mac has declined, because those firms have paid more back in dividends than they have requested in new funding.

We are helping shape the rules to implement the comprehensive reforms to the financial system passed by Congress last year, including stronger protections for consumers and tougher limits on risk-taking by banks. These reforms will help make our financial system more secure and protect the American taxpayer, but to be effective we need to fully fund their implementation and enforcement.

Tax Reform

The President has proposed to reform our corporate tax system to make America more competitive.

We look forward to working with members of Congress and the business community to design a comprehensive, revenue neutral reform of the corporate tax system that would lower tax rates, eliminate special tax breaks, and encourage investment in the United States.

Promoting U.S. Economic and National Security Interests Globally

Treasury plays a critical role in helping advance U.S. economic interests abroad and protecting against foreign threats to our economic and financial security. Our request sustains the Department's investment in counter-terrorism and financial crime programs. This includes funding for implementing targeted economic sanctions against foreign threats to the United States and stopping the flow of money to terrorist organizations and their support networks.

Improving the Efficiency of Government Services

As we pursue these core priorities, we are working to deliver savings, program reductions, and improvements in the overall efficiency of government. As a result of these savings, our budget requests for FY 2012 in five accounts are below the FY 2010 enacted levels, and in three accounts are below the FY 2008 enacted levels.

Taxpayer Services and tax enforcement

The customer service and enforcement programs at the IRS provide one of the best values in the Federal Government. Every dollar invested in IRS yields nearly five dollars in increased revenue from non-compliant taxpayers. The targeted investments in this budget request are expected to produce more than \$1.3 billion in additional annual revenue once fully implemented in FY 2014.

In FY 2010, the IRS enforcement effort's brought in \$57.6 billion in additional tax revenues. This is a 53 percent increase in enforcement revenue since 2003 and a clear example that the investment in the IRS over the past few years is producing significant returns.

Over the last decade there have been nearly 4,500 changes to the tax law, providing IRS with a challenging and constantly changing business environment. Despite this fact, service levels have increased and each year the IRS has delivered a successful filing season.

The IRS continues to implement information programs and online applications to help taxpayers find and understand information. Use of the popular IRS web tool, "Where's My Refund.com" has nearly tripled since 2006 to 67 million users. This modernization has not only helped improve IRS' daily interactions with taxpayers but has also provided the platform for significant productivity increases in IRS operations.

Today we receive nearly 100 million tax returns electronically each year. In the past these returns would have been opened, sorted, and transcribed manually. Last year, nearly 70 percent of individual tax returns were filed electronically compared to a mere ten percent 15 years ago. The efficiency savings have allowed us to consolidate ten submission processing sites into six and reduce the need for manual submission processing jobs. We will repurpose an additional processing site later this year.

Our IT modernization effort will decrease the time it takes to process and post taxpayer information from two weeks to one day, allowing IRS to issue faster refunds and customer service representatives to answer tax payer questions based on more up to date information.

Treasury's Electronic Payments Initiatives

Modernizing processes and reducing waste are key components not only of the IRS portion of Treasury's budget but also of our overall efforts to make sure the Department operates more efficiently and effectively.

Treasury now makes 82 percent of its payments electronically. We are taking action to further increase electronic payments. Effective May 2011, all newly enrolled federal beneficiaries will receive payments electronically. By March 2013, we plan to move all existing beneficiaries to electronic payment.

Productivity increases have already allowed the Financial Management Service to repurpose the Austin, Texas payment center as a debt collection center. Debt collection efforts last year alone totaled more than \$4 billion, a 41 percent increase over FY 2000.

Automation of our debt financing functions has allowed the Bureau of Public Debt to decrease staffing by more than 20 percent over the last five years. Additionally, we transitioned to an entirely electronic process for issuing payroll savings bonds earlier this year.

We are working to further automate debt financing.

In early 2012, we will no longer issue over-the-counter paper savings bonds. Instead, we will focus on supporting electronic means to issue bonds to individuals, reducing the cost of staffing, postage, paper forms, and processing fees.

Overall, these efforts to increase Treasury's paperless transactions with the public are expected to produce more than \$500 million in cost savings and efficiencies over the next five years. These savings, which include reductions in personnel and facilities costs, will create a more efficient Department and allow us to increase the quality of the services we provide.

Reducing Fraud and Improper Payments

Treasury will also expand upon and maintain the Administration's VerifyPayment.gov portal to prevent ineligible recipients from receiving payments from the Federal government. Treasury will also continue to improve the management of the delinquent debt portfolio by implementing reforms that will increase collection of delinquent tax and non-tax debt, including child support, by more than \$5 billion over the next ten years.

Overall Improvements in Efficiency

Treasury will cut the number of data centers we currently maintain by one-third by 2015, resulting in significant dollar and energy consumption savings. These overall savings build on substantial improvements over the last two years.

Treasury's FY 2009, FY 2010 and FY 2011 budgets collectively included a total of more than \$1 billion in savings and offsets. Treasury's FY 2012 budget alone identifies nearly \$1 billion in savings, including \$336 million in direct cost savings and efficiencies and \$630 million in offsets primarily from assets seized as a result of violations of U.S. sanctions.

These savings allow us to finance some very important investments. Any substantial cut to the IRS budget will hurt revenue collection and service to taxpayers, resulting in unanswered phone calls and letters. Cuts to the remaining Treasury responsibilities would weaken our ability to support reforms that are critical to economic recovery and repair of the financial system. Cuts to the CDFI program would limit our ability to attract private investment to communities hit hardest by the economic crisis.

To carry out Treasury's responsibilities, we need to be able to retain and support the dedicated public servants that make up the career staff of Treasury and its Bureaus.

These are a very talented group of people, working extremely hard in the face of the most challenging economic and financial problems in many decades. They have played a vital role in helping restore economic growth and a measure of financial stability.

I look forward to working with you to ensure we continue to attract and retain a diverse, highly skilled workforce that delivers enhanced results for the American public.