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Treasury Department Appropriations, FY2016

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Summary

At its most basic level of organization, the Treasury Department is a collection of departmental offices and operating bureaus. The bureaus as a whole account for 95% of Treasury's budget and workforce. Most bureaus and offices are funded through annual appropriations.

Treasury appropriations were distributed among 10 accounts in FY2015: (1) Departmental Offices (DO), (2) Departmentwide Systems and Capital Investments Program (DSCIP), (3) Office of Inspector General (OIG), (4) Treasury Inspector General for Tax Administration (TIGTA), (5) Special Inspector General for the Troubled Asset Relief Program (SIGTARP), (6) Financial Crimes Enforcement Network (FinCEN), (7) Bureau of the Fiscal Service (BFS), (8) Alcohol and Tobacco Tax and Trade Bureau (ATTB), (9) Community Development Financial Institutions Fund (CDFIF), and (10) the Internal Revenue Service (IRS).

The President's budget request for FY2016 included $13.456 billion in appropriations for the Treasury Department, including a rescission of $875 million for the Treasury Forfeiture Fund (TFF). Of the requested amount, $12.931 billion would go to the IRS; $364 million to the BFS; $332 million to DO; $233.5 million to CDFIF; $167 million to TIGTA; $113 million to FinCEN; $101 million to ATTB; $41 million to SIGTARP; $35 million to OIG; and $11 million to DSCIP.

In early July 2015, the House Appropriations Committee reported a bill (H.R. 2995) that provided appropriations for the Treasury Department and several other agencies in FY2016. Under the measure, Treasury would have received $10.758 billion in appropriations, including a rescission of $721 million from the TFF; this amount was $764 million less than the amount enacted for FY2015 and $2.698 billion less than the budget request.

Later the same month, the Senate Appropriations Committee also reported a bill (S. 1910) to fund Treasury and the same other agencies in FY2016. Under the measure, Treasury would have received $11.139 billion in appropriations, including a rescission of $700 million from the TFF. This amount was $383 million less than the amount enacted for FY2015 and $2.317 billion less than the budget request.

The House and Senate agreed in mid-December 2015 on an omnibus appropriations measure (Consolidated Appropriations Act, 2016, P.L. 114-113) for FY2016 that included funding for the Treasury Department. Under the act, Treasury received $11.942 billion in appropriations, or $420 million more than the amount enacted for FY2015 but $1.514 billion less than the budget request.

The three FY2016 budget proposals for Treasury raised several issues for Congress. One concerned the status of funding for the Office of Terrorism and Financial Intelligence (TFI): H.R. 2995 as reported would have created a separate appropriations account for the TFF, whereas both the Administration's budget request and S. 1910 as reported proposed combining funding for the Office with overall DO funding. Another issue was the future status of two CDFIF programs: the Healthy Food Initiative and the Bank Enterprise Award Program. The budget request included funding for the former but no funding for the latter, but S. 1910 and H.R. 2995 would have funded the latter without funding the former.

Proposed funding for the IRS in FY2016 raised three additional issues: (1) the potential impact of the three proposals on taxpayer service and tax law enforcement, (2) the advantages and disadvantages of using discretionary funding cap adjustments under the Balanced Budget Act of 2011 to increase funding for IRS enforcement activities, and (3) the implications of the current budget scoring convention of disregarding the net revenue effect of agency administrative programs for the size of the IRS budget.

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The Department of the Treasury

This report examines FY2016 appropriations for the Treasury Department and its operating bureaus, including the Internal Revenue Service (IRS). More specifically, it describes the President's budget request for Treasury in FY2016 and the current status of legislation in the House and Senate to fund the agency. In addition, the report discusses policy issues raised by the budget request and the appropriations bills in the House and Senate.

The Treasury Department performs a variety of critical functions. Foremost among them are

- protecting the nation's financial system against illegal activities, such as money laundering and terrorist financing;
- collecting tax revenue and enforcing tax laws;
- managing and accounting for the federal debt;
- administering the federal government's finances;
- regulating certain financial institutions; and
- producing and distributing coins and currency.

Organizational Structure and Functions

At its most basic level of organization, the Treasury Department is a collection of departmental offices and operating bureaus. In general, departmental offices formulate and implement policy initiatives and manage Treasury's day-to-day operations, while operating bureaus handle specific tasks and duties assigned to Treasury, mainly as a result of statutory mandates. In the past decade, the bureaus have accounted for more than 95% of the Treasury Department's funding and workforce.

With one exception, the bureaus and offices can be divided into those engaged in financial management and regulation and those engaged in law enforcement. In recent years, the Comptroller of the Currency, U.S. Mint, Bureau of Engraving and Printing, Bureau of the Fiscal Service, and Community Development Financial Institutions Fund have been involved in the management of the federal government's finances or the supervision and regulation of key elements of the U.S. financial system. By contrast, law enforcement has been central to the duties handled by the Alcohol and Tobacco Tax and Trade Bureau, Financial Crimes Enforcement Network, and the Treasury Forfeiture Fund. The advent of the Department of Homeland Security in 2002 sharply curtailed Treasury's direct involvement in law enforcement. Arguably, the exception to this simple dichotomy is the IRS, whose main responsibilities encompass both the collection of tax revenue and the enforcement of tax laws and regulations.

The operating budgets for most Treasury bureaus and offices are funded largely through annual discretionary appropriations. This is the case for the IRS, Bureau of the Fiscal Service, Financial Crimes Enforcement Network, Alcohol and Tobacco Tax and Trade Bureau, Office of the Inspector General, Treasury Inspector General for Tax Administration, Special Inspector General for the Troubled Asset Relief Program, and Community Development Financial Institutions Fund. However, funding for the Treasury Franchise Fund, the U.S. Mint, the Bureau of Engraving and Printing, and the Office of the Comptroller of the Currency comes exclusively from the fees they receive for the services and products they provide to the public and other government agencies.

Treasury Appropriations Accounts

Treasury appropriations are distributed among 10 accounts, which are described below.

Departmental Offices (DO)

The Departmental Offices account covers the salaries and other expenses of offices in Treasury that formulate and implement policies dealing with domestic and international finance, terrorist financing and other financial crimes, taxation, and the state of the domestic economy. Funding is also provided through DO for the Treasury's financial and personnel management, procurement operations, and information and telecommunications systems.

Department-wide Systems and Capital Investments Program (DSCIP)

The Department-wide Systems and Capital Investments Program account pays for investments in new technology and capital improvements aimed at modernizing Treasury's administrative processes and increasing the efficiency of its overall operations.

Office of Inspector General (OIG)

The Office of Inspector General account covers the salaries and other expenses related to the audits and investigations conducted by OIG staff. These evaluations are intended to improve the efficiency and effectiveness of Treasury's operations and programs; prevent waste, fraud, and abuse; and inform the Treasury Secretary and Congress about problems or shortcomings in those activities.

Treasury Inspector General for Tax Administration (TIGTA)

The Treasury Inspector General for Tax Administration account pays for salaries and other expenses related to the audits and investigations conducted by TIGTA staff. These evaluations focus primarily on the efficiency and effectiveness of IRS programs and operations. TIGTA's investigations are also intended to deter or prevent fraud and waste in IRS programs and operations, and to recommend changes in those activities to solve problems or remedy deficiencies.

Special Inspector General for the Troubled Asset Relief Program (SIGTARP)

The Special Inspector General for the Troubled Asset Relief Program account pays the salaries and other expenses related to the audits and investigations into the management and effectiveness of TARP conducted by SIGTARP staff. The office was established by the same law that created TARP: the Emergency Economic Stabilization Act (P.L. 110-343).[1]

Financial Crimes Enforcement Network (FinCEN)

The Financial Crimes Enforcement Network account covers the salaries and other expenses related to the activities of FinCEN, whose main responsibility is to protect the domestic financial system from illicit uses, such as money laundering and terrorist financing. The statutory basis for this role is the Bank Secrecy Act (BSA, P.L. 91-508). FinCEN administers key provisions of the

[1] For more information see CRS Report R41427, *Troubled Asset Relief Program (TARP): Implementation and Status*, by (name redacted)

act by developing and implementing regulations and other guidance and working with private financial institutions and eight federal agencies to ensure the financial industry complies with the BSA's strict reporting requirements for financial transactions.

Bureau of the Fiscal Service (BFS)

The Bureau of the Fiscal Service account funds two operations functions that up until FY2014 were handled by two separate bureaus with separate appropriations accounts: the Financial Management Service and the Bureau of Public Debt. As a result of a consolidation of the two bureaus that began in FY2015, the BFS account covers the salaries and other expenses related to developing and implementing payment policies and procedures for federal agencies, collecting debts owed to those agencies and state governments, and providing financial accounting, reporting, and financing services for the federal government and its agents. In addition, the BFS account covers the salaries and other expenses related to the federal government's public debt operations and the sale of U.S. bonds

Alcohol and Tobacco Tax and Trade Bureau (ATTB)

The Alcohol and Tobacco Tax and Trade Bureau account pays for the salaries and other expenses related to the activities of ATTB, which was established by the Homeland Security Act of 2002 (P.L. 107-296). ATTB enforces certain laws governing the domestic sale and production of alcohol and tobacco products. It also has jurisdiction over the federal consumer safety laws governing the use of alcohol and tobacco products.

Community Development Financial Institutions Fund (CDFIF)

The Community Development Financial Institutions Fund account funds the activities of community development financial institutions (CDFIs). These institutions, which include community development banks, credit unions, and venture capital funds, provide grants, loans, and equity investments for affordable housing projects, small businesses, and community development projects in eligible areas. In addition, the CDFIF administers the Bank Enterprise Award (BEA) program and the New Markets tax credit. Since its creation in 1994, the CDFIF has awarded at least $2.1 billion to community development financial institutions, community development entities (CDEs), and depository institutions insured by the Federal Deposit Insurance Corporation through the CDFI Program; the Native American CDFI Assistance Program; and the BEA program.[2] In addition, the fund has allocated $40 billion in New Markets tax credits to CDEs since the credit was created in 2000.

Internal Revenue Service (IRS)

The Internal Revenue Service account covers the salaries and other expenses related to the enforcement of federal tax laws and the collection of revenue. Two critical components of the IRS's operations and programs are the services it offers taxpayers to help them understand and meet their tax obligations, and the measures it takes to improve voluntary taxpayer compliance and punish those who violate the law. Some appropriated funds are used to develop or upgrade business operations and information systems, as part of an ongoing effort by the IRS to improve the effectiveness and efficiency of taxpayer services and enforcement.

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[2] U.S. Department of the Treasury, *Community Development Financial Institutions Fund: FY2016 President's Budget* (Washington, DC: Feb. 2, 2015), p. 3.

Table 1 shows the enacted appropriations for Treasury's accounts in FY2015, the President's FY2016 request, and the amounts recommended for FY2016 by the House and the Senate Appropriations Committees.

