

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Budget Activity

(Dollars in thousands)

Appropriation	FY 2009 Enacted	FY 2010 Enacted	Request	FY 2011 \$ Change	% Change
Collect the Revenue	\$50,524	\$51,500	\$53,084	\$1,584	3.1%
Protect the Public	\$48,541	\$51,500	\$53,084	\$1,584	3.1%
Subtotal, Alcohol and Tobacco Tax and Trade Bureau	\$99,065	\$103,000	\$106,168	\$3,168	3.1%
Offsetting Collections - Reimbursables	\$5,154	\$4,234	\$3,050	(\$1,184)	(28.0%)
Total Program Operating Level	\$104,219	\$107,234	\$109,218	\$1,984	1.9%

Note: FY 2011 Total Appropriated Resources includes \$106,168 (dollars in thousands) in offsetting receipts collections from licensing and registration fee revenues. TTB's entire budget for FY 2011 is to be funded from licensing and registration fees, to cover both the Collect the Revenue and Protect the Public Budget Activities. The 547 FTE for FY 2011 excludes 15 FTE from the Puerto Rico reimbursable.

Explanation of Request

In FY 2011, the Alcohol and Tobacco Tax and Trade Bureau (TTB) will continue to focus its efforts on helping industry members comply with alcohol, tobacco, firearms and ammunition laws and regulations, in the interest of collecting all appropriate excise taxes and promoting a marketplace for alcohol beverages that complies fully with federal production, labeling, advertising, and marketing standards. The FY 2011 President's budget request enables TTB to continue its programs and activities necessary to meet the performance measures supporting TTB's strategic goals of collecting revenue and protecting the public.

Total resources required to support TTB activities for FY 2011 are \$109,218,000, including \$106,168,000 in offsetting collections from annual fee receipts, and \$3,050,000 from other offsetting collections and reimbursable programs.

Purpose of Program

TTB serves as the nation's primary federal authority in the regulation of the alcohol and tobacco industries. TTB is responsible for the administration and enforcement of two major areas of federal law affecting those industries, namely; those sections of the Internal Revenue

Code associated with the collection of excise taxes on alcohol, tobacco, firearms, and ammunition, and the Federal Alcohol Administration Act, which provides for the regulation of those engaged in the alcohol beverage industry and the protection of consumers of alcohol beverages.

Collect the Revenue - TTB is charged with collecting alcohol, tobacco, firearms, and ammunition excise taxes. These products generate nearly \$21 billion in tax revenue annually, making TTB the third largest tax collection agency in the federal government. Alcohol and tobacco taxes collected by TTB are remitted to the Department of the Treasury General Fund. Firearms and ammunition excise taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

The excise taxes collected by TTB come from taxes imposed and collected at the producer and importer level of operations. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of paper and tubes for tobacco products, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. About 200 of the largest taxpayers account for 98 percent of the annual excise tax collected. In FY 2009, the majority of taxes collected were

from tobacco (62 percent) and alcohol (36 percent), with the remainder from firearms and ammunition (2 percent).

Strategies used to collect the revenue rightfully due include identifying any gaps in tax payment, identifying any illegal entities or individuals operating outside the excise tax system, developing a balanced field approach of audits and investigations that target non-compliant industry members, and establishing an identifiable presence within all of industry that encourages voluntary compliance.

Protect the Public - TTB works to ensure the integrity of the alcohol and tobacco industries and of beverage alcohol products found in the marketplace, and regulates roughly 50,000 alcohol and tobacco businesses. Under this activity, TTB enforces federal laws related to the issuance of permits to industry members and the production, labeling, advertising, and marketing of alcohol products. TTB conducts these activities through investigations, application reviews, laboratory testing, and educational programs. TTB works with industry, foreign and state governments, and other interested parties to make it easier to comply with regulatory requirements and maintain the appropriate level of oversight to ensure public safety. Education, partnerships, and open communication are paramount strategies in facilitating compliance with regulatory requirements.

