Mission Statement
To collect alcohol, tobacco, firearms, and ammunition excise taxes that are rightfully due; to protect the consumer of alcohol beverages through compliance programs that are based upon education and enforcement of the industry to ensure an effectively regulated marketplace; and to assist industry members to understand and comply with Federal tax, product, and marketing requirements associated with the commodities we regulate.

Program Summary by Budget Activity
Dollars in Thousands

<table>
<thead>
<tr>
<th>Appropriation</th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>FY 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Enacted</td>
<td>Enacted</td>
<td>Request</td>
</tr>
<tr>
<td>Collect the Revenue</td>
<td>$50,524</td>
<td>$51,500</td>
<td>$53,084</td>
</tr>
<tr>
<td>Protect the Public</td>
<td>$48,541</td>
<td>$51,500</td>
<td>$53,084</td>
</tr>
<tr>
<td>Total Appropriated Resources</td>
<td>$99,065</td>
<td>$103,000</td>
<td>$106,168</td>
</tr>
<tr>
<td>Total FTE</td>
<td>511</td>
<td>535</td>
<td>547</td>
</tr>
</tbody>
</table>

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.

FY 2011 Priorities
- Collect roughly $21 billion in excise taxes rightfully due to the federal government;
- Process permit applications that allow for the commencement of new alcohol and tobacco businesses;
- Process applications for Certificates of Label Approval (COLAs) required to introduce alcohol beverage products into the marketplace;
- Conduct investigations to effectively administer the Internal Revenue Code (IRC) and Federal Alcohol Administration (FAA) Act provisions with the objective to minimize tax fraud and diversion risks;
- Conduct statistically valid sampling programs to determine industry-wide compliance with advertising, labeling, and formulation regulations;
- Complete audits of large and at-risk taxpayers who pay federal excise taxes;
- Promote e-filing of industry member data, including taxpayer operational reports and tax returns, alcohol beverage formula submissions, and COLA applications;
- Detect counterfeit alcohol and tobacco products, and those industry products diverted from lawful channels, and collect the taxes rightfully due;
- Enhance food safety programs focusing on the integrity and safety of domestic and imported beverage alcohol products;
- Implement licensing and registration fee program contingent upon passage of legislation.

TTB - 1
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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Alcohol and Tobacco Tax and Trade Bureau (TTB) is responsible for the administration and enforcement of federal law, namely those sections of the Internal Revenue Code of 1986 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 the alcohol beverage industry and the protection of consumers of alcohol beverages.

In Fiscal Year (FY) 2011, TTB will continue to focus its efforts on helping industry members comply with federal alcohol, tobacco, firearms, and ammunition laws and regulations, in the interest of collecting all appropriate excise taxes and promoting a marketplace for alcoholic beverages that complies fully with federal production, labeling, advertising, and marketing requirements.

TTB’s priorities are directly linked to the following key strategic objectives:

• **Collect all Revenue that is rightfully due:**
  - Through partnerships with industry, states, and other federal agencies, develop methods of promoting voluntary tax compliance;
  - Ensure correct payment of taxes focusing on audits of “major” and “at-risk” taxpayers;
  - Account accurately for the tax assessed and collected;
  - Reduce the taxpayer paperwork burden associated with collection of revenue by creating alternative electronic filing methods;
  - Ensure consistent tax administration;
  - Prevent tax evasion and identify other criminal conduct in the regulated industries, including diversion and smuggling of taxable commodities.

• **Protect the Public through education, inspection, and investigation:**
  - Ensure the integrity of the alcohol beverage products in the marketplace, and that only qualified permit applicants operate in the alcohol beverage industry;
  - Enforce compliance with federal laws related to the production, labeling, advertising, and marketing of alcohol products;
  - Utilize electronic government solutions to reduce taxpayer burden and improve service with online filing for permit applications and formula submissions, business activity reports, claims, COLA and formula applications, and other required forms;
  - Perform appropriate testing, laboratory analyses, and evaluation of regulated commodities to ensure product safety and integrity;
  - Review and act on labels, formulas, and advertising for domestic and imported beverage alcohol products and maintain public access to approved COLAs;
  - Respond to industry and consumer complaints regarding the regulated commodities;
  - Investigate product contamination and adulteration incidents and allegations;
  - Investigate suspected cases of unfair trade practices and violations of labeling and advertising standards in the beverage alcohol industry;
  - Regulate the international import/export trade in beverage and industrial alcohol.
The total resources required to support TTB activities for FY 2011 are $106,168,000 from annual licensing and registration fees (offsetting receipts) and $3,050,000 from reimbursables (offsetting collections), mainly from the Puerto Rico cover-over program.

1B – Program History and Future Outlook
TTB has two budget activities that focus on collecting all the revenue rightfully due the federal government and ensuring products meet regulatory standards.

Collect the Revenue - This activity collects 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.

The excise taxes collected by TTB come from 6,800 businesses that had operations that resulted in tax payments in a given year. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette papers and tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. Approximately 200 of the largest taxpayers account for about 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 the federal government focus on identifying any gaps in tax payment, illegal entities, and individuals operating outside the excise tax system; developing a balanced field approach of audits and investigations that targets non-compliant industry members; and establishing an identifiable presence within the industry that encourages voluntary compliance.

Alcohol and tobacco taxes collected by the bureau 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 investments in this activity resulted in the following performance highlights and accomplishments during FY 2009:

- Collected approximately $21 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries. The bureau collected $427 for every $1 expended on collection activities;
- 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 total number of Pay.gov registrants increased by 36 percent in FY 2009, bringing the total to over 4,900;
- Achieved voluntary compliance among taxpayers with greater than $50,000 in annual excise tax obligations to a compliance rate of 94 percent in FY 2009, measured in terms of timely remittance of tax payments. TTB’s educational outreach efforts at industry seminars and premises, and improvements in online filing options, assisted in this effort;
- Processed $481 million in cover-over payments to Puerto Rico and the U.S. Virgin Islands. Federal excise taxes collected on all imported rum, and on rum produced in Puerto Rico and
the Virgin Islands and subsequently brought 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. Analyzed beverage alcohol and tobacco product samples to assign or verify a tax classification. For this purpose, TTB analyzed 1,021 beverage alcohol samples associated with pre-import evaluations, the 5010 tax credit, and enforcement activities. Another 265 tobacco product samples were analyzed to ensure products were appropriately classified for tax purposes;
- Completed 171 audits and roughly 400 investigations that recovered $12.2 million in additional tax, penalties, and interest from industry members.

This table displays the amount of federal excise tax collections at the bureau from FY 2005 – 2009 by revenue type:

<table>
<thead>
<tr>
<th>REGISTRY TYPE</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco</td>
<td>$7,409,749,000</td>
<td>$7,350,204,000</td>
<td>$7,194,113,000</td>
<td>$6,851,705,000</td>
<td>$11,548,504,000</td>
</tr>
<tr>
<td>Alcohol</td>
<td>$7,074,076,000</td>
<td>$7,182,940,000</td>
<td>$7,232,138,000</td>
<td>$7,420,576,000</td>
<td>$7,424,292,000</td>
</tr>
<tr>
<td>Firearms Ammunition Mfg</td>
<td>$225,818,000</td>
<td>$249,578,000</td>
<td>$287,835,000</td>
<td>$312,622,000</td>
<td>$452,693,000</td>
</tr>
<tr>
<td>Special Occupational Taxes</td>
<td>$10,190,000</td>
<td>$2,895,000</td>
<td>$2,808,000</td>
<td>$1,082,000</td>
<td>$272,000</td>
</tr>
<tr>
<td>Floor Stocks Tax (Tobacco)</td>
<td>$9,000</td>
<td>$638,000</td>
<td>$0</td>
<td>$0</td>
<td>$1,193,345,000</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$14,719,833,000</td>
<td>$14,785,617,000</td>
<td>$14,716,894,000</td>
<td>$14,585,985,000</td>
<td>$20,619,106,000</td>
</tr>
</tbody>
</table>

Note: Tobacco revenue increased in 2009 as a result of the passage of the Children’s Health Insurance Program Reauthorization Act (CHIPRA) legislation which increased the tax rate on tobacco products.

Tax Collections from the Alcohol Industry
The beverage alcohol industry in the United States pays over $7 billion in federal excise taxes each year and also contributes tax revenues for state and local governments. Economic forecasts predict continued modest growth in the alcohol industry, and taxes collected on alcoholic beverages are expected to continue to rise throughout the period of FY 2010 – FY 2011. TTB envisions that in the next few years the increase in new alcohol businesses will be most prominent in the number of wineries, craft breweries, and craft distilleries.