Table 1. Department of the Treasury Appropriations, FY2015-FY2016

(in millions of dollars)

Appropriation Account	FY2015 Enacted	FY2016 Resident's Request	H.R. 2995	S. 1910	FY2016 Enacted
Departmental Offices (Salaries and Expenses)	$210	$332	$200	$326	$222.5
Department-wide Systems and Capital Investments	3	11	—	5	5
Office of Terrorism and Financial Intelligence	112.5	—	116	—	117
Office of Inspector General	35	35	35	35	35
Treasury Inspector General for Tax Administration	158	167	167	167	167
Special Inspector General for Troubled Asset Relief Program	34	41	41	37	41
Community Development Financial Institutions Fund	230.5	233.5	233.5	221	233.5
Financial Crimes Enforcement Network	112	113	113	113	113
Bureau of the Fiscal Service[a]	348	364	360	356	364
Alcohol and Tobacco Tax and Trade Bureau	100	101	105	101	106
Payment for Losses in Shipment	2	2	2	2	2
Internal Revenue Service (total)	10,945	12,931	10,107	10,475	11,235
Taxpayer Services	*2,157*	*2,401*	*2,232*	*2,247*	*2,156*
Enforcement[b]	*4,860*	*5,400*	*4,325*	*4,500*	*4,860*
Operations Support Activities[c]	*3,638*	*4,743*	*3,300*	*3,468*	*3,638*
Business Systems Modernization	*290*	*379*	*250*	*260*	*290*

Appropriation Account	FY2015 Enacted	FY2016 Resident's Request	H.R. 2995	S. 1910	FY2016 Enacted
Rescissions: Treasury Forfeiture Fund	(-769)	(-875)	(-721)	(-700)	(-700)
Total	**$11,522**	**$13,456**	**$10,758**	**$11,139**	**$11,942**

Sources: H.Rept. 114-194, S.Rept. 114-97, and explanatory statement for House amendment #1 to the Senate amendment to H.R. 2029.

Notes: Figures may not sum owing to rounding.

a. Starting in FY2104, the appropriation accounts for the Financial Management Service and the Bureau of Public Debt were combined into a single account called the Bureau of Fiscal Service. The main justification for the consolidation was to improve the efficacy and efficiency of Treasury's financial management operations.

b. The requested appropriation for enforcement in FY2016 included $352 million in additional funds as a program integrity cap adjustment for IRS enforcement initiatives to reduce future deficits.

c. The requested appropriation for operations support in FY2016 included $315 million in additional funds as a program integrity cap adjustment for IRS enforcement initiatives to reduce future deficits.

FY2016 Treasury Appropriation Accounts: Current Status and Issues for Congress

This section examines the Obama Administration's FY2016 budget request for the Treasury Department and the enacted amount for the year. In addition, it discusses selected policy issues raised by the budget request or the provisions in those bills. These details are provided for each of the Treasury appropriation accounts (which number 9 or 10, depending on whether funding for the Office of Terrorism and Financial Intelligence (TFI) is counted as a separate account or folded into the DO account).

Departmental Offices

Budget Request

The President's FY2016 budget request for the Treasury Department included $332 million in appropriations for DO, or $9.3 million more than the amount enacted for FY2015. With the addition of reimbursable expenses from activities funded through the DO account, the DO operating budget would have totaled $453 million in FY2016.

Of the requested funding, $38 million would have gone to executive direction, $59 million to international affairs and economic policy, $76 million to domestic finance and tax policy, $110 million to terrorism and financial intelligence, and $50 million to Treasury management and related programs.[3] In addition, $25 million would have been available until the end of FY2017 for Treasury's Financial Statement Audit and Internal Control program and the modernization of Treasury's information technology systems; $9.5 million for the audit, oversight, and administration of the Gulf Coast Restoration Trust Fund ($7 million of that amount would come from the fund); $3 million for the development and implementation of programs in the Office of Critical Infrastructure Protection and Compliance Policy; and $10 million for a Digital Service team.

[3] For more details, see http://www.treasury.gov/about/budget-performance/CJ15/01.%20DO%20e.pdf.

Relative to the enacted funding for FY2015, the budget request called for $20.6 million more for program expansions (including the Digital Service team), $5.2 million more to maintain FY2015 levels of operation, $3.2 million less in non-recurring expenses (including a reduction of $4.0 million in TFI costs), $0.4 million less from efficiency savings, $0.7 million in reinvestments, and $13.5 million less from adjustments (including $9.5 million less for the administration of the Gulf Coast Restoration Trust Fund).

H.R. 2995

The House Appropriations Committee reported a bill (H.R. 2995) on July 9, 2015, that would have provided $200 million in appropriations for DO in FY2016. This amount was not directly comparable with the budget request, as the request included funding for TFI. According to the report on the bill, the recommended appropriation was deemed sufficient to fully fund Treasury's cybersecurity initiatives and the administrative cost of implementing the Resources and Ecosystems Sustainability, Tourism Opportunities, and Revived Economy of the Gulf Coast Act (P.L. 112-141).[4]

H.R. 2995 recommended that a separate appropriation account be established for TFI, and that it receive $116 million in FY2016, or $3.5 million more than the amount appropriated for FY2015. Combined with the recommended appropriations for DO, the bill would have provided a total of $316 million for activities labeled DO in the budget request, or $16 million less than the amount included in that request.

The report also addressed several issues related to DO operations in FY2016. One was trafficking in wildlife and ivory poaching, mostly in Africa. The committee directed Treasury to submit reports six months apart in FY2016 to the House and Senate Appropriations Committees on the steps it was taking to implement the National Strategy on Wildlife Trafficking.

Another issue was an overdue report from Treasury on "economic warfare and financial terrorism." The committee pointed out that FY2015 marked the fifth year in a row when Treasury failed to submit such a document. The committee directed Treasury to submit the report in FY2016.

With regard to funding for TFI, the committee directed Treasury to identify online the companies that are not in compliance with the Iran Sanctions Act (P.L. 104-172) and any foreign entities that are doing business with the Iran Revolutionary Guard Corps. Treasury also must submit two reports to both appropriations committees within 100 days of the enactment of the bill. One should address the Office of Foreign Assets Control's (OFAC's) policies and procedures for issuing general licenses; the other should provide certain details on OFAC's procedures for assisting innocent persons who cannot access their bank accounts or apply for credit because they have the same name as someone on the list of "designated and blocked" persons.

Another concern addressed by the committee was the operations of the Financial Stability Oversight Council (FSOC) and the Office of Financial Research (OFR). Both were created by the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203). Under current law, each office sets its own budget and then funds it by collecting fees from certain private institutions. As a result, Congress exercises no direct control over their operations through the appropriations process. To give Congress more influence, the committee included provisions in H.R. 2995 that would have required OFR and FSOC to submit quarterly reports on their "budget

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[4] U.S. Congress, House Appropriations Committee, *Financial Services and General Government Appropriations Bill, 2016*, report to accompany H.R. 2995, 114th Cong. 1st sess., H.Rept. 114-194 (Washington, DC: GPO, 2015), pp. 8-11.

obligations" and would have subjected OFR to the annual appropriations process. Moreover, the committee urged the FSOC not to pursue what it called "failed or untested domestic policies through international agreements," but to consult with the Securities and Exchange Commission and take into consideration the distinctions among asset management organizations when deciding whether to designate a nonbank financial institution as a "systemically important financial institution," or SIFI.

S. 1910

S. 1910, as reported by the Senate Appropriations Committee on July 30, would have given DO $326 million in appropriations in FY2016, or $116 million more than the amount enacted for FY2015 but $6 million less than the budget request.[5] The committee recommended that $112.5 million of that amount be reserved to fund the operations of TFI, or $2.5 million more than the budget request. A separate appropriations account for the Office would not have been created.

In its report on the bill, the committee addressed several issues. One was the financial literacy of American adults. According to recent data from Treasury's Office of Financial Education, one in seven adults is incapable of successfully completing financial tasks beyond those requiring the most "rudimentary" financial literacy skills. The committee recommended that OFE examine the extent to which individuals with rudimentary financial skills benefit from federal financial literacy programs and to develop "measurable" objectives for the improvement of those skills for the Financial Literacy and Education Commission.

The committee also directed TFI to "fully" implement all economic sanctions and divestment measures against the Islamic State of Iraq and the Levant, Russia, Belarus, North Korea, Iran, Sudan, Syria, Venezuela, Zimbabwe, and designated rebel forces operating in and around the Democratic Republic of the Congo. Treasury should notify the committee if its resources for enforcing those measures prove to be inadequate.

Issue for Congress

Proposed DO funding in FY2016 raised again the question of how TFI's budget should be managed. The Obama Administration and the Senate Appropriations Committee preferred that TFI appropriations remain an element of appropriations for DO. The House Appropriations Committee took the opposite view by carving out a separate appropriation account for TFI. At issue was the extent of congressional control over how much money is available for TFI's operations and how those funds are used.

Consolidated Appropriations Act, 2016 (P.L. 114-113)

The act gave DO $222.5 million in appropriations for FY2016. This amount did not include funding for TFI. Of that amount, $22.2 million would be available until September 20, 2017, for the following purposes: (1) the Treasury-wide Financial Statement Audit, (2) the modernization of DO's information technology, (3) the audit and management of the Gulf Coast Restoration Trust Fund, and (4) the development and implementation of new programs in the Office of Critical Infrastructure Protection and Compliance Policy.

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[5] U.S. Congress, Senate Appropriations Committee, *Financial Services and General Government Appropriations Bill, FY2016*, report accompanying S. 1910, 114th Cong. 1st sess., S.Rept. 114-97 (Washington, DC: GPO, 2015), p. 10.

According to the congressional explanatory statement for the act, Treasury's departmental offices may offer limited technical assistance to Puerto Rico. Treasury also must submit to the two appropriations committees a report in FY2016 on current and planned cloud computing usage by bureaus and offices.

Under the act, TFI separately received $117 million in appropriations for FY2016. Of that amount, no more than $27.1 million may be used for administrative costs, and $5 million will be available until the end of FY2017. In addition, the act stated that Congress expected TFI to "fully" implement sanctions and divestment measures against a number of designated countries (e.g., Sudan, Iran, Russia, and North Korea), and to notify Congress when TFI lacked the resources to do so.

Departmentwide Systems and Capital Investments

Budget Request

The FY2016 Treasury budget request called for $10.7 million in appropriations for DSCIP, or about $8 million more than the amount enacted in FY2015.[6] There were no appropriations for the account in FY2012 and FY2013.

The requested amount was to be used for two purposes. One was to construct a shared information technology infrastructure housed in existing Treasury buildings that would allow the analysis of large volumes of financial and managerial data related to various critical functions, such as TFI's operations. The second purpose was to repair the paver stones for the Treasury South Plaza to make it safer for pedestrians.

H.R. 2995

H.R. 2995, as reported by the House Appropriations Committee, recommended no funding for DSCIP in FY2016.

S. 1910

The bill, as reported by the Senate Appropriations Committee, recommended that DSCIP receive $5 million in appropriations in FY2016, or $2.3 million more than the amount enacted for FY2015 but $5.7 million less than the budget request. The report on S. 1910 provided no details on how the funds should be used. But it did include a provision directing Treasury to submit an annual "Capital Investment Plan" to the House and Senate Appropriations Committees within 30 days after the release of the annual budget request.

Consolidated Appropriations Act, 2016

The act provided $5 million in appropriations for DSCIP in FY2016.

[6] U.S. Department of the Treasury, *Department-Wide Systems and Capital Investments Program: FY 2016 President's Budget* (Washington, DC: Feb. 2, 2015), p. 3, available at http://www.treasury.gov/about/budget-performance/CJ16/08.%20DSCIP%20FY%202016%20CJ.pdf.

