



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 7, 2013

The Honorable Barbara Mikulski
United States Senate
Washington, DC 20510

Dear Senator Mikulski:

Thank you for your January 18, 2013 letters sent to Secretary Geithner and Acting Commissioner Steven Miller regarding the possible impact of the sequester on the Department of the Treasury.

As the Administration has stated many times, sequestration would require indiscriminate across-the-board cuts and was never intended to be implemented. The Administration has proposed solutions to avoid the across-the-board spending cuts through balanced deficit reduction. The Department of the Treasury, along with the rest of the Administration, hopes Congress will act to avoid sequestration.

If the sequester does take effect, the cuts would harm taxpayers and employees across the government. In concrete terms, the effects of sequestration would be felt in two ways: through a diminished capacity to carry out Treasury's mission, primarily due to employee furloughs, and through reductions in payments, tax credits, and financial assistance programs that support small businesses and state and local governments.

Under sequestration, most Treasury employees would face furloughs, which would have a cascading effect on employees' families as well as on the economy at large. The effects would be particularly painful at the IRS, reducing the agency's ability to provide quality services to taxpayers. For example, the cuts to operating expenses and expected furloughs would prevent millions of taxpayers from getting answers from IRS call centers and taxpayer assistance centers and would delay IRS responses to taxpayer letters. The IRS would be forced to complete fewer tax return reviews and would experience a reduced capacity to detect and prevent fraud. This could result in billions of dollars in lost revenue and further complicate deficit reduction efforts. In recent years each dollar spent on the IRS has returned at least \$4 in additional enforcement revenue. Thus, each dollar the sequester cuts from current IRS operations would cause a net increase to the deficit, as the lost and forgone revenue would exceed the spending reduction.

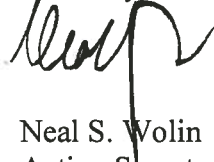
Treasury's national security and enforcement functions would also suffer from a reduced capacity to carry out their vital mission. Spending cuts required by the sequester would force a reduction in Treasury support of counterterrorism and anti-money laundering investigations, which could undermine Treasury's ability to block funds from flowing to dangerous individuals and organizations, affecting the security of all Americans. Overall, while our bureaus would implement cuts to reduce the extent of furloughs as much as possible – including hiring freezes

and reductions in contract support, travel, training, supplies, and services – these actions would not be sufficient to avoid furloughs entirely as we already would be five months into the fiscal year.

In addition to providing fewer services at lower quality, sequestration would require reductions in a number of important Treasury programs that would adversely affect economic growth. Treasury's Community Development Financial Institutions Fund would award fewer or smaller grants to underserved populations and distressed communities, reducing financing to small businesses that are critical to job creation. Treasury would need to reduce payments that support certain state and municipal bond programs through lower levels of refundable tax credits and direct payments to issuers – likely increasing the borrowing costs to improve infrastructure, schools, affordable housing, and other needs for these communities. And we would reduce assistance for the development of renewable energy and tax credits that support small businesses, both of which would put American jobs at risk and restrain economic growth.

We appreciate your interest in the sequester's potential effects on the Department of the Treasury. I would be happy to answer any additional questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Neal S. Wolin', with a stylized flourish at the end.

Neal S. Wolin
Acting Secretary