Tobacco Product Floor Stocks Tax
In FY 2009, TTB collected federal excise taxes on alcohol and tobacco products and also implemented a floor stocks tax on tobacco products in accordance with the Children’s Health Insurance Program Reauthorization Act of 2009 (CHIPRA). This legislation provided for a tax increase on all tobacco products (except large cigars), and cigarette papers and cigarette tubes, effective April 1, 2009. The floor stocks tax is a one-time excise tax placed on commodities subject to a tax increase and it is equal to the difference between the new tax rate and the previous rate. The last floor stocks tax enacted was in 2002. Floor stocks tax collections for FY 2009 were $1.2 billion and represent collections from hundreds of thousands of wholesaler and retailer dealers (who do not hold a permit with TTB) and manufacturers and importers (who are required to hold a TTB permit).
Firearms and Ammunition Excise Tax (FAET) Collections

Firearms and ammunition excise taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937. Federal excise tax collections on firearms and ammunition have increased from $193 million in FY 2003 to more than $452 million, an increase of roughly $259 million over the past 6 years, or a 134 percent growth in federal FAET revenues. The increase in reported tax revenue can be attributed to industry growth, effective outreach and collection initiatives at the bureau, and the field presence of our auditors, which continues to promote voluntary taxpayer compliance.

Protect the Public - This activity ensures 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. TTB enforces federal laws related to the issuance of permits to industry members and the production, importation, exportation, labeling, advertising, and marketing of alcohol products. These activities are conducted through investigations, application reviews, laboratory testing, and educational programs. TTB works with industry, foreign and state governments, and other interested parties to reduce the burden of compliance with regulatory requirements and to maintain the appropriate level of oversight to ensure public safety. Education, partnerships, and open communication are paramount strategies in facilitating compliance with regulatory requirements.

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

- Approved 99,320 of the 124,966 COLA applications received; the remaining 25,646 (21 percent) were either rejected, returned for correction, withdrawn, expired, or surrendered. About 74 percent of COLA applications were filed electronically through COLAs Online. This proprietary TTB system has been in operation since 2003;
- Processed 5,533 original and 17,755 amended permits. TTB averaged 64 days to process perfected permit applications. TTB protects consumers by screening permit applicants, analyzing market samples, reviewing labels for accuracy, and investigating unfair trade practices;
- Evaluated about 6,300 beverage alcohol formulas and analyzed about 2,600 beverage alcohol samples in support of audits and investigations, and the product integrity, pre-import, Alcohol Beverage Sampling Program, 5010 tax credit, and consumer complaints programs;
- Issued cease and desist letters to tobacco importers operating without permits. Through its effective information sharing relationship with U.S. Customs and Border Protection, TTB was able to compare import data in the customs International Trade Data System with permit information in TTB’s Integrated Revenue Information System (IRIS) and determined that 15 percent of entities importing tobacco products had done so without a permit. TTB’s issuance of cease and desist letters, and appropriate follow up activities, ensured that the responsible parties ended operations or obtained a permit;
- Initiated about 1,300 field investigations of industry members regarding applications, consumer complaints, trade practice violations, product and labeling integrity verifications, tax fraud and related revenue investigations. Included in these investigations are high-risk permit applications to meet TTB’s public protection objectives.
Specific Challenges in FY 2011

Tobacco and Alcohol Smuggling and Diversion
The enforcement challenges on the alcohol and tobacco industries revolve principally around tax fraud and label fraud. Tax fraud in these industries, through unlawful diversion or other means, represents an extremely high risk to federal revenue while at the same time presents a lucrative funding source for organized crime and terrorists. This not only threatens our national security, but is detrimental to the Nation’s economic stability, as the Government does not realize the revenue collections lawfully due. In addition, counterfeit alcohol beverages masquerading under legitimate domestic brand or trade names jeopardize domestic alcohol beverage commerce by trading on the brand reputation of authentic domestic producers. Likewise, label fraud deceives consumers as to the identity of the product offered for sale. Typically, the consumer deception involves counterfeit high-end products.

TTB was directed by Congress under the Children’s Health Insurance Program Reauthorization Act of 2009 (CHIPRA) to conduct a study to determine the magnitude of tobacco smuggling in the United States and to make recommendations on how to reduce tobacco smuggling. The findings will become a cornerstone of TTB’s law enforcement efforts on diversion and tobacco smuggling operations. The study, due to Congress in February 2010, will provide an estimate of the loss in Federal tax receipts from the illicit tobacco trade by using a gap analysis modeled after a study conducted in Great Britain. This method compares total tobacco consumption levels to the excise taxes paid to arrive at net revenue loss. The FY 2010 budget included a provision that directed $3 million of TTB appropriations, available until September 30, 2011, to be used for the hiring, training, and equipping of special agents and related support personnel to address both the diversion of tobacco and alcohol products. This investment directs the bureau to launch an enforcement program to include criminal investigations, and to conduct seizures of counterfeit or smuggled alcohol and tobacco products.

Alcohol Fuel Plants (AFPs)
TTB has issued approximately 1,638 alcohol fuel plant permits, which are regulated by TTB as Distilled Spirits Plants. The establishment of these new plants creates new challenges because of the possibility for significant revenue losses that would result from unlawful diversion of alcohol. The Energy Independence and Security Act of 2007 mandates the use of 36 billion gallons of renewable fuel per year by 2022. In comparison, total U.S. consumption of beverage distilled spirits is about 420 million gallons per year – and beverage spirits contain less than half the ethanol that is in alcohol fuel. Most alcohol fuel production comes from fewer than 150 large plants, but hundreds of smaller plants have applied for TTB permits in each of the last few years.

Succession Planning
Succession planning is high on the list of TTB’s strategic priorities, especially regarding its investigative forces. TTB expects to lose 40 percent of its workforce by 2011 due to retirements and other attrition. To mitigate these losses, TTB continues to use the personnel interventions identified in the Pay Demonstration Project to enable the bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB uses tailored approaches designed, developed, and implemented specifically for the bureau’s continuing and evolving needs in order to meet mission requirements and remain competitive for highly skilled talent. Continuation of
the Pay Demonstration authority is key to closing skill gaps in mission critical occupations. The FY 2011 budget proposes to continue this program for an additional year.

**Rulemaking**
TTB’s regulatory actions will support its mission objectives to collect the revenue and protect the public. The bureau will work on a number of regulatory projects in FY 2011, and several key regulatory initiatives are detailed below. Over the next few years, Congress may enact legislation changing excise taxes on commodities that TTB regulates, and the bureau anticipates continued industry and interest group petitions, inquiries, and other expressions of interest in more detailed alcohol beverage labeling which will result in regulatory action to protect the public. TTB’s regulatory activity will be sufficiently flexible to adjust to any changes in agency priorities.

**Key Regulatory Initiatives**

*Collect the Revenue and Protect the Public - Modernization of Title 27, Code of Federal Regulations.* In FY 2011, TTB will continue to pursue its multi-year program of modernizing its regulations in title 27 of the Code of Federal Regulations. This program involves updating and revising the regulations to be more clear, current, and concise, with an emphasis on the application of plain language principles. Modernizing the regulations will ultimately result in greater compliance by industry members, thus protecting both the revenue and the public, as well as cost savings to TTB through the use of more efficient regulatory processes. To date, TTB has published notices of proposed rulemaking to revise Part 19 and to amend Part 9 and has reviewed the public comments received in response to those notices.

*Collect the Revenue--Alcohol Fuel Plants.* In FY 2011, TTB intends to prepare proposed amendments to the alcohol fuel plant regulations, in recognition of the significant growth in this industry segment. The proposed changes would include updated procedures for producers of distilled spirits intended for fuel use that will enhance their operations consistent with TTB’s responsibility to protect the revenue.