TTB FY 2011 Budget Highlights

(Dollars in thousands)

Appropriation	Amount
FY 2010 Enacted	103,000
Changes to Base:	
Maintaining Current Levels (MCLs):	\$1,790
FERS % Change	128
Non-Pay Inflation Adjustment	500
Pay Annualization	325
Pay Inflation Adjustment	837
Non-Recurring Costs:	(\$3,500)
Two Year Funding for Special Agents	(3,500)
Efficiencies Savings:	(\$622)
Business Process Reengineering	(213)
Reconfiguration of Field Offices	(112)
Procurement Savings (includes VOIP)	(297)
Subtotal FY 2011 Changes to Base	(\$2,332)
Total FY 2011 Base	100,668
Program Changes:	
Program Increases:	\$5,500
Implement Annual Licensing & Registration Fee	5,500
Subtotal FY 2011 Program Changes	\$5,500
Total FY 2011 Budget Request	106,168
Annual Licensing and Registration Fees	(106,168)
Total FY 2011 Budget Request (Net)	-

FY 2011 Budget Adjustments

FY 2010 Enacted

The FY 2010 enacted direct appropriation for TTB is \$103,000,000.

Maintaining Current Levels (MCLs)

Adjustments Necessary to Maintain Current Levels +\$1,790,000 / +0 FTE

Funds are requested for: A FERS percentage rate change of \$128,000; non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of \$500,000; FY 2011 cost of the January 2010 pay increase of \$325,000; and proposed January 2011 pay raise of \$837,000.

Non-Recurring Costs

Two Year Funding for Special Agents - \$3,500,000 / +0 FTE

Under the FY 2010 appropriation, two-year funding was designated for law enforcement agents and related support staff to target tobacco smuggling and diversion criminal activities.

The FY 2010 carry forward balance from this multi-year account will be used to cover this activity in FY 2011.

Efficiencies Savings

Business Process Reengineering -\$213,000 / +0 FTE

Savings realized by the introduction of automation and redesigned business processes to ensure bureau operations are efficiently and effectively managed.

Reconfiguration of Field Offices -\$112,000 / +0 FTE

Savings from the reconfiguration of bureau field offices.

Procurement Savings (VOIP) -\$297,000 / +0 FTE

Resulting savings from the implementation of new technology (Voice Over Internet Protocol) that will lower the cost of communication services as compared to traditional phone services.

Program Increases

Implement Annual Licensing & Registration Fee +\$5,500,000 / +12 FTE

Funds are needed to implement the proposed legislation designed to establish a permanent program for FY 2011 and each fiscal year thereafter, requiring the payment of annual fees from alcohol and tobacco industry members. The \$5.5 million in program costs are principally recurring costs, and will cover labor and other program operating costs. This program will conduct key business activities including the mailing and processing of returns, issuance of non compliance letters, maintaining a client registry, responding to customer inquiries, along with processing of collections and accounting for the revenues.

Adjustments to Request Annual Fee

Annual Licensing and Registration Fees - \$106,168,000 / +0 FTE

Annual special receipts (annual fees) will reduce direct funding. The receipts from the annual fee program will be budgeted and accounted for as offsetting collections.

Explanation of Budget Activities

Salaries and Expenses

Collect the Revenue (\$53,084,000 from direct appropriations and \$1,525,000 from reimbursable programs)

The FY 2011 President's Budget request is \$53,084,000 from offsetting collections (annual fees) and \$1,525,000 from reimbursable programs, for a total operating level of \$54,609,000. The Collect the Revenue activity works toward providing the most effective and efficient systems for the collection of tax revenue, eliminating or preventing tax evasion and other criminal conduct, and providing high quality service while imposing the least regulatory burden on taxpayers. This program includes projects designed to allow taxpayers to report and pay excise taxes electronically.

Protect the Public (\$53,084,000 from direct appropriations and \$1,525,000 from reimbursable programs)

The FY 2011 President's Budget request is \$53,084,000 from offsetting collections (annual fees) and \$1,525,000 from reimbursable programs, for a total operating level of \$54,609,000. The Protect the Public activity ensures the integrity of products and industry members in the marketplace, ensures compliance with laws and regulations by regulated industries, and provides information to the public as a means to prevent consumer deception. Under this activity, TTB enforces compliance with federal laws related to the issuance of permits to industry members and the production, importation, exportation,

labeling, advertising, and marketing of alcohol products. TTB conducts investigations, application reviews, laboratory testing, and educational programs in support of its mission.

Legislative Proposals

Extend Pay Demonstration Project: TTB proposes to continue the Pay Demonstration Project by amending the General Provision language to extend the program for one additional year.

