Alcohol and Tobacco Tax and Trade Bureau

Overview

The Alcohol and Tobacco Tax and Trade Bureau (TTB) serves as the nation’s leader on uniquely regulated consumer products: alcohol and tobacco. TTB is charged with collecting alcohol, tobacco, firearms, and ammunition excise taxes. These products generate nearly $15 billion in taxes annually, making TTB the third largest tax collection agency in the U.S. Government. Key to collecting all the revenue rightfully due are identifying any gaps in tax payment and a balanced field approach of audit and investigations that target non-compliant industry members, both of which help ensure voluntary compliance. Taxes collected by TTB are remitted to the Department of the Treasury General fund. The firearms and ammunition excise taxes are an exception, and are remitted to the Fish and Wildlife Restoration Fund.

TTB’s Protect the Public strategy assures the integrity of products and industry members in the marketplace, ensures compliance with laws and regulations and provides information to the public as a means to prevent consumer deception. TTB enforces federal laws related to labeling, advertising and marketing of alcohol and tobacco products through education, inspection, laboratory testing and investigation. TTB works with industry, state governments, and other interested parties to facilitate compliance with regulatory requirements. TTB provides technical expertise, training, information and research results to industry members, government agencies and others in order to better protect and serve the public. TTB relies on innovation, partnership, and open communication to achieve this strategic goal.

In FY 2005 TTB:

- Collected $14.7 billion in excise taxes and processed over 400,000 tax returns at the National Revenue Center,
- Processed more than 4,000 original permit applications that allow for the start up of new businesses in the alcohol and tobacco industries,
• Collected $367 in alcohol and tobacco excise taxes for every dollar spent on administration, making TTB a highly efficient operation,

• Processed over 110,000 applications for certificates of label approval that allow industry members to introduce new alcohol products into the marketplace,

• Collected $420 million in excise taxes for the government of Puerto Rico and $6 million for the Virgin Islands, and

• Processed $317 million in drawback claims for manufacturers of non-beverage alcohol products.

Total resources required to support the Bureau’s activities for FY 2007 are $92,604,000 from direct appropriations, $1,700,000 from offsetting collections and reimbursable programs, and $28,640,000 from the new User Fee Proposal.

TTB Funding by Budget Activity
(Dollars in Thousands)

TTB makes integration of performance measures and budget a priority. This was evident in FY 2005 as TTB met or exceeded its performance targets for each of its measures. TTB plans to continue to improve its core business operations and provide high quality service to its industry members.

In FY 2005, TTB continued to expand its e-filing program to allow all excise taxpayers (roughly 7,300) to file and pay taxes electronically through the Pay.Gov program. There are approximately 1,000 industry members enrolled to e-file through the Pay.Gov program. The Bureau met its FY 2005 performance target of 98 percent of tax receipts collected via electronic funds transfer and plans to meet the goal again in FY 2007. Voluntary compliance is also an important element of the TTB collection strategy. TTB met its FY 2005 target to have 70 percent of the total taxpayers file payments on or before the scheduled due date. TTB plans to meet its target of 78 percent set for FY 2007.

TTB is auditing the largest 200 taxpayers who pay over 98 percent of federal excise tax collections by 2008. This multi-year effort is the driving force to measure and close the tax gap. Through 2005, TTB has audited 113 of the 200 largest taxpayers, and plans to finish the remaining taxpayers in FY 2007 and FY 2008. Audit findings have resulted in an additional $4.3 million of revenue and $10.2 million in tax penalties and interest. While the audit effort focuses on the major taxpayers, remaining taxpayers are audited based on risk and random sampling. In FY 2007, the Bureau plans to complete 90 to 100 field audits of taxpayers. The FY 2005 audit performance target was met in that TTB audited 82 percent of the excise tax revenue collected and the FY 2007 target has been set higher at 98 percent.

TTB collects federal excise taxes on certain articles produced in Puerto Rico and the Virgin Islands that are imported into the U.S. In FY 2005, TTB processed $426 million in payments to Puerto Rico and the Virgin Islands.