*Protect the Public--Serving Facts Labeling.* In July 2007, TTB published in the Federal Register for public comment proposed regulatory changes which would require a statement of alcohol content for all beverage alcohol products, expressed as a percentage of alcohol by volume and appearing on any label affixed to the container. Also included in the proposed regulatory changes is a requirement for a Serving Facts panel on alcohol beverage labels, which would include a content statement covering calories, carbohydrates, fat, and protein. Under the proposals, industry members may also disclose on the Serving Facts panel the number of U.S. fluid ounces of pure alcohol per serving as part of the alcohol content statement. The new regulations would also specify reference serving sizes for wines, distilled spirits, and malt beverages based on the amount of beverage customarily consumed as a single serving rather than based on a definition of a standard drink. The purpose of these proposed regulatory changes is to ensure that beverage alcohol labels provide consumers with adequate information about the products they are consuming. TTB will continue its rulemaking on this issue in FY 2011 if a final rule on this matter has been not published by that time.
Protect the Public--Allergen Labeling. In July 2006, TTB published in the Federal Register an interim rule setting forth standards for voluntary allergen labeling of alcohol beverages concurrently with a notice of proposed rulemaking for mandatory allergen labeling for alcohol beverages. In FY 2010, TTB will consider the feasibility of adopting mandatory allergen labeling requirements and, in FY 2011, TTB will continue rulemaking action on this issue, if necessary.

Electronic Permit Application Process (E-Government)
TTB’s vision for the Permits Online investment is to provide a secure, web-based E-Government solution that will allow members of TTB’s regulated industry to electronically submit amendments and applications for original establishment of operations. Applicants who plan to produce finished distilled spirits, wines, malt beverages, and tobacco products, as well as persons wishing to operate businesses such as alcohol wholesalers, alcohol importers, tobacco importers, specially denatured spirits users and dealers, tax-free alcohol users, alcohol fuel plants, tobacco processors, and tobacco export warehouses, must submit original and amended permit applications. The National Revenue Center (NRC) currently processes original application packets for 23 types of permits/registrations. New or existing customers file these packets to request permission to commence a new regulated industry operation, or to update critical industry member information such as trade names.

Over the past several years, the volume of paper applications has increased making it difficult to maintain current service levels. The bureau has purchased a commercial off-the-shelf software package that will be the core of the electronic submission system for new and amended permit applications. Plans are to implement this system in stages, with the initial deployment scheduled for late FY 2010 and all permit applications automated by late FY 2011.

By shifting the current paper-intensive, repetitive, and often varied permit application process to a simplified, streamlined Web-based system, the bureau expects to achieve efficiencies and performance improvements of measurable value to industry applicants. Once the commercial product is fully implemented, industry can expect reduced processing time, electronically guided assistance through the application process, improved communications with TTB, and an overall reduction in mailing and materials costs. Applicants wishing to enter these regulated industries will be able to commence operations sooner and supply their customers more quickly.
Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

<table>
<thead>
<tr>
<th>Alcohol and Tobacco Tax and Trade Bureau</th>
<th>FTE</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2010 Enacted</td>
<td>535</td>
<td>103,000</td>
</tr>
</tbody>
</table>

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:
  - Business Process Reengineering - ($213)
  - Reconfiguration of Field Offices - ($112)
  - Procurement Savings (VOIP) - ($297)
- Subtotal FY 2011 Changes to Base - ($2,332)

Total FY 2011 Base 535 100,668

Program Changes:
- Program Increases:
  - Implement Annual Licensing & Registration Fee 12 $5,500
- Subtotal FY 2011 Program Changes 12 $5,500

Total FY 2011 Budget Request 547 106,168

Annual Licensing and Registration Fees (547) (106,168)

Total FY 2011 Budget Request (Net) - -

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .................................................. +$1,790,000 / +0 FTE

FERS % Change +$128,000 / +0 FTE
Funds are requested for the increase in agency retirement contribution percentages for GS employees from 11.2% to 11.5% for FY 2011 as required by OPM.

Non-Pay Inflation Adjustment +$500,000 / +0 FTE
Funds are requested for non-pay related items such as contracts, travel, supplies, equipment and GSA rent.

Pay Annualization +$325,000 / +0 FTE
Funds are requested for the FY 2011 cost of the January 2010 pay raise.

Pay Inflation Adjustment +$837,000 / +0 FTE
Funds are requested for the January 2011 pay raise.

Non-Recurring Costs ................................................................. -$3,500,000 / +0 FTE

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 ...........................................................................................................-$622,000 / +0 FTE

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
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 ...................................................................................................+$5,500,000 / +12 FTE

Implement Annual Licensing & Registration Fee +$5,500,000 / +12 FTE
Legislation will be proposed to establish a permanent program for FY 2011 continuing each fiscal year thereafter, requiring resources to support labor and operating costs. TTB will be responsible for establishing and administering an annual fee proposal, including the collection of roughly $111 million in annual fee revenues from approximately 400,000 businesses. A $5.5 million investment is needed to set up this program. Much if not all of the initial investment costs are expected to be recurring to administer the program. The successful management of this activity will necessitate the long-term investment in both government staff (12 FTE), contractor support, and other general and administrative costs, including information technology. Following are key business activities and details of the amount requested: 1) Mailing and processing roughly 400,000 annual fee bills; 2) Processing approximately 60,000 to 80,000 non-compliance letters; 3) Maintaining the registry of the client database for 400,000 businesses; 4) Responding to customer inquiries (e.g., claims, waiver requests, etc.); 5) Accounting for the annual fee collections and processing of the revenues. The roughly 400,000 annual fee payers include 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. Annual Licensing and Registration Fees — Regulatory Implementation: Amendments to TTB regulations would be necessary to implement this statutory program. At a minimum, this would cover payment procedures, including the use of a specified form to accompany the payment, and probably related registration, reporting, and recordkeeping requirements.

Adjustments to Request Annual Fees .................................................................-$106,168,000 / -547 FTE

Annual Licensing and Registration Fees -$106,168,000 / -547 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.
## 2.2 – Operating Levels Table

<table>
<thead>
<tr>
<th>Alcohol and Tobacco Tax and Trade Bureau</th>
<th>FY 2009 Enacted</th>
<th>FY 2010 President's Budget Including Rescission</th>
<th>FY 2010 Enacted Level</th>
<th>Proposed Reprogramming</th>
<th>FY 2010 Proposed Operating Level</th>
<th>FY 2011 Requested Level</th>
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</thead>
<tbody>
<tr>
<td>FTE</td>
<td>525</td>
<td>525</td>
<td>0</td>
<td>535</td>
<td>0</td>
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</tbody>
</table>

Object Classification:

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<tr>
<th>Category</th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>FY 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.1 - Full-time permanent</td>
<td>44,940</td>
<td>46,048</td>
<td>47,375</td>
</tr>
<tr>
<td>11.5 - Other personnel compensation</td>
<td>778</td>
<td>794</td>
<td>794</td>
</tr>
<tr>
<td>12 - Personnel benefits</td>
<td>11,235</td>
<td>11,464</td>
<td>11,706</td>
</tr>
<tr>
<td>21 - Travel and transportation of persons</td>
<td>3,000</td>
<td>3,015</td>
<td>3,508</td>
</tr>
<tr>
<td>22 - Transportation of things</td>
<td>101</td>
<td>102</td>
<td>102</td>
</tr>
<tr>
<td>23.1 - Rental payments to GSA</td>
<td>5,219</td>
<td>4,796</td>
<td>4,796</td>
</tr>
<tr>
<td>23.3 - Comm, utilities, and misc charges</td>
<td>5,050</td>
<td>5,073</td>
<td>5,132</td>
</tr>
<tr>
<td>24 - Printing and reproduction</td>
<td>386</td>
<td>388</td>
<td>388</td>
</tr>
<tr>
<td>25.2 - Other services</td>
<td>22,296</td>
<td>15,586</td>
<td>16,628</td>
</tr>
<tr>
<td>25.3 - Other purchases of goods and services from Govt. accounts</td>
<td>5,390</td>
<td>4,402</td>
<td>4,645</td>
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<td>31 - Equipment</td>
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<td>4,645</td>
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<tr>
<td>42 - Insurance claims and indemnities</td>
<td>0</td>
<td>7,159</td>
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### Total Budget Authority

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<tr>
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</thead>
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<tr>
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<td>$99,065</td>
<td>$99,500</td>
<td>$3,500</td>
<td>$103,000</td>
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Budget Activities:

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</thead>
<tbody>
<tr>
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<td>51,500</td>
<td>0</td>
<td>51,500</td>
<td>53,084</td>
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<tr>
<td>Protect the Public</td>
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<td>0</td>
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<td>53,084</td>
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### Total Budget Authority