Office of Inspector General

Budget Request

The Treasury Department requested $35.4 million in appropriated funds for OIG in FY2016, or $65,000 more than the amount enacted for FY2015.[7] With the addition of an estimated $13.0 million in payments for services rendered by OIG, its operating budget for FY2016 could total $48.4 million. Of the requested funding, $28.3 million would be used for audits, and the remaining $7.1 million for investigations. Furthermore, $2.8 million of the requested amount would be available through the end of FY2017 for audits and investigations performed under Section 1608 of the Resources and Ecosystems Sustainability, Tourist Opportunities and Revived Economies of the Gulf Coast States Act of 2012 (P.L. 112-141, the RESTORE Act).

The audits and investigations would satisfy the requirements of the Inspector General Act, as well as those of a number of statutes. Foremost among those laws are the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act, P.L. 111-203), the Federal Information Security Management Act (P.L. 107-347), the Federal Deposit Insurance Act of 1950 (P.L. 81-797), the Improper Payments Elimination and Recovery Act (P.L. 111-204), the Small Business Jobs Act of 2010 (P.L. 111-240), the Digital Accountability and Transparency Act of 2014 (P.L. 113-101), and the RESTORE Act. The Office of Audits expected to complete 77 audits in FY2016, which would be two more than the number it expected to complete in FY2015.

H.R. 2995

The bill reported by the House Appropriations Committee recommended that OIG receive $35.4 million in appropriations in FY2016, or $65,000 more than the amount enacted for FY2015 and the same as the budget request. In its report on the bill, the committee stated that the recommended funding should cover all Treasury activities related to the RESTORE Act.[8]

S. 1910

The bill reported by the Senate Appropriations Committee also recommended $35.4 million in appropriations for OIG in FY2016.

In its report on the bill, the committee "encouraged" the Office to investigate the security of Treasury's facilities and its information networks and systems.[9]

Another priority for the committee was an audit of the CDFIF's administration of the grants it distributed. More specifically, the committee wanted more details on the extent to which applications were approved according to current laws and regulations, whether the fund had adequate internal financial controls, whether it oversaw the grants it awarded, and whether there were methods in place to evaluate the extent to which outcomes matched program goals.

In addition, the committee directed OIG to submit a report to the two appropriations committees within 120 days of the bill's enactment on the treatment of BFS employees who were employed at the Fiscal Management Service before it merged with the Bureau of Public Debt. Of particular

[7] U.S. Department of the Treasury, *Office of Inspector General: FY2016 President's Budget* (Washington, DC: Feb. 2, 2015), available at http://www.treasury.gov/about/budget-performance/CJ16/09.%20OIG%20FY%202016%20CJ.pdf.

[8] House Appropriations Committee, H.Rept. 114-194, p. 12.

[9] Senate Appropriations Committee, S.Rept. 114-97, p. 15.

concern to the committee was the extent to which any such employees had been subjected to intimidation, demotion, or other actions that would encourage them to quit their jobs.

Consolidated Appropriations Act, 2016

The act provided $35.4 million in appropriations for OIG in FY2016.

Office of the Special Inspector General for the Troubled Asset Relief Program

Budget Request

Under the budget request, SIGTARP would have received $40.7 million in appropriations for FY2016, or $6.4 million more than the amount enacted for FY2015.[10] Taking into account unobligated balances from the previous year and funds from the Public-Private Investment Program administered by the Treasury Department, SIGTARP's operating budget in FY2016 could total $48.1 million. Relative to FY2015, the budget request called for an additional $0.8 million to maintain FY2015 operating levels and $5.7 million to replace the expected end of "no-year" (or mandatory) funding sometime during FY2016. Congress established this funding when it created SIGTARP under the Emergency Economic Stabilization Act of 2008 (EESA, P.L. 110-343) to supplement appropriations.

The requested funding would have been used to uncover and investigate crimes related to the Troubled Asset Relief Program, which was also a product of the EESA. In addition, the funds would have supported the prosecution of individuals investigated by SIGTARP and continued the oversight of the financial institutions remaining in TARP and TARP-funded housing programs, which might last until 2023. In FY2016, the budget request would have allocated $31.8 million in appropriations to investigations and $8.9 million to audits; an estimated 78% of its entire budget would have gone to law-enforcement activities.

In explaining SIGTARP's budget request, the Treasury Department argued that the Office's budget should not necessarily depend on Treasury's involvement in TARP. This was because Congress created SIGTARP with the intention of keeping it in operation as long as TARP funds or commitments are outstanding. Thus, in Treasury's view, SIGTARP's funding did not hinge on Treasury's participation in the program but rather should reflect the Office's staffing requirements to handle its increasing amount of investigative work.[11]

H.R. 2995

The bill, as reported by the House Appropriations Committee, recommended that SIGTARP receive $40.7 million in appropriations in FY2016, or $6.4 million more than the amount enacted for FY2015 and the same amount as the budget request.[12]

In its report on the bill, the committee acknowledged that the initial operating expenses of SIGTARP were funded through no-year appropriations, but that the amount of such funds had decreased over time and could be used up in FY2016. The committee also noted that to maintain

[10] Department of the Treasury, *Special Inspector for TARP: FY2016 President's Budget* (Washington, DC: Feb. 2, 2015), available at http://www.treasury.gov/about/budget-performance/CJ16/10.%20SIGTARP%20FY%202016%20CJ.pdf.

[11] Treasury Department, SIGTARP: FY2016 Budget, p. 12.

[12] House Appropriations Committee, H.Rept. 114-194, p. 13.

SIGTARP's oversight of the remaining TARP funds, discretionary appropriations were essential. Still, as TARP winds down in coming years, the committee said that it expected requested appropriations for the account to also decline.

S. 1910

The bill, as reported by the Senate Appropriations Committee, would have provided $36.7 million in appropriations for SIGTARP in FY2016, or $2.4 million more than the amount enacted for FY2015 but $4 million less than the budget request.[13] In its report on the bill, the committee noted that the Office could draw upon balances carried over from previous years to fund some of its investigations and audits and other needs in FY2016, obviating the need for a larger increase in discretionary appropriations.

Consolidated Appropriations Act, 2016

The act provided $40.7 million in appropriations for SIGTARP in FY2016. According to the explanatory statement for the act, the office should focus its FY2016 audits and investigations on TARP housing programs and TARP financial institutions in an effort to prevent waste, fraud, and abuse in the use of TARP funds.

Treasury Inspector General for Tax Administration

Under the Treasury Department's budget request for FY2016, TIGTA would have gotten $167.3 million in appropriations or $9.1 million more than the amount enacted for FY2015.[14] Of this amount, $1.8 million would have been used for training. The requested increase in funding was based on $2.6 million to maintain FY2015 operating levels, $0.1 million in cost savings from efficiency improvements, and $6.6 million in program increases to allow TIGTA to develop "innovative tools and approaches" to help it detect and prevent fraudulent tax refunds stemming from identity theft and enhance its capability to protect the security of federal tax data from cyber-criminals.

TIGTA's operating budget for FY2016 would have exceeded the requested appropriations by an estimated $1.5 million (for a total budget of $168.8 million) because of reimbursements it receives for services rendered.

This budget finances TIGTA's audits, investigations, and evaluations of IRS operations. In FY2016, according to the budget proposal, the Office of Audit would have received $65.1 million in appropriations and $600,000 in reimbursements, while the Office of Investigations would have received $102.2 million in appropriations and $900,000 in reimbursements.

The Treasury Department pointed to the return on investment generated from TIGTA's investigations and audits as a key justification for increasing the office's budget. In FY2014, TIGTA generated a return on investment of $106 for each dollar spent on its operations. This return reflected both cost savings from IRS's operations and additional revenue from the collection of taxes.[15]

[13] Senate Appropriations Committee, S.Rept. 114-97, p. 18.

[14] U.S. Department of the Treasury, *Treasury Inspector General for Tax Administration: FY2016 President's Budget* (Washington, DC: Feb. 2, 2015), p. 3, available at http://www.treasury.gov/about/budget-performance/CJ16/11.%20TIGTA%20FY%202016%20CJ.pdf.

[15] Ibid., p. 5.

Among the top stated priorities for TIGTA in FY2016 were

- identifying opportunities to achieve cost savings and other efficiencies in IRS's programs;
- mitigating security risks to IRS employees and facilities;
- improving the effectiveness of IRS's efforts to combat taxpayer identity theft and reduce improper claims and payments;
- monitoring IRS's oversight of tax-exempt entities;
- detecting waste, fraud, and abuse in IRS operations and criminal misconduct by IRS employees; and
- overseeing IRS's implementation of the Affordable Care Act (ACA, P.L. 111-148) and the Foreign Account Tax Compliance Act (FATCA, P.L. 111-147).

H.R. 2995

The bill, as reported by the House Appropriations Committee, would have given TIGTA $167.3 million in appropriated funds for FY2016, or $9.1 million more than the amount enacted for FY2015 and the same as the budget request.[16] In its report on the bill, the committee expressed its appreciation for the "many issues" that TIGTA had brought to the committee's attention in the past year.

The committee directed TIGTA to submit a report on IRS's readiness to manage and withstand cyberattacks to the two appropriations committees within six months of the enactment of H.R. 2995. The report should evaluate the consequences of recent attempted and successful cyberattacks against the IRS, the steps taken (or being taken) by the IRS to prevent future attacks and to mitigate their effects, the IRS's cybersecurity policies and procedures, and the efforts by the agency to inform employees and contractors about the risks of cyberattacks.

S. 1910

A bill reported by the Senate Appropriations Committee would also have provided TIGTA with $167.3 million in appropriations for FY2016.[17] In its report on S. 1910, the committee acknowledged the added demand that increases in the size and responsibilities of the IRS place on TIGTA's resources.

The committee noted that since 2011, TIGTA has designated the security of taxpayer information as the top concern facing the IRS. To get a better understanding of current threats from cyber-criminals and what the IRS was doing to thwart or prevent them, the committee directed TIGTA to submit a report on cybersecurity within six months of the enactment of the bill similar in focus to the report mandated by the House Appropriations Committee.

In addition, the committee urged TIGTA to continue to monitor and report on IRS's actions on three different issues. One was the IRS's ability to detect and prevent taxpayer identity theft and related refund fraud, and the steps the IRS is taking to assist victims of such fraud. A second issue was the criteria used by the IRS to evaluate claims for tax-exempt status by social welfare organizations under Section 501(c) (4) of the federal tax code. Finally, the committee encouraged TIGTA to continue to monitor IRS's performance in implementing the ACA, especially the

[16] House Appropriations Committee, H.Rept. 114-194, p. 13.

[17] Senate Appropriations Committee, S.Rept. 114-97, p. 17.

agency's ability to protect the confidentiality of taxpayer information shared with federal and state insurance exchanges, and to prevent ACA refund fraud.

Consolidated Appropriations Act, 2016

The act gave TIGTA $167.3 million in appropriations for FY2016.