Under current law, persons who use non-beverage alcohol in the manufacture or production of medicines, medical preparations, food products, flavors, flavoring extracts or perfume may be eligible to claim drawback of excise tax paid on distilled spirits used in their products. During FY 2005, TTB processed $317 million in drawback claims. Claimants must submit a product formula to the TTB laboratory for analysis and approval of the non-beverage product before filing a claim.
TTB’s “Collect the Revenue” budget activity received an effective rating on its Program Assessment Rating Tool (PART) evaluation. The results of the PART indicate that TTB has an effective program to collect federal excise taxes. The Bureau has developed an action plan to address PART findings and recommendations.

The tobacco and alcohol industries have the potential to participate in illicit activity, so it is crucial that organized crime and terrorists are kept out of these industries. To combat illegal activity in its regulated industries, TTB issues original and amended permits to persons for the production and operation of its regulated industries. In FY 2005, TTB issued 4,000 original and 11,000 amended permits, and conducted field inspections on 400 of these applications. The Bureau exceeded its FY 2005 performance target by completing 81 percent of the permit transactions within 60 days. TTB plans to meet its FY 2007 target of 82 percent.

The Federal Alcohol Administration Act requires importers and bottlers of beverage alcohol to obtain a certificate of label approval or certificate of exemption from label approval (COLA) for most alcoholic beverages. During FY 2005, TTB processed over 110,000 COLAs. In FY 2003, TTB launched an
e-filing option for obtaining label approval. The Bureau continues to encourage its use by all industry members. The number of e-filers and the percent of the e-filed applications have risen steadily since the launch. In FY 2005, TTB exceeded the performance target of processing 30 percent of all COLAs within nine calendar days of receipt. TTB plans to meet or exceed the target of 57 percent for FY 2007. TTB also met the performance goal to receive 25 percent of all COLAs electronically, and TTB plans to meet or exceed its FY 2007 target of 30 percent.

TTB’s rulemaking provides guidance to industry members to promote voluntary compliance with regulations. In FY 2007, TTB will address issues including allergen warnings, ingredient listings and “serving facts” panels in alcohol labels.

TTB provides significant support to the Office of the U.S. Trade Representative. For example, TTB provided technical, legal and regulatory advice for cross-border trade negotiations in tequila between the U.S. and Mexico. The U.S.-Mexico tequila agreement will ensure the continuation of exports of tequila from Mexico to the U.S. valued at approximately $400 million per year.

**Source of Funds**

The TTB request of $94,304,000 includes direct appropriations to cover the salaries and expenses account for $63,964,000, the new user fee proposal for $28,640,000, and an estimate of $1,700,000 in offsetting collections and reimbursable programs relating to necessary expenses for conducting Puerto Rican enforcement operations.

The budget proposes to establish user fees to cover the costs of TTB’s regulatory functions under its “Protect the Public” line-of-business. The new user fees include administrative fees for “drawbacks” from Manufacturers of Non Beverage Products (MNBP), filing fees for Certificate of Label Approvals (COLA) for distilled spirits, wine and beer, American Viticultural Areas (AVA), proposed formulas, and new permit applications. The industry would pay for the benefits it receives from TTB’s regulatory efforts. These efforts assure the public of unadulterated alcohol and tobacco products, help product sales, and promote fair competition among industry members. The President’s Budget proposes authorizing legislation to collect mandatory receipts and appropriation language that would allow these receipts to be spent on the discretionary program in 2007. Under this proposal, funds will be provided from the general fund to the extent that mandatory receipts are not collected, or fall short of the estimated $28,640,000 in fee revenue.

**TTB Funding History**

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<th>Year</th>
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<th>Protect the Public</th>
<th>Offsettings Collections - Reimbursables</th>
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<td>FY 2007</td>
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**Budget Activities**

**Salaries and Expenses**

*Collect the Revenue ($46,209,000, including $45,376,000 from direct appropriations and $833,000 in reimbursable funding)* The Collect the Revenue budget activity encompasses TTB’s revenue strategy and goal to provide the most effective and efficient system for the collection of revenue that is rightfully due; prevent or eliminate tax evasion and other criminal conduct; and provide high quality service while imposing the least regulatory burden. This program includes projects designed to allow taxpayers to report and pay excise taxes electronically and enable industry customers to access the Pay.Gov system.

*Protect the Public ($48,095,000 including $18,588,000 from direct appropriations, $28,640,000 from user fees and $867,000 in reimbursable funding)* The Protect the Public budget activity encompasses TTB’s...
strategy and goal to ensure compliance with laws and regulations by regulated industries by providing adequate information to the public as to the identity of alcohol beverages and preventing consumer deception. Under this activity, TTB enforces compliance with federal laws related to the production and distribution of alcohol products through education, inspection, investigation, and laboratory testing. TTB provides technical expertise, training, information, and research results to industry members, government agencies and others in order to better protect the public. TTB relies on innovation, partnership and open communication to ensure the safety of the public.