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$99,065</td>
<td>$99,500</td>
<td>$3,500</td>
<td>$103,000</td>
<td>$106,168</td>
</tr>
</tbody>
</table>

## 2.3 – Appropriations Detail Table

### Dollars in Thousands

<table>
<thead>
<tr>
<th>Resources Available</th>
<th>FY 2009 Obligations</th>
<th>FY 2009 Enacted</th>
<th>FY 2010 Enacted</th>
<th>FY 2011 Request</th>
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</thead>
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<tr>
<td>FTE</td>
<td>AMOUNT</td>
<td>FTE</td>
<td>AMOUNT</td>
<td>FTE</td>
<td>AMOUNT</td>
</tr>
<tr>
<td>Budget Activity</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Collect the Revenue</td>
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<td>50,523</td>
<td>268</td>
<td>50,523</td>
<td>268</td>
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<tr>
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<td>257</td>
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<td>257</td>
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<td>267</td>
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### Subtotal by Budget Activity

<table>
<thead>
<tr>
<th></th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources Available</td>
<td>$99,065</td>
<td>$99,500</td>
<td>2.25%</td>
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### Appropriated Resources and Special Receipts

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<tr>
<th>Appropriated Resources</th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources Available</td>
<td>$99,065</td>
<td>$99,500</td>
<td>2.25%</td>
</tr>
</tbody>
</table>

### Other Resources:

<table>
<thead>
<tr>
<th>Resources Available</th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>% Change</th>
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<tbody>
<tr>
<td>Resources Available</td>
<td>$104,219</td>
<td>$106,168</td>
<td>2.18%</td>
</tr>
</tbody>
</table>
DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE
BUREAU
Federal Funds

SALARIES AND EXPENSES:
For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, [$105,000,000] $106,168,000; of which not to exceed $5,500,000 for administrative expenses related to implementation of the fees authorized by 27 U.S.C. Section 202, as amended by this Act, to remain available until [September 30, 2011] September 30, 2012; not to exceed $6,000 for official reception and representation expenses; not to exceed $50,000 for cooperative research and development programs for laboratory services; and provision of laboratory assistance to State and local agencies with or without reimbursement: Provided, That the sum herein appropriated from the general fund shall be reduced as offsetting collections assessed and collected pursuant to the Federal Alcohol Administration Act (27 U.S.C. 201 et seq.), as amended by this Act, are received during fiscal year [2010] 2011, so as to result in a fiscal year [2010] 2011 appropriation from the general fund estimated at [$25,000,000] $0: Provided further, That any amount received in excess of [$80,000,000 in fiscal year 2010] $106,424,000 in fiscal year 2011 shall be available only to the extent provided in subsequent appropriations acts. (Department of the Treasury Appropriations Act, 2009.)

Treasury General Provisions:
Sec. 113. Section 122(g) (1) of Public Law 105-119 as amended (5 U.S.C. 3104 note), is further amended by striking [“12 years”] “13 years” and inserting [“12 years”] “13 years”.

SEC. 617 The Federal Alcohol Administration Act (27 U.S.C. 201 et seq.) is amended by inserting immediately after "Title II—Alcoholic Beverage Labeling" a new Title III that provides as follows:
"Title III—ANNUAL FEES, ETC.

Legislation will be proposed to establish a permanent program for fiscal year 2011 and each fiscal year thereafter, requiring the payment of annual licensing and registration fees.

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

"Section 301 - Authority to Collect Fees.
"Section 302 - Reduced fees.
"Section 303 - Exemptions and exceptions.
"Section 304 - Administrative provisions.
"Section 305 - Definitions.
"Annual Fees, Etc.
§ 301 Authority to Collect Fees.
(a) General rule.—The Secretary of the Treasury is authorized to collect a fee for services rendered to the regulated community at levels not lower than those provided in subsections (b), (c), and (d), to the extent provided in advance by an appropriations act, to be credited as offsetting collections to the Alcohol and Tobacco Tax and Trade Bureau Salaries and Expenses account, to fund the operations of the Alcohol and Tobacco Tax and Trade Bureau as authorized by 6 U.S.C. §531.

(b) Fee Category 1.—Each of the following shall pay a fee of $1,000 per year in respect of each such premises under his control—
(1) proprietors of a distilled spirits plant;
(2) proprietors of a bonded wine cellar;
(3) proprietors of a bonded wine warehouse;
(4) proprietors of a taxpaid wine bottling house;
(5) proprietors of a brewery;
(6) manufacturers of processed tobacco.

(c) Fee Category 2.—Each of the following shall pay a fee of $500 per year—
(1) wholesale dealers in liquor;
(2) wholesale dealers in beer;
(3) wholesale dealers in tobacco products;
(4) wholesale dealers in processed tobacco;
(5) importers of tobacco products;
(6) importers of processed tobacco;
(7) every person intending to claim eligibility for drawback under section 5131 of the Internal Revenue Code of 1986;

(d) Fee Category 3.—Each of the following shall pay a fee of $350 per year—
(1) retail dealers in liquors;
(2) retail dealers in beer;
(3) retail dealers in tobacco products;
(4) except that every holder of a permit issued under section 5271 of the Internal Revenue Code of 1986, shall be subject to a fee of $300.

(e) Fee adjustment.—The Secretary shall provide for automatic annual fee increases in accordance with the Consumer Price Index, and shall publish a notice of the fee increases in the Federal Register 60 days prior to their effective date.

§ 302 Reduced fees.—
(a) In general.—Section 301(b) shall be applied by substituting "$500" for "$1,000" with respect to any person (other than one described in section 303(a)) the gross receipts of which (for the most recent taxable year ending before the 1st day of the taxable period to which the fee imposed by section 301(b) relates) are less than $500,000.

(b) Controlled group rules.—All persons treated as 1 taxpayer under section 5061(e)(3) of the Internal Revenue Code of 1986 shall be treated as 1 fee payer for purposes of subsection (a).

(c) Certain rules to apply.—For purposes of determining gross receipts under subsection (a), the rules contained in subparagraphs (B) and (C) of section 448(c)(3) of the Internal Revenue Code of 1986 shall apply.

§ 303 Exemptions and Exceptions.
(a) Exemption for small producers.—Section 301(b) shall not apply with respect to any person who is a proprietor of an eligible distilled spirits plant.

(b) Sales by proprietors of controlled premises.—No proprietor of a distilled spirits plant, bonded wine cellar, taxpaid wine bottling house, or brewery, shall be required to pay the fee under section 301(c) on account
of the sale at his principal business office as designated in writing to the Secretary, or at his distilled spirits plant, bonded wine cellar, taxpaid wine bottling house, or brewery, as the case may be, of distilled spirits, wines, or beer, which, at the time of sale, are stored at his distilled spirits plant, bonded wine cellar, taxpaid wine bottling house, or brewery, as the case may be, or had been removed from such premises to a taxpaid storeroom operated in connection therewith and are stored therein. However, no such proprietor shall have more than one place of sale, as to each distilled spirits plant, bonded wine cellar, taxpaid wine bottling house, or brewery, that shall be exempt from fee by reason of the sale of distilled spirits, wines, or beer stored at such premises (or removed therefrom and stored as provided in this section), by reason of this subsection.

"(c) Sales by liquor stores operated by States, political subdivisions, etc.—No liquor store engaged in the business of selling to persons other than dealers, which is operated by a State, by a political subdivision of a State or by the District of Columbia, shall be required to pay any fee under this section 301(c), by reason of selling distilled spirits, wines, or beer to dealers qualified to do business as such in such State, subdivision, or District, if such State, political subdivision, or District has paid the applicable fee under section 301(d)(1) and 301(d)(2) as appropriate, and if such State, political subdivision, or District has paid fee under section 301(c)(1) and 301(c)(2) as appropriate, at its principal place of business.

"(d) Casual sales.—

"(1) Sales by creditors, fiduciaries, and officers of court.—No person shall be deemed to be a dealer by reason of the sale of distilled spirits, wines, beer or tobacco products which have been received by him as security for or in payment of a debt, or as an executor, administrator, or other fiduciary, or which have been levied on by any officer under order or process of any court or magistrate, if such distilled spirits, wines, or beer are sold by such person in one parcel only or at public auction in parcels of not less than 20 wine gallons, or in the case of tobacco products parcels of not less than 50 cartons.

"(2) Sales by retiring partners or representatives of deceased partners to incoming or remaining partners.—No person shall be deemed to be a dealer by reason of a sale of distilled spirits, wines, beer or tobacco products made by such person as a retiring partner or the representative of a deceased partner to the incoming, remaining, or surviving partner or partners of a firm.