Community Development Financial Institutions Fund[18]

The Treasury Department requested an appropriation of $233.5 million for CDFIF in FY2016, or $3.0 million more than the amount enacted for FY2015.[19] With the addition of expected reimbursements, user fees, and unobligated balances and recoveries from previous years, the budget request would have given CDFIF an operating budget of $245.2 million in FY2016, or $1.6 million less than the total for FY2015. Of the requested funding, $157.6 million was designated for the CDFI Program, $16.0 million for the Native American CDFI Assistance Program (NACA), $35.0 million for the Healthy Food Financing Initiative (HFFI), and $24.9 million for administrative expenses.

Relative to the amounts enacted for FY2015, the budget request allocated $0.4 million to maintain FY2015 operating levels and $21.2 million for program increases. These increases would have been distributed as follows: $5.2 million for the CDFI Program, $1 million for NACA, $13 million for HFFI, and $2 million for the Capital Magnet Fund (CMF). The budget request also included some funding decreases relative to FY2015: $0.1 million less for travel expenses; no funding for the Bank Enterprise Award Program (BEA), resulting in a savings of $18 million; and $0.5 million less for data collection (a non-recurring cost).

Since the creation of the CDFIF in 1994, it has awarded over $2.0 billion in grants and loans to CDFIs, community development organizations, insured depository institutions, NACA, and BEA. During the same period, the fund also awarded $80 in grants under the CMF and $9 million in grants through the Financial Education and Counseling Program.[20]

Although no direct appropriations are used for this purpose, the CDFIF has administered the New Markets Tax Credit (NMTC), which was available from 2000 to 2013. Taxpayers who made qualified equity investments were able to claim a credit equal to 39% of their investment, distributed equally over a period of seven years. Congress authorized a total of $40 billion in NMTCs to be awarded through 2013. The credit was awarded to investors through a competitive selection process. There were annual limits on the amount of qualified investment eligible for the credit: from 2010 to 2013, the annual limit was $3.5 billion. The budget request would have permanently extended the credit and allowed up to $5 billion in qualifying investments each year.

The Small Business Jobs Act of 2010 established the CDFI Bond Guarantee Fund (BGF). Bonds issued under the program support CDFI lending in poor, underserved communities by providing a source of long-term capital. Bonds issued by CDFIs or their designees are guaranteed by the Treasury Department, and the proceeds are lent to eligible CDFIs for community development purposes. The maturity of the bonds cannot exceed 30 years. In FY2013 and FY2014, the

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[18] For more information on the fund, see CRS Report R42770, *Community Development Financial Institutions (CDFI) Fund: Programs and Policy Issues*, by (name redacted)

[19] U.S. Department of the Treasury, *Community Development Financial Institutions Fund: FY 2016 President's Budget* (Washington, DC: Feb. 2, 2015(, available at http://www.treasury.gov/about/budget-performance/CJ16/12.%20CDFI%20FY%202016%20CJ.pdf.

[20] Ibid, p. 3.

Treasury Department issued eight guarantees for bonds with a total face value of $525 million. In FY2015, it had the authority to issue up to $750 million in guarantees. The budget request would have extended the CDFI Bond Guarantee Program through FY2017 and increased the limit for newly issued loan guarantees to $1 billion in FY2016.[21]

H.R. 2995

As reported by the House Appropriations Committee, the bill would have provided $233.5 million in appropriations for the CDFIF in FY2016, or $3.0 million more than the amount enacted for FY2015 and the same as the budget request.[22] Of the recommended funding, $176.4 million would have gone to technical and financial assistance grants for CDFIs, $16.0 million for NACA, $18.0 million for BEA, and $23.1 million for administrative expenses. There was no separate funding for HFFI or CMF.

In its report on the bill, the committee urged the CDFIF to use its Capacity Building Initiative to establish CDFIs in America Samoa, the Northern Mariana Islands, and other "U.S. insular areas."

S. 1910

The bill, as reported by the Senate Finance Committee, would have provided $221.0 million in appropriations for CDFIF in FY2016, or $9.5 million less than the amount enacted for FY2015 and $12.5 million less than the budget request.[23] Of the recommended funding, $161.9 million was designated for technical and financial assistance grants to CDFIs, $15.0 million for NACA, $21.0 million for BEA, and $23.1 million for administrative expenses. Funding for the HFFI would come from the appropriations for financial and technical assistance grants for CDFIs.

S. 1910 would also allow the CDFIF to guarantee up to $750 million in bonds under the BGF in FY2016.

In its report on S. 1910, the committee expressed concern about the fund's "nominal ability to verify investment impacts" and a "lack of transparency into many of the CDFI Fund's programs." The committee also asked for more details on how and to what extent "program funding generates meaningful community impacts." It directed CDFIF to establish clear reporting requirements for CDFIs and other awardees, and to collect and analyze "performance data." In addition, the committee urged the CDFIF to improve the quality and completeness of the data it tracks. Among the recommended steps the fund might take to achieve this goal were validating the accuracy of data reported by CDFIs and awardees, developing common definitions of key performance indicators, accounting for investment activity "in a timely manner" after an award has been issued, and developing a risk rating system for certified CDFIs.

Another issue addressed in the report was the flow of CDFI investments and loans to underserved and low-income non-metropolitan areas. The committee directed the fund to take into consideration the "unique conditions, challenges, and scale" of such areas when designing programs to promote economic revitalization and community development.

[21] Ibid., p. 23.

[22] House Appropriations Committee, H.Rept. 114-194, p. 18.

[23] Senate Appropriations Committee, S.Rept. 114-97, p. 23.

Issue for Congress

The three proposals for funding the CDFIF in FY2016 raised the question of the future status of two current programs: the Healthy Food Financing Initiative and the Bank Enterprise Award Program. On the one hand, the Obama Administration asked Congress to increase funding for the former from $22 million in FY2015 to $35 million in FY2016, but to provide no funds for the latter. No explanation for the proposed elimination of BEA funding was given in the budget documents. On the other hand, neither S. 1910 nor H.R. 2995 recommended separate funding for the HFFI in FY2016, but both would have funded the BEA. Under each bill, any funding for the HFFI presumably would have had to come out of the amount appropriated for financial and technical assistance grants for CDFIs. It may be the case that, though both Congress and the Administration supported the aims of both programs, they disagreed on the proper way to fund them and how much to allocate to each of them.

Consolidated Appropriations Act, 2016

The act gave CDFIF $233.5 million in appropriations for FY2016. Of that amount, $153.4 was designated for technical and financial assistance grants for CDFIs; $15.5 million for technical assistance and other purposes for native American, Alaskan, and Hawaiian communities; $22.0 million for the HFFI; $19.0 million for the BEA; and $23.6 million for administrative expenses. In addition, the act limited the total amount of loans that could be guaranteed under the BGF to $750.0 million in FY2016.

According to the explanatory statement for the act, Congress directed the fund to improve the quality and scope of the data it collects about its programs in order to make their results more transparent and easier to analyze. Congress also ordered the Treasury Department to consider the "unique conditions, challenges, and scale" of rural non-metropolitan areas when designing and administering programs intended to revitalize their economies and promote community development.

Financial Crimes Enforcement Network

Under the Treasury Department's budget request, FinCEN would have received $113.0 million in appropriations in FY2016, or $1.0 million more than the amount enacted for FY2015.[24] With the addition of an estimated $53.5 million in reimbursements, recoveries, and unobligated balances from previous years, FinCEN's operating budget in FY2016 would have totaled an estimated $166.5 million. Relative to FY2015, the budget request included an added $1.9 million to maintain FY2015 levels of operation and reductions of $0.7 million for efficiency savings and $0.2 million for a loss of two full-time administrative positions.

FinCEN's priorities in FY2016 are

- adopting "strong" safeguards against money laundering and terrorist financing;
- implementing and enforcing those safeguards and using targeted financial measures against specific threats;
- using research, analysis, and advanced "analytics" to detect and explain threats to the U.S. financial system;

[24] U.S. Department of the Treasury, *Financial Crimes Enforcement Network: FY2016 President's Budget* (Washington, DC: Feb. 2, 2015), p. 3, available at http://www.treasury.gov/about/budget-performance/CJ16/13.%20FinCEN%20FY%202016%20CJ.pdf.

- implementing and managing programs to coordinate and share financial intelligence between FinCEN and its foreign and domestic partners in government and private industry; and
- developing and maintaining technologies for collecting and assessing financial intelligence from the private sector and sharing it with foreign and domestic agencies.

H.R. 2995

The bill, as reported by the House Appropriations Committee, recommended that FinCEN receive $113.0 million in appropriations for FY2016, or $1 million more than the amount enacted for FY2015 and the same as the budget request.

In its report on H.R. 2995, the committee urged FinCEN to use its expertise in analyzing financial flows and transactions to assist investigations by domestic law enforcement agencies into human trafficking.[25]

S. 1910

Under the bill, as reported by the Senate Appropriations Committee, FinCEN would have received $113.0 million in appropriations in FY2016, or $1 million more than the amount enacted for FY2015 and the same as the budget request.[26]

In its report on the bill, the committee encouraged FinCEN to alert financial institutions subject to the reporting requirements of the Bank Secrecy Act about the growing risk of cybercriminals attempting to launder the proceeds from the theft of online data through the U.S. financial system. To lower the risk, the committee recommended that FinCEN provide these institutions with a list of indicators of cybercrime that they could refer to when filing suspicious activity reports (SARs) on the laundering of money tied to cybercrimes.

The committee also expressed appreciation for the contributions FinCEN had made in recent years to interagency efforts to combat human trafficking and slavery. It commended the advisory FinCEN sent to financial institutions in September 2014 alerting them to signs of money laundering related to human trafficking activities in filing SARs.

Consolidated Appropriations Act, 2016

The act gave FinCEN $113.0 million in appropriations for FY2016.

Alcohol and Tobacco Tax and Trade Bureau

The Treasury Department requested $101.4 million in appropriations for ATTB in FY2016, or $1.4 million more than the amount enacted for FY2015.[27] Taking into account anticipated reimbursements and a transfer of enforcement funds from the IRS through a program integrity

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[25] House Appropriations Committee, H.Rept. 114-194, p. 14.

[26] Senate Appropriations Committee, S.Rept. 114-97, p. 19.

[27] U.S. Department of the Treasury, *Alcohol and Tobacco Tax and Trade Bureau: FY2016 President's Budget* (Washington, DC: Feb. 2, 2015), available at http://www.treasury.gov/about/budget-performance/CJ16/14.%20TTB%20FY%202016%20CJ.pdf.

cap adjustment, the operating budget for ATTB would have totaled $112.7 million in FY2016, or $5.7 million more than the operating budget for FY2015.

