

**Testimony before the Senate Appropriations
Subcommittee on Financial Services and General Government**
March 8, 2016

WASHINGTON - Chairman Boozman, Ranking Member Coons, members of the subcommittee, thank you for inviting me to speak about Treasury's Budget Request for fiscal year 2017.

I want to begin by acknowledging the bipartisan passage of the omnibus spending bill in December, which is already contributing to our economic growth and rebuilding our leadership internationally. This agreement demonstrates that we have the capacity to find common ground on difficult issues and lays a foundation for addressing some of our long-term challenges. Over the past seven years under the President's leadership, we have seen a sustained economic recovery and an unprecedented decline in the federal budget deficit. But more work remains to make sure we are upholding the basic American belief that everyone who works hard gets a fair shot at success. In recognition of this, the FY 2017 President's Budget puts forward the building blocks of a social compact for the 21st century and creates the conditions for sustained economic growth. The budget also makes critical investments in our domestic and national security priorities while adhering to the bipartisan budget agreement signed into law last fall, and it lifts sequestration in future years so that we continue to invest in our future.

Within these constraints, the FY 2017 Treasury Budget supports key Administration priorities to (i) further our national security interests, (ii) to invest in Treasury's cybersecurity infrastructure and financial intelligence activities—including efforts directed at ISIL—and (iii) to make strategic investments in the IRS to provide the level of customer service and privacy protections that Americans expect and deserve. And it supports investments in America's small businesses and distressed communities to help grow the economy and ensure that all Americans benefit from growth. Finally, the FY 2017 Treasury Budget makes a number of investments to support the ability of both our domestic and international offices to further Treasury's mission.

Investing in Cybersecurity

Cybersecurity is one of the most urgent challenges facing the Treasury Department and the country. Treasury's Budget Request proposes a new \$110 million department-wide cybersecurity enhancement account to focus Treasury's cybersecurity efforts, improve IT management across our bureaus, and increase our ability to protect against and respond to cyber threats. The proposed investments will enhance electronic authentication procedures for access to Treasury digital services, expand existing security systems on internal networks and public websites, and safeguard data across the department.

Investing in National Security and Protecting the Financial System

Treasury's financial intelligence, sanctions policy, and enforcement activities support U.S. national security interests and help protect the financial system from illicit use. Treasury's request provides \$117 million for the Office of Terrorism and Financial Intelligence (TFI) to oversee and marshal Treasury's intelligence, enforcement, and economic sanctions functions. The request reflects Treasury's continued efforts to combat rogue nations, terrorist facilitators,

money laundering, drug trafficking, and other threats to our security. These efforts include disrupting ISIL's finances, enforcing sanctions against Iran and North Korea, and enhancing global financial transparency.

The request also includes \$115 million for the Financial Crimes Enforcement Network (FinCEN) to support Treasury's efforts to safeguard the financial system from illicit use, combat money laundering, and support national security interests through the collection, analysis, and dissemination of financial intelligence and the strategic use of FinCEN's authorities.

Investing in the IRS and a Fairer Tax System

Treasury's request includes strategic investments in the IRS that will improve service to tens of millions of taxpayers and reduce the deficit through more effective tax administration. I appreciate the increase provided by Congress in FY 2016; however, the IRS remains severely underfunded.

The IRS collects more than 90 percent of federal revenue and interacts with millions of Americans every day. Despite its crucial role and growing responsibilities, the IRS budget is nearly one billion dollars lower than it was in fiscal year 2010, while the volume of income tax return filings has increased by nearly 7 percent. Budget reductions at the IRS cost the country billions of dollars each year in lost revenue, contribute to inadequate customer service for taxpayers, and leave cybersecurity protections necessary to protect taxpayer data underfunded. A sustained deterioration in taxpayer services combined with diminished enforcement capacity could create serious long-term risk for the U.S. tax system.

Our request provides a \$530 million increase above the FY 2016 enacted level to protect the integrity of the tax system, fairly enforce the tax code, and provide adequate levels of taxpayer services. With these investments, the IRS will increase staffing for traditional taxpayer services, improve the quality of assistance available to taxpayers who call the IRS, and bolster defenses against stolen identify refund fraud. In FY 2015, full-year telephone level of service plunged to just 38 percent. With the additional funding received in FY 2016, we expect to reach 47 percent this year and with full funding in FY 2017, we could bring that level back to 70 percent. The budget also invests in new IT architecture that will enable the IRS to continue to modernize and secure its online services and provide taxpayers with an experience comparable to what they have come to expect from financial institutions.

Treasury's request also proposes an additional \$515 million increase in FY 2017 through a program integrity cap adjustment to support efforts aimed at increasing enforcement of current tax laws, investigating transnational organized crime, rooting out abusive tax schemes, and enforcing the Foreign Account Tax Compliance Act (FATCA). Targeted investments to fully fund enforcement initiatives through the cap adjustment are expected to return roughly six dollars to the government for every dollar invested and reduce the deficit by \$46 billion over the ten-year budget window.