"(3) Return of liquors or tobacco products for credit, refund, or exchange.—No person shall be deemed to be a dealer by reason of the bona fide return of distilled spirits, wines, beer or tobacco products to the dealer from whom purchased (or to the successor of the vendor's business or line of merchandise) for credit, refund, or exchange.

"(e) Dealers making sales on purchaser dealer's premises.—

"(1) Wholesale dealers in liquors.—No wholesale dealer in liquors who has paid the fee as such dealer shall again be required to pay a fee as such dealer on account of sales of wines or beer to wholesale or retail dealers...
in liquors, or to limited retail dealers, or of beer to wholesale or retail dealers in beer, consummated at the purchaser's place of business.

"(2) Wholesale dealers in beer.—No wholesale dealer in beer who has paid the fee as such a dealer shall again be required to pay a fee as such dealer on account of sales of beer to wholesale or retail dealers in liquors or beer, or to limited retail dealers, consummated at the purchaser's place of business.

"(f) Sales by retail dealers in liquidation.—No retail dealer in liquors, retail dealer in beer or retail dealer in tobacco products, selling in liquidation his entire stock of liquors or tobacco products in one parcel or in parcels embracing not less than his entire stock of distilled spirits, of wines, of beer or of tobacco products to any other dealer, shall be deemed to be a wholesale dealer in liquors, a wholesale dealer in beer, or a wholesaler dealer in tobacco products, as the case may be, by reason of such sale or sales.

"(g) Sales to limited retail dealers and sales by retail dealers of tobacco products.—

"(1) Retail dealers in liquors.—No retail dealer in liquors who has paid the fee as such dealer under section 301(d) shall be required to pay additional fee under section 301(c) on account of the sale at his place of business of distilled spirits, wines, or beer at any location where such dealer is required to pay the fee as a wholesale dealer in liquors.

"(2) Wholesale dealers in beer.—No retail dealer in beer on any dealer by reason of the selling, or offering for sale, of distilled spirits, wines, or beer at any location where such dealer is required to pay the fee as a wholesale dealer in beer.

“(3) Wholesale dealers in tobacco products and importer of tobacco products.—No fee shall be charged as a retail dealer in tobacco products at any location where such dealer is required to pay the fee as a wholesale dealer in tobacco products or as an importer of tobacco products.
“(4) Importers of tobacco products and processed tobacco – No fee shall be charged as an importer of processed tobacco at any location where such person is required to pay the fee as an importer of tobacco products.

“(5) Manufacturers of processed tobacco and importers of processed tobacco - No fee shall be charged as an importer of processed tobacco at any location where such person is required to pay the fee as a manufacturer of processed tobacco or pay the special tax as a manufacturer of tobacco products under section 5731 of the Internal Revenue Code of 1986.

"(j) Business conducted in more than one location.—

"(1) Retail dealers at large.—Any retail dealer in liquors or retailer dealer in beer whose business is such as to require him to travel from place to place in different States of the United States may, under regulations prescribed by the Secretary, cover his activities throughout the United States with the payment of but one fee as a retail dealer in liquors or as a retail dealer in beer, as the case may be.

"(2) Dealers on trains, aircraft, and boats.—Nothing contained in this chapter shall prevent the payment, under such regulations as the Secretary may prescribe, of the fee by—

"(A) persons carrying on the business of retail dealers in liquors, retail dealers in beer or retail dealer in tobacco products on trains, aircraft, boats or other vessels, engaged in the business of carrying passengers; or

"(B) persons carrying on the business of retail dealers in liquors, retail dealers in beer or retail dealers in tobacco products on boats or other vessels operated by them, when such persons operate from a fixed address in a port or harbor and supply exclusively boats or other vessels, or persons thereon, at such port or harbor.

"(3) Liquor stores operated by States, political subdivisions, etc.—A State, a political subdivision of a State, or the District of Columbia shall not be required to pay more than one fee as a retail dealer in liquors under section 301(d) regardless of the number of locations at which such State, political subdivision, or District carries on business as a retail dealer in liquors.

"(k) Exception for the United States—Section 301(d)(4) shall not apply to any permit issued to any agency or instrumentality of the United States.

"(l) Exception for certain educational institutions—Section 301(d)(4) shall not apply with respect to any scientific university, college of learning, or institution of scientific research which is issued a permit under section 5271 of the Internal Revenue Code of 1986 and, with respect to any calendar year during which such permit is in effect, procures less than 25 gallons of distilled spirits free of tax for experimental or research use but not for consumption (other than organoleptic tests) or sale.

"§ 304. Administrative provisions.

"(a) Computation and Payment of the Fees.—All fees charged under this part shall be paid no later than the first day of July in each year, or on commencing any trade or business on which such fee is charged.
In the former case, the fee shall be computed for 1 year, and in the latter case it shall be computed from the first day of the month in which the trade or business commenced, to and include the 30th day of June following. The fee shall be paid in the mode and manner that the Secretary shall by regulation prescribe.

"(b) Condition precedent to carry on business.—No person shall be engaged in or carry on any trade or business subject to the fee under this section until he has paid the fee.

"(c) Procedures.—Unless otherwise specified by the Secretary, rules similar to those in section 5733 of the Internal Revenue Code of 1986 shall apply with respect to fees assessed under this part.

"(d) Applicable Rules.—The fees imposed by section 301(b) shall be assessed, collected, and paid in the same manner as taxes, as provided in section 6665(a) of the Internal Revenue Code of 1986.

"(e) Claims Collection.—In addition to the authority in section 304(d), the unpaid fees that are due and owing may be collected pursuant to the Federal Claims Collection Act, 31 U.S.C. Chapter 37.

"(f) Regulations.—The Secretary may issue such regulations as are necessary to carry out this title.

§ 305. Definitions

"(a) Brewer.—Every person who brews beer (except a person who produces only beer exempt from tax under section 5053(e) of the Internal Revenue Code of 1986) and every person who produces beer for sale shall be deemed a brewer.

"(b) Dealer.—When used in sections 301 to 305, the term "dealer" means any person who sells, or offers for sale, any distilled spirits, wines, beer, tobacco products or processed tobacco.

"(c) Eligible distilled spirits plant.—A plant which is used to produce distilled spirits exclusively for fuel use and the production from which does not exceed 10,000 proof gallons per year.

"(d) Limited retail dealer.—When used in sections 301 to 305, the term ‘limited retail dealer’ means any fraternal, civic, church, labor, charitable, benevolent, or ex-servicemen’s organization making sales of distilled spirits, wine, or beer on the occasion of any kind of entertainment, dance, picnic, bazaar, or festival held by it, or any person making sales of distilled spirits, wine, or beer to the members, guests, or patrons of bona fide fairs, reunions, picnics, carnivals, or other similar outings, if such organization or person is not otherwise engaged in business as a dealer.

"(e) Retail dealer in liquors.—When used in sections 301 to 305, the term ‘retail dealer in liquors’ means any dealer, other than a retail dealer in beer or a limited retail dealer, who sells, or offers for sale, any distilled spirits, wines, or beer, to any person other than a dealer.

"(f) Retail dealer in beer.—When used in sections 301 to 305, the term ‘retail dealer in beer’ means any dealer, other than a limited retail dealer, who sells, or offers for sale, beer, but not distilled spirits or wines, to any person other than a dealer.

"(g) Wholesale dealer in liquors.—When used in sections 301 to 305, the term ‘wholesale dealer in liquors’ means any dealer, other than a wholesale dealer in beer, who sells, or offers for sale, distilled spirits, wines, or
beer, to another dealer. 

"(h) Wholesale dealer in beer.—When used in sections 301 to 305, the term ‘wholesale dealer in beer’ means a dealer who sells, or offers for sale, beer, but not distilled spirits or wines, to another dealer.

“(i) Wholesale dealer in tobacco products.—When used in sections 301 to 305, the term ‘wholesale dealer in tobacco products’ means a dealer who sells, or offers for sale, tobacco products to another dealer.

“(j) Wholesale dealer in processed tobacco.—When used in sections 301 to 305, the term ‘wholesale dealer in processed tobacco’ means a dealer who sells, or offers for sale, processed tobacco to another dealer.