Relative to the amount enacted for FY2015, the budget request called for an increase of $1.7 million to maintain FY2015 operating levels; a decrease of $1.2 million from a cutback in ATTB's Criminal Enforcement Program, closures of a number of field offices, the increased use of Open Source software, and lower administrative costs; and increases of $1.0 million to modernize the alcohol beverage labeling program to streamline and simplify the label application and approval process, and $5.0 million for the bureau's alcohol and tobacco enforcement and compliance program to bolster its efforts to reduce the federal tax gap.[28]

In FY2016, ATTB's priorities are to

- collect $22 billion in excise tax revenues from the sale of tobacco and alcohol products;
- finish audits and investigations of ATTB taxpayers, based on risk and on random selection, to ensure they operate lawfully and comply with tax laws;
- detect and deter criminal diversion of revenues from the domestic production and sale of tobacco and alcohol products;
- find regulatory solutions to problems related to tax rate differences among tobacco products;
- reduce the cost of compliance for ATTB taxpayers by improving and promoting electronic options for filing tax payments and applications for permits and labels;
- conduct studies of current compliance with federal regulations for the production and sale of alcoholic beverages and use the findings to improve enforcement and compliance programs;
- enhance ATTB product safety programs targeted at domestic and imported alcoholic beverages;
- promote U.S. exports of tobacco and alcohol products by helping U.S. companies understand and comply with foreign rules and regulations and working with foreign governments to lower barriers to imports of U.S. products; and
- work effectively with foreign governments to prevent the loss of tax revenue from illicit activities such as smuggling.[29]

H.R. 2995

As reported by the House Appropriations Committee, the bill would have provided $105.0 million in appropriations for ATTB in FY2016, or $5 million more than the amount enacted for FY2015 and $3.6 million more than the budget request.[30] Of the recommended funding, $5 million would be designated for efforts to accelerate the processing of formula and label applications for alcohol products.

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[28] This amount would result from a transfer of funds from the IRS through a program integrity cap adjustment to the IRS's budget for tax enforcement and compliance The cap adjustments have their origin in the Budget Enforcement Act of 1990 (P.L. 101-508). For more details, see CRS Report R41901, *Statutory Budget Controls in Effect Between 1985 and 2002,* by (name redacted) ; and CRS Report R41965, *The Budget Control Act of 2011,* by (name redacted), (name redacted), and (name redacted) .

[29] Alcohol and Tobacco Tax and Trade Bureau, *FY2016 President's Budget*, pp. 5-6.

[30] House Appropriations Committee, H.Rept. 114-194, p. 16.

In its report on H.R. 2995, the committee expressed concern over delays in the approval of these applications, which are required under the Federal Alcohol Administration Act of 1935 (P.L. 74-401, as amended). To address this concern, the committee directed ATTB to submit a report to both appropriations committees within 60 days of the enactment of the bill on how the office would use the additional $5 million to speed up the review of label and formula applications and to issue "clear and consistent" regulations.

ATTB is presently reviewing the laws that govern its activities and duties, especially Title 27, Chapter 1, Subchapter A, Parts 4, 5, and 7, which address the labeling and marketing of wine, beer, and distilled beverages. The committee endorsed the review, provided it was done expeditiously and led to "significant" improvements based on current markets and technologies for alcoholic beverages.[31]

S. 1910

The bill, as reported by the Senate Finance Committee, recommended that ATTB receive $101.4 million in appropriations for FY2016, or $1.4 million more than the amount enacted for FY2015 and the same as the budget request.[32]

In its report on S. 1910, the committee urged ATTB to strengthen the enforcement of the laws and regulations governing the production and sale of tobacco and alcohol products. Of particular concern to the committee were recent increases in excise tax evasion for these products.

In addition, the committee recommended that ATTB streamline its process for approving label applications through "strategic investments" in the resources and technologies needed to speed up the review of these applications.

Consolidated Appropriations Act, 2016

The act provided ATTB with $106.4 million in appropriations in FY2016. Of that amount, $5.0 million was set aside to cover costs related to accelerating the processing of applications for labels and formulas.

Bureau of the Fiscal Service

Under the President's budget request, BFS would have received $363.8 million in appropriations in FY2016, or $15.7 million more than the amount enacted for FY2015.[33] Of this amount, $4.2 million was designated for initiatives to upgrade the bureau's information systems; the money would have been available through the end of FY2018. With the addition of $227.9 million in anticipated reimbursements, the BFS's operating budget would have totaled $591.7 million in FY2016. Relative to the FY2015 budget, the budget request called for an another $5.9 million to maintain FY2015 operating levels; decreases of $8.5 million for efficiency savings and $1.5 million for program cuts; and an additional $19.8 million (available until September 30, 2018) to support Treasury's responsibilities for implementing the Digital Accountability and Transparency Act (DATA Act, P.L. 113-101) and associated financial data standards.

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[31] Ibid., p. 17.

[32] Senate Appropriations Committee, S.Rept. 114-97, p. 21.

[33] U.S. Department of the Treasury, *Bureau of the Fiscal Service: FY 2016 President's Budget* (Washington, DC: Feb. 2, 2015), available at http://www.treasury.gov/about/budget-performance/CJ16/15.%20FS%20FY%202016%20CJ.pdf.

The FY2016 budget request could also be broken down by major programs, of which there are nine: (1) collections, (2) debt collection, (3) Do Not Pay Business Center, (4) government agency investment services, (5) government-wide accounting and reporting, (6) payments, (7) retail securities service, (8) summary debt accounting, and (9) wholesale securities services. Collections would have received $26.6 million in appropriations; debt collection, no appropriations; Do Not Pay Business Center, $5.1 million; government agency investment services, $13.1 million; government-wide accounting and reporting, $68.5 million; payments, $133.2 million; retail securities services, $94.1 million; summary debt accounting, $4.2 million; and wholesale securities services, $18.9 million.

Several legislative proposals were included in the budget request. They would have authorized BFS to undertake the following actions:[34]

- offset federal income tax refunds to collect delinquent state tax obligations, regardless of the state in which the debtor resides;
- amend its regulations to allow states to send notices for state income tax obligations by first-class mail, rather than certified mail;
- levy up to 100% of a payment to a Medicare provider to collect unpaid taxes;
- issue garnishment orders for commercial accounts to financial institutions without a court order;
- recover U.S. assets and keep a portion of the amounts collected to pay for the costs of recovery; and
- use automated dialing systems and pre-recorded voice messages when contacting wireless phones to collect debts.

In FY2016, BFS plans to pursue the following objectives:

- continue to implement the DATA Act;
- improve the federal government's fiscal operations by helping agencies migrate to a shared-service model for their financial systems;
- promote greater use of the U.S. Debit Card and Card Management Services and greater reliance on electronic submissions for non-tax debt collections and payments;
- expand the use of the Do-Not-Pay Business Center by federal agencies to reduce improper payments;
- continue to prepare for a "clean" audit of the Treasury Financial Report by FY2018 through providing technical support for federal agencies adopting the Central Accounting and Reporting System;
- make it easier for federal agencies to submit claims electronically through improvements to the Post Payment System, the Stored Value Card program, and the Invoice Processing Platform;
- encourage investors to make greater use of the *my*RA Program and increase their awareness of the new Treasury Retail Investment Management system; and
- continue to deploy the latest strategies for increasing the collection of delinquent non-tax debt.

[34] Ibid., pp. 14-15.

H.R. 2995

As reported by the House Appropriations Committee, H.R. 2995 would have provided $360.0 million in appropriations for the BFS in FY2016, or $11.8 million more than the amount enacted for FY2015 but $3.8 million less than the budget request.[35] Of the recommended funding, $4.2 million would have been available until September 30, 2018, to modernize the bureau's information systems.

In its report on H.R. 2995, the committee noted that the measure included funding for the USAspending.gov initiative, which should help BFS achieve its transparency goals.

The committee also directed the bureau to issue separate reports on payments made in FY2014 and in FY2015 from the Judgment Fund under 31 U.S.C 1304 within 60 days of the enactment of the bill. Each report should account for all payments made from the fund going back to 2008.

S. 1910

As reported by the Senate Appropriations Committee, the bill would have provided $356.0 million in appropriations for BFS in FY2016, or $7.8 million more than the amount enacted for FY2015 but $7.8 million less than the budget request.[36]

In its report on S. 1910, the committee stated that the bill contained funds for improving government-wide financial management through the USAspending.gov initiative.

The committee also directed BFS to submit a report to both appropriations committees within 180 days of the enactment of the bill on the status of the Do Not Pay Business Center. The report should address the following topics:

- whether and how the center used payment and beneficiary enrollment data for state programs to identify improper federal payments,
- the extent to which there was duplication in payments among federal programs,
- other information that might be effective in preventing improper payments,
- interagency tools and practices that could be useful in preventing waste and fraud in federal payments,
- the methodology for determining to what extent investigations by the center have reduced improper payments, and
- a schedule for achieving the goals of the center.

Furthermore, the committee expressed support for the steps taken by BFS to implement the provisions in the DATA Act intended to standardize and disclose the reporting of federal agency expenditures. It directed the bureau to keep the committee informed of new developments.

Consolidated Appropriations Act, 2016

The act gave BFS $363.8 million in appropriations for FY2016. Of that amount, $19.8 million may be used until September 30, 2018, for implementing the DATA Act. In addition, the act permitted BFS to withdraw up to $165,000 from the Oil Spill Liability Trust Fund to cover its costs for managing the fund.

[35] House Appropriations Committee, H.Rept. 114-194, p. 16.

[36] Senate Appropriations Committee, S.Rept. 114-97, p. 20.

Treasury Forfeiture Fund (TFF)

The Treasury Department's budget request included a proposal to cancel permanently $875.0 million in unobligated balances from the TFF in FY2016.[37] This would come on top of a permanent $963.6 million reduction in those balances enacted for FY2015.

The fund serves as the receipt account for the deposit of non-tax assets seized by participating federal bureaus: the IRS's Criminal Investigation unit, the U.S. Secret Service, the Bureau of Customs and Border Patrol, and the Bureau of Immigration and Customs Enforcement. The Treasury Executive Office for Asset Forfeiture (TEOAF) manages the fund. Money in the fund is used to pay for the operating expenses of TEOAF and to support the enforcement activities of the bureaus involved in the National Money Laundering Strategy, the Southwest Border Strategy, and government efforts to combat terrorist financing.

TEOAF estimated that $413.0 million would likely be deposited in the fund from asset forfeitures in FY2016. After accounting for earned interest, the restoration of reductions from sequestration, temporary rescissions and recoveries from previous years, and the unobligated balance from the previous year, the amount of money in the fund could total an $1.6 billion in FY2016, or $36.3 million less than the estimated amount in FY2015. According to TEOAF, expenses and obligations for FY2016 may amount to $480.0 million. Combining that amount with the proposed permanent rescission of $875.0 million would mean that the unobligated balance in the fund at the end of FY2016 would be $204.8 million, or $52.6 million more than the estimated total at the end of FY2015.

H.R. 2995

As reported by the House Appropriations Committee, the bill would have shrunk the unobligated balance in the fund by $721.0 million in FY2016, or $48.0 million less than the rescission enacted for FY2015 and $154.0 million less than the rescission requested by Treasury.[38]

In its report on H.R. 2995, the committee stated that the resources in the fund should not be used to "augment agency funding" or to "circumvent the appropriations process."

In addition, the committee directed Treasury to submit to both appropriations committees each month in FY2016 a table showing the interest earned, forfeiture revenue collected, unobligated balances, recoveries and expenses to date. The table should also include an estimate of expenses for the remainder of the fiscal year.

S. 1910

In the bill, the Senate Finance Committee recommended a rescission of $700.0 million from the fund in FY2016, or $69.0 million less than the rescission enacted for FY2015 and $175.0 million less than the budget request.[39]

[37] U.S. Department of the Treasury, *Treasury Forfeiture Fund: FY2016 President's Budget* (Washington, DC: Feb. 2, 2015), available at http://www.treasury.gov/about/budget-performance/CJ16/23.%20TEOAF%20FY%202016%20CJ.pdf.