### TTB FY 2007 Budget Highlights

(Dollars in Thousands)

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<th>Amount</th>
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### Current Services

- Adjustments to Maintain Current Levels $2,413
- Pay Annualization $401
- Proposed Pay Raise $1,103
- Non-Pay Inflation Adjustment $909

### Program Reductions

- Tax Services – SOT Suspension/Quarterly Tax Filings - $1,600,000/0 FTE
- BPD ARC Cost Increase $1,576
- Permit Applications $308
- WCF-IT Infrastructure Cost for TCS and DTS $503
- Wine, Distilled Spirits, Tobacco/Tax Processing $425

### Base Reinvestments

- Base Reinvestments + $1,576,000/0 FTE

FY 2007 Budget Adjustments

### FY 2006 Enacted

The FY 2006 TTB appropriation after the one percent rescission (PL 109-148) is $90,215,000. An additional 1,700,000 is made available for operating expenses from offsetting collections and reimbursable programs.

### Current Services

*Adjustments to Maintain Current Levels +$2,413,000/0 FTE* Funds requested for FY 2007 include the cost of the FY 2007 pay increase of $1,103,000; annualization of a FY 2006 pay raise of $401,000; and non-labor costs of $909,000.

### Program Reductions

*Tax Services – SOT Suspension /Quarterly Tax Filings - $1,600,000/0 FTE* Recent statutory changes to the Internal Revenue Code of 1986 (IRC) affects TTB and its taxpayers in two ways. First, it suspended the Special Occupational Tax (SOT) on most alcohol taxpayers, effective July 1, 2005, and then repealed SOT for all alcohol taxpayers effective July 1, 2008. Likewise, the law amended the tax payment and return provisions of IRC section 5061 to allow taxpayers to submit their tax returns and tax payments on a quarterly basis rather than a semi-monthly basis, provided that their annual liability does not exceed $50,000. Effective January 1, 2006, eligible taxpayers may pay their taxes and submit their returns on a quarterly basis, thus reducing the regulatory filing burden on those taxpayers.

### Base Reinvestments

*Base Reinvestments + $1,576,000/0 FTE* The Bureau realized $1.6 million in savings attributed to these legislative changes and reinvested all but $24,000 dollars into operations to support the mission. These funds were reinvested in IT infrastructure, tax processing, and other mission critical operational costs.
Legislative Proposals

The following legislative proposals are being resubmitted as part of the FY 2007 President’s budget request.

Extend Pay Demonstration Program: SEC. 216. Section 122(g) (1) of Public Law 109-115 (5 U.S.C. 3104 note) is further amended by striking “8 years” and inserting “9 years”.

• The Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY 1999 authorized the Secretary of the Treasury to establish in the Department of Treasury a personnel management demonstration project (“pay demonstration project”) for designated critical technical positions. This project was established to enhance Treasury’s ability to effectively recruit and retain highly qualified employees. The Treasury Department authorized TTB’s predecessor to establish a pay demonstration project and the Homeland Security Act of 2002, which established TTB, provided for the continuation of the pay demonstration project in TTB. The pay demonstration project has been extended several times to cover successive fiscal years to include FY 2006. This change would extend the project through FY 2007.

• User Fees: To introduce permanent legislation to allow TTB to collect user fees to cover certain costs of its regulatory functions under the “Protect the Public” line of business. The new user fees covered under this initiative would include administrative fees for “drawbacks” from Manufacturers of Non Beverage Products, filing fees for Certificate of Label Approvals for distilled spirits, wine and beer, American Viticultural Areas proposed formulas, and new permit applications. This change would generate estimated user fee collections of $28,640,000 each year and would require an amendment to the Internal Revenue Code (Title Internal Revenue Code of 1986, Title 26 U.S.C.) and the Federal Alcohol Administration Act, (Title 27 U.S.C.) and system and operational changes would be needed to implement this proposal. The President’s budget proposes authorizing legislation to collect mandatory receipts. Language in the appropriations bill will allow these receipts to be spent on the discretionary program for FY 2007.