“(k) Importer of tobacco products.—When used in sections 301 to 305, the term ‘importer of tobacco products’ means an importer as defined within section 5702(k) of the Internal Revenue Code of 1986 who imports tobacco products.

“(l) Retail dealer in tobacco products.—When used in sections 301 to 305, the term ‘retail dealer in tobacco products’ means any dealer who sells, or offers for sale, tobacco products to any person other than a dealer.

“(m) Manufacturer of processed tobacco.—When used in sections 301 to 305, the term ‘manufacturer of processed tobacco’ means a manufacturer as defined within section 5702(p) of the Internal Revenue Code of 1986.

“(n) Importer of processed tobacco.—When used in sections 301 to 305, the term ‘importer of processed tobacco’ means an importer defined within section 5702(k) who imports processed tobacco.”

(Financial Services and General Government Appropriations Act, 2011.)
2C – Legislative Proposals

Extend Pay Demonstration Project
TTB proposes to continue the Pay Demonstration Project (Pay Demo) by amending the General Provision language to extend the project for one additional year. This project was established to enhance Treasury’s ability to effectively recruit and retain highly qualified employees. It seeks to do so by implementing changes in personnel management practices for designated occupations. Pay Demo has been extended every year since it was first established in FY 1999, and has been a successful intervention tool in the recruitment and retention of critical staff positions.

- The continuation of the pay demonstration authority has proven to be an effective recruitment strategy that enables the bureau to timely fill its positions with the right people, with the right skills, minimizing loss and skill gaps caused by an aging workforce and employee turnover;
- The pay demonstration authority fosters a results-oriented organizational culture by maximizing performance and assuring accountability by focusing on results, therefore, improving the bureau’s overall performance;
- The pay demonstration authority provides continuous focus on improving recruiting and hiring procedures, classification and compensation systems, incentive systems, and involves employees and labor organizations in personnel decisions, which are all important to managing the human capital needs of the bureau;
- The pay demonstration authority has improved targeted outreach for a more diverse workforce, increasing the participation rate of various groups (e.g., women, persons with disabilities, veterans, and persons from different age groups) across all occupations and band/grade groupings under the authority.

Annual Licensing and Registration Fees
The Budget proposes establishing a permanent program for FY 2011 and each fiscal year thereafter, requiring members of the alcohol and tobacco industries to pay annual licensing and registration fees. In general, these fees will support the bureau’s core mission and the funds will be used to continue to provide benefits to members of the regulated community, including retailers, wholesalers, breweries, wineries, distilleries, importers, and industrial alcohol businesses.

Benefits to Industry: In general, regulation of the beverage alcohol and tobacco industries benefits retailers, wholesalers, breweries, wineries, distilleries, importers, and industrial alcohol businesses under this legislative proposal. These industries would pay a fee for the benefits they receive from the bureau’s regulatory and tax collection efforts. 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 systems. This promotes fair competition among all industry members. Regulation of these industries also protects the public against adulterated alcohol and tobacco products, and misleading labels and advertisements.
Benefits to industry members include:

- Investigating applications and issuing permits or notices for the operation of distilleries, bonded wine premises, and breweries to ensure that only qualified persons operate in the industry;
- Regulating the operations of various industrial users of distilled spirits, including manufacturers of non-beverage products, and tax-free and denatured alcohol users to ensure that all taxes due on alcohol are collected;
- Regulating the production, packaging, and storage of alcohol and tobacco products;
- Regulating the labeling and bottling of alcohol beverages to both protect the revenue due and to ensure a safe, fair, and even market in the alcohol trade;
- Regulating the marketing and promotional practices concerning the sale of tobacco and alcohol beverages by producers, importers, and wholesalers primarily through the investigation of allegations of unfair trade practices to promote fair competition among the industry.

**Legislative Proposal on Annual Licensing and Registration Fees**

The Budget proposes to amend U.S.C. Title 27 to allow TTB to establish a permanent program to collect annual fees from alcohol producers, distributors, and retailers that will be classified as offsetting receipts. In the first year, TTB estimates the annual estimated offsetting receipt collections at $111 million.

Key provisions of this legislative proposal include:

1. Collected annual fees are authorized to cover the budget activities of the Alcohol and Tobacco Tax and Trade Bureau to the extent provided in annual appropriations acts.
2. The Secretary shall provide for increased annual fees consistent with the annual rate of inflation as defined by the Consumer Price Index, and shall publish any such changes in the Federal Register.

**Annual Fee Requirement:**

The annual fees to be charged under this program are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailer Dealers in Liquors, Beer, and Tobacco</td>
<td>$350</td>
</tr>
<tr>
<td>Wholesaler Dealers in Liquors and Beer</td>
<td>$500</td>
</tr>
<tr>
<td>Wholesaler Dealers in Tobacco and Processed Tobacco</td>
<td>$500</td>
</tr>
<tr>
<td>Importers of Tobacco and Processed Tobacco</td>
<td>$500</td>
</tr>
<tr>
<td>Manufacturers of Processed Tobacco 1/</td>
<td>$1000</td>
</tr>
<tr>
<td>Alcohol Producers: Distilled Spirits Plant 1/</td>
<td>$1000</td>
</tr>
<tr>
<td>Bonded Wine Cellar 1/</td>
<td></td>
</tr>
<tr>
<td>Bonded Wine Warehouse 1/</td>
<td></td>
</tr>
<tr>
<td>Tax paid Wine Bottling House 1/</td>
<td></td>
</tr>
<tr>
<td>Every Brewer 1/</td>
<td>$1000</td>
</tr>
<tr>
<td>1/ Reduced Fees by substituting “$500” for “$1,000” if gross receipts are less than $500,000 for the most recent taxable year before the 1st day of the taxable period.</td>
<td>$500</td>
</tr>
<tr>
<td>Denatured Spirits, Recovery and Tax-Free Users (Industrial Alcohol)</td>
<td>$300</td>
</tr>
<tr>
<td>Non-beverage Domestic Drawback Claimants</td>
<td>$500</td>
</tr>
</tbody>
</table>
The licensing and registration fee excludes tobacco businesses covered under the Special Occupational Tax (SOT) program, including tobacco export warehouses, manufacturers of tobacco products, and manufacturers of cigarettes papers and tubes. In addition, since many retailers of alcohol and tobacco products trade in both commodities, only one fee will be required for those entities. The legislative proposal includes the various exemptions and exceptions that applied under the SOT.
Section 3 – Budget and Performance Plan

This table lists all FY 2011 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

<table>
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<tr>
<th>Treasury Strategic Outcome</th>
<th>FY 2010 Enacted</th>
<th>FY 2011 Request</th>
<th>Percent Change</th>
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<tr>
<td>Economic competitiveness</td>
<td>53,617</td>
<td>54,609</td>
<td>1.85%</td>
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<tr>
<td>Revenue collected</td>
<td>53,617</td>
<td>54,609</td>
<td>1.85%</td>
</tr>
<tr>
<td>Total</td>
<td>$107,234</td>
<td>$109,218</td>
<td>1.85%</td>
</tr>
</tbody>
</table>

3A – Collect the Revenue ($53,084,000 from direct appropriations and $1,525,000 from reimbursable programs): This 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. TTB will employ a number of strategies to collect revenue that is rightfully due. The Tax Audit Division will focus its audit resources on large and at-risk taxpayers. The Office of Field Operations will continue to provide industry outreach to facilitate voluntary compliance, investigate allegations or indications of tax fraud, verify destruction of large quantities of taxable commodities, and conduct compliance investigations of permittees who have substantial potential for tax liability.

Reducing taxpayer burden and improving service remain priorities at TTB. The ultimate goal is to allow permittees and taxpayers to file all payments, returns, and applications online with the National Revenue Center. The FY 2011 budget request enables the continuation of efforts to achieve the performance targets supporting the bureau’s strategic goals of providing the most effective and efficient system for the collection of all revenue that is rightfully due, eliminating or preventing tax evasion and other criminal conduct, and providing high quality service while imposing the least regulatory burden.

Offsetting Collections..................................................Total $1,525,000
Non-Federal Sources (Puerto Rico).................................$1,500,000
Federal Sources (Laboratory Services)...............................$25,000

The non-federal reimbursable funds cover the costs associated with the functioning and support of the Puerto Rico office, and are paid from the “cover-over” (return), which is offset from the roughly $481 million in cover-over taxes collected in the United States. Also, the bureau collects a nominal amount of reimbursable funding for lab services performed to support criminal investigations at the Bureau of Alcohol, Tobacco, Firearms, and Explosives.
Special Receipts Fund (Annual Fees)..............................................$53,084,000

The annual licensing and registration fees are to cover the costs of TTB’s operation to the extent provided in appropriation acts.