[38] House Appropriations Committee, H.Rept. 114-194, p. 15.

[39] Senate Appropriations Committee, S.Rept. 114-97, p. 20.

Consolidated Appropriations Act, 2016

The act mandated a rescission of $700 million from the unobligated balances in the TFF in FY2016.

Internal Revenue Service

The Obama Administration asked for $12.931 billion in appropriations for the IRS in FY2016, or $1.986 billion more than the amount enacted for FY2015.[40] Of this amount, $2.409 billion would have gone to taxpayer services, $5.400 billion to enforcement (including a $352.1 million program integrity cap adjustment under Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177, BBEDCA)), $4.743 billion to operations support (including a $315.2 million program integrity cap adjustment), and $379.2 million to the Business Systems Modernization (BSM) program. With the addition of funds from reimbursements, user fees, recoveries and unobligated balances from previous years, transfers in and out, resources from other accounts, and offsetting collections, the operating budget for the IRS in FY2016 could have totaled an estimated $13.922 billion, or $1.946 billion more than the estimated FY2015 budget.

Relative to IRS's FY2015 enacted appropriations, the budget request called for an additional $200.7 million to maintain FY2015 operating levels, a decrease of $18.4 million from efficiency savings, an increase of $16.0 million for expanding the agency's telecommunications network to handle increased customer demand, and $1.787 billion for program increases in taxpayer services, enforcement, and infrastructure development. Over 37% of the amount for program increases (or $667.3 million) would have come from integrity program cap increases.

The budget request would have amended the BBEDCA to lift the discretionary budget caps for the IRS. Under the act, Congress created a mechanism for boosting spending allocations among programs that generate a positive return on investment. Increases in those allocations are known as program integrity cap adjustments. Under the FY2016 budget request, the adjustments would have given the IRS an additional $352.1 million for tax enforcement and an added $315.2 million for operations support. As noted earlier, $5 million of the cap adjustment for enforcement would be transferred to TTB to pay for new enforcement initiatives in FY2016.

According to the IRS's budget request for FY2016 was intended to address the following priorities:

- **Taxpayer Service**
  - Improving the level of taxpayer assistance through the IRS's toll-free telephone service
  - Meeting increased demand from taxpayers for help in complying with ACA requirements
  - Delivering enhanced online service options to taxpayers
  - Providing greater assistance to low-income taxpayers and those in need of tax relief because of financial hardship

[40] U.S. Department of the Treasury, *Internal Revenue Service: FY 2016 President's Budget* (Washington, DC: Feb. 2, 2015), available at http://www.treasury.gov/about/budget-performance/CJ16/02-06.%20IRS%20FY%202016%20CJ.pdf.

- **Enforcement**
  - Improving tax compliance by implementing FATCA, ACA, and the Information Return Document Matching program for merchant payment cards, third-party reimbursements, and basis reporting for stock transactions
  - Reducing the revenue loss from tax return fraud, including fraud from identity theft
  - Reversing recent declines in examination and collection efforts
  - Increasing the number of criminal investigations
  - Rebuilding public trust in IRS's enforcement of compliance in the tax-exempt sector
- **Infrastructure**
  - Maintaining critical IT infrastructure
  - Upgrading IRS facilities to address health and safety concerns
  - Upholding the integrity of "revenue financial systems"
- **Business Systems Modernization**
  - Developing new IT capabilities such as increasing self-service options at IRS.gov, including
    - the Get Transcript tool which gives taxpayers direct online access to their tax accounts
    - IRS Direct Pay, which offers a free, secure online option for scheduling and making tax payments
    - IRS2Go, which allows taxpayers to find out the status of their refund through the IRS website
  - Developing a shared platform for case management

Reducing the federal tax gap is an ongoing priority for the IRS. The gap is defined as the difference between the amount of federal income, excise, estate, and employment taxes owed in a year and the amount of those taxes paid in full on time. According to the latest estimate by the IRS, the gross gap totaled $450 billion in 2006; after allowing for late payments and the revenue collected through IRS enforcement activities, the net gap for 2006 was an estimated $385 billion.[41] The gap has three components: underreporting of income, failure to file, and underpayment of the taxes owed. Underreporting accounted for 84% of the 2006 gross gap, underpayment for 10%, and non-filing for 6%.

One justification for the budget request that Treasury emphasized in its budget documents was the likely revenue gains from FY2016 enforcement initiatives. Enforcement initiatives raise revenue by deterring taxpayers from failing to meet their tax obligations and by collecting overdue taxes. In FY2014, the most recent year for which figures are available, IRS enforcement actions resulted in $57 billion in tax collections, the fifth straight year when more than $50 billion was collected in this manner. Treasury has long pointed out that activities such as examination and collection yield substantial returns on investment, and that Congress should take those returns into consideration when deciding how much money to appropriate for the IRS in a fiscal year. According to an IRS estimate, its proposed FY2016 revenue-producing initiatives not funded

[41] Treasury, *Internal Revenue Service: FY 2016 President's Budget*, p. 7.

through a program integrity cap adjustment would have yielded a return on investment of $4.1 for each dollar spent on those initiatives by FY2018, when they would be fully phased-in. What is more, the return on investment would rise to $6.4 by FY2018 for each dollar spent on initiatives funded through the cap adjustment.[42]

H.R. 2995

As reported by the House Appropriations Committee, the bill would have provided $10.107 billion in appropriations for the IRS in FY2016, or $838.4 million less than the amount enacted for FY2015 and $2.824 billion below the budget request.[43] If enacted, the bill would have given the IRS less in appropriations than it received in FY2004. It would also have imposed the following limits on the IRS's use of appropriated funds in FY2016:

- No funds could be used to grant employee bonuses and awards that fail to consider the conduct and tax compliance record of the recipients.
- No funds could be used to hire former employees without considering their past conduct while at the IRS and their compliance with tax laws.
- No funds could be used to give additional scrutiny to groups applying for tax-exempt status because of their religious beliefs.
- No funds could be used to target individuals for extra scrutiny for "exercising their First Amendment rights."
- No funds could be used for conferences that do not conform to TIGTA's recommendations for such events.
- No funds could be used to produce videos that had not been reviewed for their cost, topics, tone, or purpose and had been certified to be "appropriate."
- No funds could be used to implement new regulations regarding the criteria used to determine whether organizations qualify for tax-exempt status under Section 501(c)(4) of the Internal Revenue Code.
- No funds could be transferred to the IRS from the Department of Health and Human Services to implement the ACA.
- No funds could be used to implement the individual mandate under the ACA.
- No funds could be used in ways that "violate the confidentiality of tax returns."
- No funds could be used to design pre-populated individual tax returns.

Taxpayer Services

H.R. 2995 would have provided $2.232 billion for taxpayer services in FY2016, or $75.0 million more than the amount enacted for FY2015 but $177.2 million less than the budget request.[44] In its report on the bill, the committee noted that the increase from FY2015 was intended to improve IRS's level of service to taxpayers. The committee also stated that the Taxpayer Advocate Service should be "sufficiently" funded from the funds appropriated for taxpayer services.

The report also addressed the committee's concerns about recent increases in instances of tax fraud related to identity theft. In the committee's view, this problem has become "especially

[42] Ibid., p. 15.

[43] House Appropriations Committee, H.Rept. 114-194, p. 18.

[44] Ibid., p. 19.

pernicious" in U.S. territories and possessions. To monitor the results of IRS's efforts to combat identity theft and refund fraud, the committee directed the agency to submit a report to the two appropriations committees by June 17, 2016. The report should cover the period from 2009 to 2015 and provide the following details: (1) the number of taxpayers who had their tax return rejected because their Social Security or taxpayer identification numbers were stolen by someone to commit tax fraud; (2) the average time required to resolve the problem and send a refund to taxpayers who were due one; (3) the number of cases involving stolen taxpayer identification numbers of residents of U.S. territories and possessions; and (4) the effectiveness of steps taken by the IRS to expedite the resolution of identity theft cases, to prevent others from becoming victims, and to educate the public on the risk of identity theft.

Another concern addressed in the report was the persistence of fraudulent and erroneous claims for the Earned Income Tax Credit (EITC).[45] To lower the incidence of such claims, the committee recommended that the IRS convene a summit meeting in 2016 of tax-preparation firms, payroll and tax refund processors, and state tax commissioners to agree on new, more effective strategies for verifying that someone is eligible to claim the credit without deterring eligible individuals from filing such a claim.

The committee also expressed its opposition to pre-filled or so-called simple tax returns. In its view, such a filing system would "change the relationship between taxpayers and their government," strain IRS resources, impose new burdens on employers (especially small companies), and create a conflict of interest by forcing the IRS to act simultaneously as a tax collector and enforcer of tax compliance on the one hand, and as a financial advisor and tax preparer on the other hand. As a result, the committee added language to the report that would have prohibited the agency from working on a pilot project involving a simple tax return without first getting both the approval of the two appropriations committees and appropriations for that purpose.

Enforcement

H.R. 2995, as reported by the House Committee on Appropriations, would have provided the IRS with $4.325 billion in appropriations for tax law enforcement in FY2016, or $535.0 million less than the amount enacted for FY2015 and $1.075 billion less than the budget request. Of the recommended funding, $57.5 million would be reserved to support IRS's involvement with the Interagency Crime and Drug Enforcement program. None of the enforcement funds could be used to implement the ACA.

In its report on the bill, the committee addressed several issues. One was the regulation of paid tax preparers. In June 2014, in response to a federal court ruling that the IRS lacked the authority to regulate professional tax preparers, the agency initiated a voluntary regulatory program with many of the same requirements as the mandatory program that was rejected by the courts. To assess the cost-effectiveness of the voluntary program, the committee directed the IRS to submit a report, after it had been reviewed by the Government Accountability Office (GAO), to both appropriations committees within 120 days of the enactment of the bill. The report should evaluate the accuracy of returns prepared by participants in the voluntary program and the amount of improper IRS payments resulting from those returns. The report should also compare the costs of voluntary and mandatory regulatory programs and evaluate the likely impact on accuracy of a mandatory program.

[45] For more details on the design and effectiveness of the credit, see CRS Report R44057, *The Earned Income Tax Credit (EITC): An Economic Analysis*, by (name redacted) .

Another issue was the timing of information returns. To decrease the number of improper refunds, the Treasury Department had proposed setting the filing deadline for information returns earlier in the filing season. To assess the feasibility of such a proposal, the committee ordered the IRS to submit a report, after it had been reviewed by the GAO, to both appropriations committees not later than 120 days after the enactment of H.R. 2995 on the cost to the federal government and the private sector of setting an earlier filing deadline for information returns. The report should examine the time it would take the government and private entities to implement such a change and its impact on the accuracy of information returns in general.

In addition, the committee urged the IRS to work with the Department of Justice and the Federal Trade Commission to devise a common approach to reducing and preventing tax fraud from identity theft. Such an approach should take into account the needs and concerns of vulnerable groups of taxpayers, such as senior citizens. In the committee's view, the IRS should try to notify taxpayers in a timely manner when they are "potential victims of identity theft."