Investing in Economic Growth and Opportunity

The President's Budget lays out a vision for what we need to do as a country to grow the economy and ensure that all Americans share in the benefits of economic growth. Treasury's request outlines key investments in evidence-based programs that will support America's small businesses, working families, and distressed communities. These investments will help drive economic growth, create jobs, and provide access to essential financial services.

Treasury's request includes \$246 million for the Community Development Financial Institutions (CDFI) Fund to promote economic development investments in America's low-income and underserved communities. Included in this request is \$10 million for a new Small Dollar Loan Program, which will support broader access to safe and affordable financial products and encourage community institutions to provide alternatives to predatory lenders. The request also proposes to extend the CDFI Bond Guarantee program to facilitate the provision of long-term capital to financial institutions operating in underserved communities, at no cost to taxpayers.

The budget also includes a series of mandatory proposals to facilitate private investment in our nation's infrastructure, investments in small business job creation, and partnerships with private industry and local governments to promote stable income and sustainable savings practices for working families.

Investing in Infrastructure

The budget establishes a new Financing America's Infrastructure Renewal (FAIR) program within Treasury that would provide direct loans to U.S. infrastructure projects developed through public-private partnerships. Eligible projects under the program will encompass the transportation, water, energy, and broadband sectors, as well as certain social infrastructure, such as educational facilities, and must meet all applicable environmental and labor standards. The program is estimated to provide \$15 billion in direct loans over 10 years at no cost to taxpayers.

Supporting Small Businesses

The budget includes a new authorization of \$1.5 billion for the State Small Business Credit Initiative (SSBCI) to build on the momentum of the program by strengthening the federal government's relationships with state economic development agencies and providing capital to America's diverse community of entrepreneurs. Since enacted in 2010, SSBCI has supported over 12,400 private-sector loans or investments in small businesses and helped create or retain over 140,000 jobs.

Encouraging Projects that Pay for Success

The budget includes a \$300 million one-time mandatory appropriation for a new Pay for Success (PFS) Incentive Fund administered by Treasury. This program will support the growing number of state and local governments seeking to establish projects that use PFS financing. These projects leverage private investment to provide preventive social services that measurably improve outcomes for families and communities while generating value to the government,

including savings. The PFS Incentive Fund will help to strengthen the ability of state and local governments to achieve measurable impact for people and communities.

Financial Innovation for Working Families Fund

The budget includes a \$100 million mandatory fund for Treasury to encourage the development of innovative private-sector financial products and services that would help low- to moderate-income workers build up “rainy day” reserves. The reserves would provide these workers and their families with a buffer against shocks to income and spending needs.

Allotment for Puerto Rico EITC Payments

I appreciate the committee’s inclusion of technical assistance authority for Puerto Rico in last year’s funding bill; however, more needs to be done. While the economic health of our nation has improved dramatically since President Obama took office, Puerto Rico’s economy continues to suffer. Their unemployment remains above 12 percent. Outmigration continues to accelerate. And the Commonwealth’s debt is unsustainable. As a result, the Administration proposed a comprehensive plan to address Puerto Rico’s financial challenges, and we encourage Congress to act with the haste this crisis requires. This must begin with legislation to permit a financial restructuring along with new oversight, neither of which cost any taxpayer dollars.

The budget proposes a \$600 million annual allotment, indexed to inflation, to create a refundable, locally-administered Earned Income Tax Credit (EITC) for residents of Puerto Rico. Unlike Americans living in the 50 states and the District of Columbia, residents of Puerto Rico are not eligible for an EITC. Given Puerto Rico’s low labor force participation rate, the existence of an EITC should increase employment in Puerto Rico’s formal sector by providing higher incomes to workers who file taxes. This added incentive for participation in Puerto Rico’s formal economy should also increase Puerto Rico’s tax compliance and tax revenues.

Other Investments in Support of Treasury’s Mission

The request includes new investments in Departmental Offices to support Treasury’s economic and financial policy, and general management. These targeted investments will allow Treasury to improve risk management, enhance Treasury’s analysis of complex tax and economic data sets, and effectively implement the Digital Accountability and Transparency Act (DATA Act).

Finally, while not under this subcommittee’s jurisdiction, I also want to highlight Treasury’s International Programs Budget Request. The request provides a cost-effective way to continue U.S. leadership in international development, advance national security, and expand export markets for American businesses. The request promotes international financial stability and supports key global initiatives such as economic development, poverty reduction, improved food security, and climate change mitigation and adaptation.

Conclusion

In closing, I want to thank the talented team of public servants at the Treasury Department. They are dedicated to the work of the department and committed to the American people. I am proud to represent them here today, and on behalf of these hard-working men and women, I want to say how much we appreciate the support of this committee.

Thank you, and I look forward to answering any questions that you have.