3.2.1 – Collect the Revenue Budget and Performance Plan

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriated Resources</td>
<td>$46,215</td>
<td>$46,758</td>
<td>$50,524</td>
<td>$51,500</td>
<td>$53,084</td>
</tr>
<tr>
<td>Reimbursable Resources</td>
<td>$1,512</td>
<td>$1,878</td>
<td>$2,576</td>
<td>$2,117</td>
<td>$1,525</td>
</tr>
<tr>
<td>Total Resources</td>
<td>$47,727</td>
<td>$48,636</td>
<td>$53,100</td>
<td>$53,617</td>
<td>$54,609</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Collect the Revenue Budget Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measure</td>
</tr>
<tr>
<td>Amount of revenue collected per program dollar (E)</td>
</tr>
<tr>
<td>Cumulative percentage of excise tax revenue audited over 3 years (%) (Ot)</td>
</tr>
<tr>
<td>Percent of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)(Oe)</td>
</tr>
<tr>
<td>Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)(Oe)</td>
</tr>
<tr>
<td>Percentage of total tax receipts collected electronically (E)</td>
</tr>
<tr>
<td>Percentage of voluntary compliance in filing timely and accurate tax payments (in terms of revenue) (Oe)</td>
</tr>
<tr>
<td>Resources as a percentage of revenue (E)</td>
</tr>
<tr>
<td>Unit cost to process an excise tax return ($) (E)</td>
</tr>
</tbody>
</table>

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

Description of Performance: In FY 2009, TTB met all of its performance measures under the Collect the Revenue budget activity, while showing continued improvements in performance scores. TTB collected nearly $21 billion in federal excise taxes in a highly efficient manner. Key performance metrics show that 94 percent of industry members voluntarily file their tax and operational reports on or before the scheduled due date.

The amount of revenue collected per program dollar measure quantifies the efficiency of the tax collection program and, in FY 2009, TTB reported a return on investment of $427 for every dollar spent on collection activities. The actual ratio of collections to expenses far exceeded performance targets for FY 2009 due mainly to the passage of legislation that increased tax rates on certain tobacco products, effectively doubling the bureau’s revenue collections for tobacco.
**3B – Protect the Public ($53,084,000 from direct appropriations and $1,525,000 from reimbursable programs):** This activity ensures the integrity of products and industry members in the marketplace, promotes 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. The bureau conducts investigations, application reviews, laboratory testing, and educational programs in support of its mission. TTB works with industry, other federal and state governments, and other interested parties, including our counterpart regulators in foreign countries, to make it easier to comply with regulatory requirements, while maintaining the appropriate level of oversight to ensure public safety. Innovation, partnerships, and open communication are paramount to achieving this strategic goal.

TTB monitors trade practices of the alcohol industry and takes enforcement actions on violations or discrepancies, monitors and reviews international trade in alcohol beverages to identify trade barriers and incidents of international fraud and contaminated products, and to promote international agreements on product integrity.

Users of specially denatured alcohol are required to submit a formula to TTB’s laboratory. Likewise, those using alcohol for non-beverage purposes, such as in the manufacture of flavorings or medicines, must also gain approval of their formula in order to file a claim for drawback of excise taxes previously paid. In both cases, the TTB laboratory reviews the formula and analyzes samples to grant or deny the action requested by the applicant.

TTB also protects the consumer by monitoring alcohol products and investigating incidents of suspected unsafe conditions or product deficiencies related to production and labeling. This is done by testing samples of beverage alcohol sold at the retail level and obtained directly from producers. The purpose of this testing is to ensure that beverage alcohol products marketed in the United States meet formulation and labeling requirements, do not contain unauthorized substances or contaminants, and are properly classified for tax purposes.

**Offsetting Collections.................................................................Total $1,525,000**

- Non-Federal Sources (Puerto Rico)............................................$1,500,000
- Federal Sources (Laboratory Services)........................................$25,000

The non-federal reimbursable funds cover the costs associated with the functioning and support of the Puerto Rico office, and are paid from the “cover-over” (return), which is offset from the roughly $481 million in cover-over taxes collected in the United States. Also, the bureau collects a nominal amount of reimbursable funding for lab services performed to support criminal investigations being conducted at the Bureau of Alcohol, Tobacco, Firearms, and Explosives.

**Special Receipts Fund (Fees)......................................................$53,084,000**

The annual licensing and registration fees are to cover the costs of TTB’s operation to the extent provided in appropriation acts.
3.2.2 – Protect the Public Budget and Performance Plan

<table>
<thead>
<tr>
<th>Protect the Public Budget Activity</th>
<th>FY 2007</th>
<th>FY 2008</th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>FY 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriated Resources</td>
<td>$44,403</td>
<td>$46,757</td>
<td>$48,541</td>
<td>$51,500</td>
<td>$53,084</td>
</tr>
<tr>
<td>Reimbursable Resources</td>
<td>$1,512</td>
<td>$1,877</td>
<td>$2,578</td>
<td>$2,117</td>
<td>$1,525</td>
</tr>
<tr>
<td><strong>Total Resources</strong></td>
<td><strong>$45,915</strong></td>
<td><strong>$48,634</strong></td>
<td><strong>$51,119</strong></td>
<td><strong>$53,617</strong></td>
<td><strong>$54,609</strong></td>
</tr>
</tbody>
</table>

**Budget Activity Total**

<table>
<thead>
<tr>
<th>Protect the Public Budget Activity</th>
<th>FY 2007</th>
<th>FY 2008</th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>FY 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriated Resources</td>
<td><strong>$45,915</strong></td>
<td><strong>$48,634</strong></td>
<td><strong>$51,119</strong></td>
<td><strong>$53,617</strong></td>
<td><strong>$54,609</strong></td>
</tr>
</tbody>
</table>

**Description of Performance:** In FY 2009, TTB met or exceeded its targeted performance for each of its Protect the Public measures.

The bureau reported increases in the percent of electronically filed COLA applications, which in FY 2009 reached 74 percent of all applications. The ongoing rise in electronic filing is due to successful outreach events for industry sponsored by the bureau, and system enhancements that simplify filing for industry members. With continued funding for these efforts, TTB expects usage rates to reach 85 percent in FY 2011.

The NRC customer survey measures satisfaction with processing times and the level of service provided to the industry. The survey solicits feedback on the level of service provided to applicants for an original or amended permit, or those industry members filing a claim to recover taxes paid on non-beverage alcohol or overpayments of tax. TTB continues to exceed its target of a sustained score of 85 percent on customer satisfaction for permits and claims processing, and achieved a composite score of 89 percent in FY 2009.
The NRC foresees continued growth in the number of original permits submitted by new applicants to the regulated industries. The bureau expects automation efforts that commenced in FY 2010 to expedite permit processing times, as described in Section 1B, Specific Challenges in FY 2011. With full system functionality slated for deployment in 2011, and considering the requisite transition and training period for industry members, TTB anticipates achieving significant improvements in processing times beginning in FY 2012. To improve processing times in the interim, TTB made a shift in internal business processes in FY 2009, whereby certain permit applications requiring a full investigation were sent to the field offices for review on a post-issuance basis. This process improvement enabled the bureau to maintain a 64-day turnaround time in permit processing for FY 2009 despite a four percent increase in workload.

TTB’s monitoring of U.S. Customs and Border Protection’s data through the International Trade Data System is yielding results. The percentage of entities illegally operating tobacco without a federal permit has declined since this measure was established in FY 2008. This measure gauges the effectiveness of the bureau’s cease and desist letters to illicit operators and its follow up activities to ensure that illegally obtained or contraband products do not reach U.S. consumers.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/
Section 4 – Supporting Materials

4A – Human Capital Strategy Description

By properly managing its human capital needs, TTB supports the Department of the Treasury’s strategic goals:

- Effectively managed U.S. Government finances;
- U.S. and world economies perform at full economic potential.

To accomplish and fulfill both TTB’s and the Department of the Treasury’s strategic plans, the bureau has taken several steps to maintain and improve its current professional workforce. TTB’s Human Capital Strategic Plan, which is aligned with the TTB Strategic Plan, documents strategies to improve skill and competency gaps, demographics, workforce management and performance measurement efforts, and succession planning. The model for strategically assessing TTB’s skills gap outlook for future years is predicated on assumptions regarding future changes in the workforce, including retirement eligibility rules and rates of attrition.