Compliance with the requirements for the EITC also drew comments from the committee. It attributed improper payments of the credit, in part, to the complexity of the credit itself. To address this issue, the committee directed the Treasury Office of Tax Policy and the IRS Office of Research, Analysis, and Statistics to undertake a "data-driven" study, in collaboration with paid tax preparers, of ways to improve EITC compliance.

Another issue addressed by the committee was the ongoing controversy over IRS's management of the process of reviewing applications for tax-exempt status by social welfare entities under Section 501(c)(4) of the federal tax code. H.R. 2995 would have barred the IRS from implementing in FY2016 any new regulations on the criteria used to determine an entity's eligibility for that status.

Operations Support

In H.R. 2995, the House Committee on Appropriations recommended that the IRS receive $3.300 billion for operations support, or $338.4 million less than the amount enacted for FY2016 and $1.443 billion below the budget request. None of the recommended funding could have been used to implement the ACA.

In its report on the bill, the committee encouraged the IRS to continue provide printed tax forms and instructions to "vulnerable populations." Among such groups were residents of rural areas where Internet usage rates are below the national average.

The committee also directed the IRS to prepare a report on the number of official hours employees spend on union activities and on the amount of related travel expenses and submit it to both appropriations committees within 90 days of the enactment of H.R. 2995.

At the behest of the committee, the GAO was to assess the cost and production schedule for all major IRS IT projects during FY2016, especially the projects that the IRS covered in quarterly reports to the committees, and submit an annual report to both committees.

Another concern discussed in the report was IRS's pilot program for identity protection, which was intended to cut the incidence of refund fraud resulting from identity theft. The committee ordered the IRS to submit a report to both committees within 120 days of the enactment of the bill on the effectiveness of the program. The report should examine the following topics: (1) the cost of expanding the program to cover all taxpayers, (2) the reduction in tax fraud that might result from such an expansion, and (3) the cost of assisting taxpayers who were victims of identity theft.

Business Systems Modernization

As reported by the House Committee on Appropriations, the bill would give the IRS $250 million for the BSM program, or $40 million less than the amount enacted for FY2015 and $129.2 million below the budget request.

In its report on H.R. 2995, the committee pointed out that the major expenses for developing and implementing the program had already been incurred. Therefore, future funding requests, in the committee's view, should decline as the agency realized savings from retiring aging IT systems.

As it did with funding for operations support, the committee directed the GAO to submit an annual report to both committees on the cost and deployment schedule for all major IRS IT projects in FY2016.

S. 1910

The bill, as reported by the Senate Finance Committee, would have provided $10.475 billion in appropriations for the IRS in FY2016, or $470.0 million less than the amount enacted for FY2015 and $2.456 billion less than the budget request.[46]

In explaining why it sought another cut in funding for the IRS, the committee argued that the IRS "continues to ignore the impact of its own behavior on the attitudes of taxpayers." As result, taxpayers have "lost faith in the institution, and it is incumbent upon the agency to regain" their trust. The committee cited three examples to support its case: (1) the IRS's "disparate treatment" of politically conservative and politically liberal entities seeking tax-exempt status under Section 501(c)(4); (2) the IRS's practice of hiring former employees with past performance problems; and (3) its "willingness to cut services to taxpayers in an effort to garner support for increased resources."

The committee expressed concern about the IRS's ability to allocate resources among its primary responsibilities during a period of "fiscal austerity and budgetary constraints." It noted that the IRS collected hundreds of millions of dollars in fees annually for the services it provided to taxpayers, and that the IRS had almost complete control over how those fees were used. According to an estimate by the IRS, the agency could receive an estimated $450.4 million in such fees to supplement its appropriated funds in FY2016. In the committee's view, the IRS's process for allocating resources lacked "transparency." As a result, the committee directed the agency to submit a spending plan for the user fees it received within 60 days of the enactment of S. 1910; the plan should provide details on how the IRS would allocate those fees among its four appropriations accounts to support specific programs, initiatives, and investments.

In addition, the committee recommended that no appropriated funds be used for awarding bonuses to employees or hiring former employees without first considering their job performance and tax compliance.

Taxpayer Services

As reported by the committee, S. 1910 would provide $2.246 billion in appropriations for taxpayer services in FY2016, or $90 million more than the amount enacted for FY2015 but $163 million less than the budget request. Of the recommended funding, at least $5.6 million would go to the Tax Counseling for the Elderly program; $12.0 million to Low-Income Tax Clinic grants; $12.0 million to the Volunteer Income Tax Assistance matching grant program (to be made available over two fiscal years); and $206.0 million to the Taxpayer Advocate Service, of which $5.0 million would be set aside for assisting victims of identity theft and refund fraud.

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[46] Senate Appropriations Committee, S.Rept. 114-97, p. 27.

In its report on the bill, the committee pointed out that the IRS had control over how it allocates the user fees it receives among its major functions and was allowed to transfer up to 5% of the funding enacted for FY2016 among those functions, with the consent of the House and Senate Appropriations Committees. In FY2015, the IRS allocated 75% less of its user fees to taxpayer services than it did in FY2014. The committee urged the IRS to devote a greater proportion of its user fees to taxpayer services in FY2016. Of the recommended appropriation for these services, $90 million was designated for "measureable" improvements in taxpayer services and faster resolution of identity theft cases.

The committee criticized the IRS for recent declines in the level of telephone service (LOS). According to a 2015 TIGTA report, the number of Automated Collection Service contact representatives decreased by 24% from FY2011 to FY2014, and this decline contributed to a 25% decrease in the number of taxpayer phone calls answered in that period.[47] The average wait time for a caller increased nearly 97% from the 2011 filing season to the 2014 filing season, when it reached 15.9 minutes.[48] In the committee's view, the IRS had the authority to offset any reductions in taxpayer service appropriations with user fees. The committee urged the agency to assign a high priority to improving its LOS in FY2016.

The committee also expressed concern about the possible closure of taxpayer assistance centers (TACs) in FY2016. When the report on S. 1910 was issued, the IRS was in the midst of a six-year effort to evaluate taxpayer preferences in dealing with the IRS. The main goals of the effort were to improve taxpayer services and to provide taxpayers with more secure self-service options through the IRS's website. At the behest of the committee, before the IRS closed another TAC, it had to submit a report to the committee describing the characteristics of the taxpayers that had used the centers in the past decade, including their computer and language proficiencies, and explaining how the IRS planned to meet the needs of those taxpayers. The report should discuss the criteria used by the IRS to select TACs for closure and the likely impact of planned closures on the tax compliance of the affected taxpayers. The committee also directed the IRS to take the following steps before closing a center: (1) notify the public about the geographic area served by the center; (2) hold at least one public hearing on the possible effects of the closure on taxpayer compliance; and (3) report to the committee on the concerns expressed by the taxpayers served by the center.

Another issue addressed by the committee in its report on S. 1910 was the availability of adequate service for taxpayers residing in rural areas and in Alaska and Hawaii. In the case of rural areas, it directed the IRS to report to the committee within 120 days of the enactment of the bill on the measures it was taking to "alleviate" the problems faced by rural taxpayers in getting the needed guidance to file their returns. In the case of Alaska and Hawaii, the committee directed the IRS to ensure that each Taxpayer Advocate Service Center in the two states was staffed with a Collection Technical Advisor and an Examination Technical Advisor, in addition to other staff.

Enforcement

S. 1910 recommended that the IRS receive $4.500 billion in appropriations for enforcement activities in FY2016, or $360 million less than the amount enacted for FY2015 and $900 million less than the budget request.

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[47] Department of the Treasury, Treasury Inspector General for Tax Administration, *Reduced Budgets and Collection Resources Have Resulted in Declines in Taxpayer Service, Case Closures, and Dollars Collected* (Washington, DC: May 8, 2015), p. 10.

[48] Ibid., p. 11.

One issue the committee addressed in its report on the bill was identity theft and related refund fraud. It expressed concern about the IRS's performance in reducing the level of such fraud and the time it took to resolve cases involving taxpayers who were victims of identity theft and refund fraud. In a bid to improve that performance, the committee directed the agency to report to the two appropriations committees within 90 days of the enactment of the bill on its plans for implementing a more effective approach to authenticating the identity of a taxpayer, and for cutting in half the average time a taxpayer must wait to resolve a case involving refund fraud.

The committee also discussed the question of how to reform the process for reviewing applications for tax-exempt status under Section 501(c) (4) to ensure it was untainted by partisan bias. It recommended that the IRS wait until existing investigations into past allegations about political bias in the screening of applications were resolved before issuing new regulations.

Several other varieties of tax fraud drew the attention of the committee as well. One was the recent growth in the number of fraudulent tax returns filed under a prisoner's Social Security number. The committee urged the IRS to continue working with the Federal Bureau of Prisons and state Departments of Correction on more effective ways to prevent such fraud.

Fraudulent claims for the EITC were another concern. Improper EITC payments rose from $10.5 billion in FY2003 to about $18.0 billion in FY2014. According to the GAO, two factors accounted for these payments: (1) the difficulty some taxpayers experienced in determining by themselves if they are eligible for the credit and (2) the limited ability of the IRS to verify eligibility before refunds were issued.[49] The committee recommended that the IRS expand its education programs for taxpayers and professional tax preparers to improve compliance with the credit.

On the issue of processing applications for the federal employment tax status of workers under the SS-8 program, the committee urged the IRS to maintain adequate staffing to meet the program's growing workload. The classification of a worker as an independent contractor or employee has significant tax implications for employers, workers, and the IRS. At issue is whether an individual or an employer is responsible for paying Social Security, Medicare, and federal unemployment taxes, and for withholding federal income taxes. In 1994, the IRS established what was then called the Determination of Worker Status Program to permit an employer or a worker to request an IRS determination of a worker's status as an employee or independent contractor; the program is now known as the SS-8 program. According to a 2013 TIGTA report, the inventory of cases and processing times increased from FY2009 to FY2012.[50] In January 2012, the IRS began to use a new method for prescreening requests for worker status determinations designed to speed up the process. The committee directed the IRS to notify the House and Senate Appropriations Committees, the Ways and Means Committee, and the Senate Finance Committee before reducing or reassigning staff for the program.

Operations Support

S. 1910 would have provided $3.468 billion in appropriations for operations support in FY2016, or $170 million less than the amount enacted for FY2015 and $1.275 billion less than the budget request.

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[49] U.S. Government Accountability Office, *Fiscal Outlook: Addressing Improper Payments and the Tax Gap Would Improve the Government's Fiscal Position*, GAO-16-92T (Washington: Oct. 1, 2015), p. 14.

[50] Department of the Treasury, Treasury Inspector General for Tax Administration, *Employers Do Not Always Follow Internal Revenue Service Worker Determination Rulings* (Washington, DC: June 14, 2013), p. 7.

Most of the IRS's planned 20 major IT investments in FY2016 will be funded through the recommended appropriations. To maintain oversight of the results and costs of these investments, the committee directed the IRS to provide both appropriations committees and the GAO with quarterly reports on "major project activities" no later than 30 days after the end of each calendar quarter in 2016. The reports should discuss cumulative expenditures and the performance schedules for previous fiscal years, the costs and schedules for the previous three months, and the costs and schedules for the next three months, for the following IT projects: IRS.gov, Returns and Remittance Processing, EDAS/IPM, Information Returns and Document matching, E-services, Taxpayer Advocate Service Integrated System, and implementation of the ACA. In addition, each report should explain when the projects began, their expected dates of completion, the percentage of work already completed, the current usefulness of the technology, and any anticipated changes in the schedule for completion.