Annual Licensing and Registration Fee Program: Legislation will be proposed to allow TTB to establish a permanent program for FY 2011 and for future fiscal years requiring the payment of annual fees from its industry members. The annual fees will be collected from approximately 400,000 businesses each year. This includes retailers and wholesale dealers in liquors and beer; every proprietor of distilled spirits plants, bonded wine cellars, bonded wine warehouses,

and tax-paid wine bottling houses; every brewer; denatured spirits, recovery, and tax-free users (industrial alcohol); and non-beverage domestic drawback claimants. Tobacco importers, retailers, and wholesalers are also included. These fees will support the bureau's core mission and the funds will be used to continue to provide benefits to retailers, wholesalers, breweries, wineries, distilleries, and industrial alcohol businesses. In particular, TTB's efforts help ensure that alcohol and tobacco products are not contaminated, misbranded or illegally marketed, and prevent dishonest persons from entering into the alcohol and tobacco distribution system. This promotes fair competition among all industry members. Regulation of these industries also protects the public against adulterated alcohol products, and misleading labels and advertisements.

TTB Performance by Budget Activity

Budget Activity	Performance Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
		Actual	Actual	Target	Actual	Target Met?	Target	Target
Collect the Revenue	Amount of revenue collected per program dollar (E)	0	313	300	427	Y	400	400
Collect the Revenue	Percent of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)(Oe)	0	94	85	94	Y	92	92
Protect the Public	Average number of days to process an original permit application at the National Revenue Center (E)	0	64	72	64	Y	72	72
Protect the Public	National Revenue Center (NRC) customer satisfaction survey results (%) (Oe)	0	90	85	89	Y	85	85
Protect the Public	Percent of electronically filed Certificate of Label Approval applications (%) (E)	51	62	53	74	Y	78	85
Protect the Public	Percentage of importers identified by TTB as illegally operating without a Federal permit (%) (Oe)	0	22	19	15	Y	19	18

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC - discontinued, and B - baseline

Description of Performance

The bureau continues to collect the federal excise taxes due on its regulated commodities in a highly efficient manner, and continues to help industry members comply with alcohol and tobacco laws and regulations. During FY 2009, TTB met all of its targeted performance goals, while showing continued improvements in performance scores. The bureau plans to continue to monitor its performance, and will continue to capture performance information on program operations to both measure and improve the effectiveness of its programs.

The investments in the Collect the Revenue activity resulted in the following performance highlights and accomplishments during FY 2009:

- Collected \$21 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries from 6,800 excise taxpayers having operations that resulted in tax payments during the year.
- Expanded the e-filing program to allow all excise taxpayers to file and pay taxes, and file monthly operational reports, electronically through the Pay.gov system. The number of Pay.gov registrants is over 4,900.
- Processed \$473 million in cover-over payments to Puerto Rico and \$8 million to the U.S. Virgin Islands. Federal excise taxes collected on rum produced in Puerto Rico and the Virgin Islands that are subsequently imported into the United States are “covered-over” (or paid into) the treasuries of Puerto Rico and the Virgin Islands.
- Processed \$269 million in drawback claims. Under current law, persons who use non-beverage alcohol in the manufacture of medicines, food products,
- flavors, extracts, or perfume and other non-potable products may be eligible to claim drawback of excise taxes paid on distilled spirits used in their products. The TTB laboratory analyzes and approves a product formula before a company can manufacture a product and file a claim.

The investments in Protect the Public activity have resulted in the following performance highlights and accomplishments during FY 2009:

- Processed 124,966 Certificate of Label Approval (COLAs) applications through the bureau’s COLAs Online system for electronic filing of label applications. About 74 percent of the applications were filed electronically. The Federal Alcohol Administration Act requires importers and bottlers of alcoholic beverages to obtain a COLA prior to introduction of the product into commerce.
- Issued 5,533 original permits and approved 17,755 amended permits. TTB issues original and amended permits to persons who are engaged in the alcohol and tobacco industries. TTB screens applications to prevent unqualified persons from engaging in operations. Illicit activity in these industries has the potential to be highly lucrative so it is crucial that organized crime and terrorists are kept out of these industries.
- Initiated more than 1,300 field application investigations of industry members regarding applications, consumer complaints, tax fraud, trade practice violations, and product and labeling integrity verifications.