Succession planning is a strategic priority for TTB, especially as it relates to the bureau’s mission critical positions. The bureau expects to lose approximately 40 percent of its workforce between 2009 and 2013 due to retirements and other attrition. To mitigate these losses, it is vital that TTB continue to have the use of the personnel interventions identified in the Pay Demonstration Project (Pay Demo) to enable the bureau to improve its ability to recruit, develop, and retain high-caliber employees in mission critical positions. The bureau has 131 participants in the Pay Demo project that function in mission critical positions such as chemists, industry analysts, auditors, and information technology specialists.

Wellness Programs

TTB received a number one ranking among 216 sub-component agencies in the area of work-life programs. As part of its culture, the bureau promotes the use of telework and work schedule flexibilities. TTB also has gone beyond the standard protocol to maintain a Health Improvement Program which allows employees up to three hours per week to exercise during work hours. TTB has procured vending services to include “heart healthy” choices in snack machines. Finally, the bureau has extensive Employee Assistance Program services available to all employees, which include grief and stress management, family counseling, financial consultation services, mental health evaluations and referrals, eldercare services, parental skills training, legal assistance, and a host of video/literary resources.

During FY 2009, TTB:

- Received feedback from the joint Treasury/Office of Personnel Management (OPM) evaluation of its human resources program, which was positive and indicated an overall effective program rating;
- Underwent the Department of the Treasury’s first audit of the Treasury Bureaus’ Equal Employment Opportunity (EEO) programs. The feedback indicated positive results and an overall effective EEO/Diversity Program. EEO is implementing improvement strategies, such as a TTB Diversity Week, based on its five-year strategic plan;
• Implemented the Treasury Learning Management System and provided all mandatory training to employees in the system through online training modules. The system is the primary source of record for employee training histories, and provides thousands of online courses through a leading provider of Web-based training in professional development and technical training;

• Administered the FY 2008 Federal Human Capital Survey (FHCS) for TTB in coordination with Treasury and OPM, which showed an improvement above the FY 2006 scores. TTB was ranked 7th out of 216 federal organizations on the Partnership for Public Service, Best Places to Work 2009 overall index score ranking. This is an increase from the ranking of 10th out of 222 federal agencies in 2007. It is also significant to note that TTB ranked 1st out of the 216 federal organizations surveyed on the specific work index for Family-Friendly Culture and Benefits and 3rd for the Strategic Management index. TTB developed an FY 2009 – 2010 FHCS Action Plan using the FY 2008 survey results to target specific strategies to improve scores in the FHCS results areas of Leadership/Knowledge Management and Performance Culture;

• Completed the OPM 2009 Performance Appraisal Assessment Tool (PAAT) evaluation and reporting on the bureau’s General Schedule performance management program and received an excellent rating on the overall evaluation. In its feedback to TTB, Treasury stated the following: “Your phenomenal score of 90 reflects not only TTB’s hard work and dedication to the PAAT, but is also reflective of the tremendous progress TTB is making in ensuring its employees have an effective, results-oriented, performance appraisal program….We commend you for taking performance management seriously! We are so very proud of the TTB 2009 PAAT score of 90 points;”

• Prepared for signature the TTB order on the Incentive Awards Program. As part of its employee recognition efforts, the bureau holds an annual award ceremony to honor the service and performance of its workforce;

• Continued to exceed the Treasury hiring goal of 45 days with an annual overall average of 33 days to hire.

**Federal Human Capital Survey Response**

In response to the government-wide survey to obtain employee feedback, TTB’s Human Resources Division (HRD) developed a Federal Human Capital Survey (FHCS) Action Plan. TTB ranked 7th out of 216 sub-component agencies on this survey and had high scores in the area of recruitment, development, and retention. The areas where TTB scored lowest are the same areas identified as problematic throughout the Federal government – “Performance Culture” and “Leadership/Knowledge Management.” The HRD staff conducted focus groups with supervisory and non-supervisory employees to identify specific actions that would address survey responses of TTB employees. During the remainder of FY 2009 and through FY 2010, various program offices will be taking action to:

- Continue to provide annual management and supervisory training on performance management, employee recognition, and dealing with problem employees;
- Update the Diversity Strategic Plan and post it on the Intraweb for access by all employees;
- Publicize the Tuition Reimbursement Program;
- Educate employees on performance management policies;
• Review, and revise as appropriate, guidance on detail assignments;
• Encourage career mapping through greater use of Individual Development Plans;
• Encourage targeted recruitment (e.g., the Presidential Management Fellows Program) and employee development (e.g., the Emerging Leaders Program) as a means of satisfying workforce planning/succession needs.

Implementing the action plan will increase communication with employees regarding the relationship between individual responsibilities and the bureau’s mission, ensure a highly talented and well-developed staff, and enhance succession planning activities.
### 4.1 – Summary of IT Resources Table
Dollars in Thousands

<table>
<thead>
<tr>
<th>Information Technology Investments</th>
<th>FY 2008 Actual Funding</th>
<th>FY 2009 Enacted Funding</th>
<th>% Change from FY08 to FY09</th>
<th>FY 2010 Enacted Funding</th>
<th>% Change from FY09 to FY10</th>
<th>FY 2011 Requested Funding</th>
<th>% Change from FY10 to FY11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major IT Investments / Funding Source</td>
<td>Subtotal, Major IT Investments</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
<td>0</td>
<td>0.0%</td>
<td>0</td>
</tr>
<tr>
<td>Non-Major IT Investments</td>
<td>Collect the Revenue/Protect the Public</td>
<td>3,980</td>
<td>4,480</td>
<td>12.6%</td>
<td>4,480</td>
<td>0.0%</td>
<td>4,480</td>
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<tr>
<td>Infrastructure Investments</td>
<td>Collect the Revenue/Protect the Public</td>
<td>14,915</td>
<td>17,258</td>
<td>15.7%</td>
<td>16,260</td>
<td>-5.8%</td>
<td>16,264</td>
</tr>
<tr>
<td>EITIO</td>
<td>11,483</td>
<td>13,826</td>
<td>12,828</td>
<td>12,832</td>
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<tr>
<td>WCF</td>
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<td></td>
<td></td>
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<tr>
<td>Enterprise Architecture</td>
<td>Collect the Revenue/Protect the Public</td>
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<td>644</td>
<td>31.2%</td>
<td>644</td>
<td>0.0%</td>
<td>644</td>
</tr>
<tr>
<td>Total IT Investments</td>
<td>Collect the Revenue/Protect the Public</td>
<td>19,386</td>
<td>22,382</td>
<td>15.5%</td>
<td>21,384</td>
<td>-4.5%</td>
<td>21,388</td>
</tr>
</tbody>
</table>
4B – Information Technology Strategy
TTB has a modernization blueprint that focuses information technology (IT) investments on important bureau functions and defines how those functions will be measurably improved. All TTB systems and projects have business cases that have been approved by the Department of the Treasury’s Office of the Chief Information Officer, and all of IT systems have certification and accreditation. The bureau will aggressively pursue all E-Gov opportunities that will reduce taxpayer burden for tax filing and increase all regulatory compliance. TTB has established its own investment review board that evaluates and makes preliminary selection decisions by addressing high level questions:

- Does the initiative have value to TTB and the Treasury Department?
- Is there a balance of benefits against costs and risks?
- Is TTB eliminating duplication and stovepipe projects?

TTB’s investment review board ensures compliance with guidance and legislation. A scoring criterion was developed to help ensure that only sound and viable initiatives that support the bureau’s mission and strategic goals are included in the portfolio.

4.2 – Program Evaluation

Program Name: Collect the Revenue

Assessment and Improvement Actions

- TTB is updating its Web site to enhance search and navigation; improve content and format and employ plain language principles.

- TTB is analyzing the results of its comprehensive TTB-sponsored industry seminar and incorporating change and improvements to subsequent seminars.

- TTB is applying a custom survey and evaluation tool to determine the adequacy of the National Revenue Center’s internal accounting and administrative control systems and ensure compliance with the Federal Financial Management Improvement Act and GAO standards.

- TTB is developing new releases of its Web-based “dashboard” that when fully deployed, will report to TTB management bureau service standards, relevant performance measure data, and other key bureau information such as workloads.