As a supplement to these reports, the committee ordered the Treasury Department to review IRS's IT investments every six months to "ensure the cost, schedule, and scope goals are transparent." It also directed the GAO to submit an annual report to both appropriations committees on the cost and results of all major IRS IT projects in FY2016.

Business Systems Modernization

In its report on S. 1910, the committee recommended that the BSM program receive $260.0 million in appropriations in FY2016, or $30 million less than the amount enacted for FY2015 and $119.2 million less than the budget request.

The committee expressed concern about the continuing risk of cost overruns and delays in getting the desired results from the BSM projects. To manage that risk, the committee directed the IRS to continue to submit quarterly reports in FY2016 on the cost and performance schedules for two projects: CADE2 and MeF. Both the Treasury Department and the GAO would also have to submit annual reports on the cost and results of the two projects.

Consolidated Appropriations Act, 2016

Taxpayer Services

The act gave the IRS $2.156 billion in appropriations for taxpayer service in FY2016. Of that amount, at least $12 million was to be used for low-income taxpayer clinic grants, $6.5 million for the Tax Counseling for the Elderly Program, and $206 million for the operating expenses of the Taxpayer Advocate Service ($5 million of which was to be used for identity theft casework). In addition, the act specified that at least $15 million was set aside for the Volunteer Income Tax Assistance matching grant program, through the end of FY2017.

Enforcement

The act provided $4.860 billion for enforcement activities in FY2016.

Operations Support

The act gave the IRS $3.638 billion for operation support in FY2016. In addition, the IRS Official Time Program Unit must submit a report to the two appropriations committees within 90 days of the enactment of the act on the number of IRS employees who are members of the collective bargaining unit and the amount of official time they use to perform tasks related to their duties as members of that unit.

Business Systems Modernization

The act provided $290 million for the BSM program in FY2016.

Administrative Provisions

The act included 13 administrative provisions that applied exclusively to the IRS. Most of them had been added to previous appropriations acts affecting the Treasury Department. One provision had not been included in earlier acts:

- Section 113 provided an additional $290 million in appropriations to be used solely for the purpose of making "measureable" improvements in the LOS, the prevention of identity theft and related refund fraud, and the protection of taxpayer information from cyberattack. None of the money can be used until the IRS Commissioner submits a spending plan to the two appropriations committees. Nor can any of the money be used to implement the tax provisions in the ACA.

Issues for Congress

The proposals from the Obama Administration and the House and Senate Appropriations Committees for funding the IRS in FY2016 raised several issues that may reappear in future appropriations requests. Three of those issues are discussed here:

- Did the IRS need a larger budget relative to FY2015 to accomplish its strategic goals and effectively carry out its legal responsibilities?
- Was there a sound rationale for the requested increase in FY2016 funding for enforcement and operations support related to the proposed adjustments to the program integrity caps for the IRS established by the BBEDCA?
- Should Congress consider the return on investment from spending on IRS enforcement activities when deciding how much to appropriate for IRS operations?

Adequacy of the IRS Budget

The Obama Administration contended that the IRS budget in FY2015 was insufficient in light of the agency's strategic goals, legal responsibilities, and mounting work load. To rectify that deficiency, it asked Congress to increase IRS appropriations by $1.986 billion in FY2016, relative to FY2015.

Between FY2010 and FY2015, IRS appropriations fell $1.2 billion (or 9.9%) and staffing by about 13,000 FTEs (or 14.1%). These declines contributed to reductions in both the assistance the IRS provided to taxpayers so they could meet their tax obligations and the actions taken by the IRS to enforce tax laws, including measures to curb tax evasion and refund fraud born of identity theft. During the 2015 filing season, over 60% of calls to the IRS's toll-free telephone taxpayer assistance lines went unanswered; the average wait time for those who got through was 23 minutes; and IRS assistors were allowed to answer basic tax questions only. Audit rates for all individual and business tax returns in FY2014 dropped to their lowest level since FY2005. And IRS's staff involved in enforcement decreased by 7,600 persons (or 18%) from FY2010 to FY2014.

At the same time, the IRS's work load grew considerably. From FY2010 to FY2015, the number of individual tax returns filed with the IRS rose seven million (or 5.0%). The IRS had to take on two new major responsibilities: implementing the ACA and FATCA. And cases involving identity theft increased 700% from FY2010 to FY2013.

In 2015, the IRS Commissioner, the National Taxpayer Advocate, TIGTA, and GAO issued statements calling for an increase in IRS funding. A primary concern was that continued declines in the resources available to the IRS would further diminish the effectiveness of taxpayer services, delay or cancel the implementation of critical new business systems, increase levels of tax evasion and identity theft, make the IRS more vulnerable to cyberattacks aimed at stealing taxpayer information, and undermine taxpayer confidence in the fairness and efficacy of the federal income tax system.

But critics of the IRS, including some leaders in the House and Senate, argued that the IRS needed to demonstrate that it was using available resources as effectively as possible and that it was taking advantage of opportunities for greater program efficiencies and cost savings, before increases in its budget could be considered. They maintained that with careful planning and strategic uses of the hundreds of millions of dollars in user fees the IRS collected each year, it should be able to meet its mandated responsibilities and make significant progress in achieving its strategic objectives.

In deciding how much money to appropriate for the IRS in the future, Congress may want to consider the implications of budget proposals for the ability of the IRS to efficiently and effectively meet its statutory responsibilities and to achieve its strategic goals, including a reduction in the federal tax gap and an improvement in the integrity of a tax system that relies on voluntary compliance to raise needed revenue.

Increased Funding for Enforcement Through Program Integrity Cap Adjustments

The Budget Control Act of 2011 (BCA, P.L. 112-25) amended the BBEDCA by reinstating limits on discretionary budget authority that had lapsed at the end of FY2002. The current limits apply from FY2012 to FY2021. Section 251(b) (2) of the BBEDCA authorizes certain adjustments to the spending caps after the enactment of appropriations. Under the BCA, the limits on discretionary spending can be adjusted for six reasons:

1. changes in budget concepts and definitions,
2. appropriations designated for requirements for emergencies,
3. appropriations designated for Overseas Contingency Operations/Global War on Terrorism,
4. appropriations for continuing disability reviews and redeterminations,
5. appropriations for controlling health care fraud and abuse, and
6. appropriations for disaster relief.

The adjustments for health care fraud and abuse and for disability reviews and eligibility redeterminations allow for additional appropriations to carry out program integrity initiatives, which are activities intended to bring about a net reduction in federal spending, in part through reductions in improper benefit payments. In each case, the adjustment must exceed a specified minimum amount of appropriations for those activities and cannot exceed a specified maximum amount. Those amounts vary from year to year between FY2012 and FY2021. This budget mechanism is intended to ensure that the additional funding does not supplant other federal spending on these activities or is not diverted to other purposes.

The Obama Administration asked Congress to provide more funding for IRS enforcement activities and operations support in FY2016 through a program integrity cap adjustment for collecting taxes (and related penalties and interest charges) owed but not paid and reducing improper refund payments.[51] The request would have amended the BCA to allow an adjustment to

[51] Department of the Treasury, *Internal Revenue Service: FY2016 President's Budget* (Washington, DC: Feb. 2, 2015), p. 14.

the discretionary spending limits for the IRS from FY2016 to FY2025. In FY2016, the adjustment would have totaled $667 million in budget authority and outlays; over the entire period, the cap adjustments would have added $18.716 billion in BA and $18.570 billion in outlays. According to an IRS estimate, the cap adjustments would have led to the collection of $432 million in added tax revenue in FY2016 and $59.735 billion in added revenue from FY2016 to FY2025. This estimate assumed that one additional dollar in enforcement spending eventually would result in $6 in additional revenue, mostly from the collection of delinquent taxes.

Every budget request for the IRS since FY2006 has included a program integrity cap adjustment for IRS enforcement funding. Congress enacted such a proposal for FY2006, FY2009, and FY2010. Enacted cuts in IRS appropriations since then did not include any of the requested program integrity cap adjustments from FY2011 to FY2015. In an effort to make further reductions in the federal tax gap and foster increased tax compliance, Congress may want to assess the advantages and disadvantages of funding IRS's enforcement activities partly through such an adjustment, as part of its consideration of future budget requests.

Revenue Effects of Changes in IRS Appropriations

Under current federal budget scorekeeping rules, any budgetary savings (such as increased revenue) from additional appropriations for government administrative programs is not counted as an offset to that spending. This rule goes back to the scorekeeping guidelines included in the conference report for the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) and reaffirmed in the conference report for the Balanced Budget Act of 1997 (P.L. 105-33). The guidelines are intended to ensure the consistent treatment of the budgetary effects of government programs over time. None of the guidelines can be changed without the unanimous consent of all budget scorekeepers: the House and Senate Budget Committees, the Congressional Budget Office (CBO), and the Office of Management and Budget.

For the enforcement activities of the IRS, this convention means that even though the activities raise additional revenue, the additional receipts cannot be used under congressional pay-go rules to finance tax cuts or spending increases. For example, a proposed decrease in IRS funding of 50% from the amount enacted in FY2015 would be scored as a reduction in the baseline federal budget deficit of approximately $5.4 billion in FY2016; by contrast, a proposed 50% increase in FY2016 funding would be treated as an increase in the federal budget deficit of the same amount. In both cases, even if the proposed changes would affect IRS's enforcement activities only, the increase or decrease in receipts would not affect the projected federal budget deficit.

This limitation also applies to the budgetary impact of other government compliance activities, such as measures to prevent improper Medicare payments or improper claims for federal student loans. In the view of some, a key justification for the limitation is that it deters federal agencies with enforcement budgets from shifting resources to collection functions to justify requests for larger budgets for their programs.[52]

By contrast, estimates of the revenue effects of legislative proposals to alter tax laws sometimes reflect both the indirect and dynamic revenue effects. H.Res. 5 (Adopting Rules for the 114th Congress) requires the CBO and Joint Committee on Taxation (JCT) to incorporate the macroeconomic effects of major legislation in their official estimates of the cost effect used to enforce the budget resolution and other House rules. Major legislation is defined as legislation

[52] Eric Toder, *Reducing the Tax Gap: The Illusion of Pain-Free Deficit Reduction* (Washington, DC: Urban Institute and the Urban-Brookings Tax Policy Center, July 3, 2007), available at http://www.urban.org/research/publication/reducing-tax-gap-illusion-pain-free-deficit-reduction.

with a "gross budgetary effect" equal to or greater than 0.25% of the projected GDP for the fiscal year to which the budget resolution applies.

Some argue that the current practice of disregarding the revenue effects of changes in IRS funding constitutes a bias that inclines Congress to appropriate less than it otherwise would, especially for collection activities.[53] A change in IRS funding may affect taxpayer compliance in ways that generate an indirect revenue effect. But this effect is not scored. Yet the JCT does score the indirect revenue effects of proposed tax code changes.

Congress may wish to consider the net contribution of IRS's administration of the federal tax code to the federal budget when deciding on the size of future IRS budgets.

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[53] Patrick Driessen, "Scoring Rules Double-Stacked Against IRS Funding," *Tax Notes*, Mar. 30, 2015.