

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Budget Activity

(Dollars in thousands)

Appropriation	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	FY 2010 to FY 2012 \$ Change	% Change
Collect the Revenue	\$53,000	\$53,000	\$48,939	(\$4,061)	(7.7%)
Protect the Public	\$50,000	\$50,000	\$48,939	(\$1,061)	(2.1%)
Subtotal, Alcohol and Tobacco Tax and Trade Bureau	\$103,000	\$103,000	\$97,878	(\$5,122)	(5.0%)
Offsetting Collections - Reimbursables	\$4,234	\$3,050	\$2,997	(\$1,237)	(29.2%)
Total Program Operating Level	\$107,234	\$106,050	\$100,875	(\$6,359)	(5.9%)
Direct FTE	535	535	502	(33)	(6.2%)
Reimbursable FTE	15	15	15	-	-
Total FTE	550	550	517	(33)	(6.0%)

Note: In FY 2010, Congress appropriated \$3 million in two-year funds for the hiring, training, and equipping of special agents and related support personnel. This funding expires September 30, 2011.

Summary

The Alcohol and Tobacco Tax and Trade Bureau (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 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.

In FY 2012, TTB will continue to focus its efforts on enforcing compliance 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 2012 President's budget request enables TTB to continue its programs and

activities necessary to meet the performance measures that support TTB's strategic goals of collecting revenue and protecting the public.

Total resources required to support TTB activities for FY 2012 are \$100,875,000, including \$97,878,000 from direct appropriations, and \$2,997,000 from other offsetting collections and reimbursable programs.

Collect the Revenue - TTB is charged with collecting alcohol, tobacco, firearms, and ammunition excise taxes. These products generate nearly \$24 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 2010, the majority of taxes collected were from tobacco (67 percent) and alcohol (31 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 53,000 alcohol and tobacco businesses. Under this activity, TTB enforces federal laws related to the issuance of permits to new businesses engaged in the alcohol and tobacco industries and regulates 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. TTB's work with foreign governments also facilitates the import and export trade in its regulated commodities. Education, partnerships, and open communication are

paramount strategies in facilitating compliance with regulatory requirements.

TTB FY 2012 Budget Highlights

(Dollars in thousands)

Appropriation	Amount
FY 2010 Enacted	\$103,000
FY 2011 Annualized CR Level	\$103,000
Changes to Base:	
Adjustment to Reach Policy Level:	\$2,571
Adjustment to Reach FY 2011 President's Policy	\$2,571
Maintaining Current Levels (MCLs):	\$832
Maintaining Current Levels	\$832
Efficiencies, Savings & Base Reductions:	(\$8,525)
Audits, Investigations, Outreach & Trade Facilitation	(\$1,584)
Law Enforcement/Special Agents	\$0
Licensing and Registration Fees Initiative	(\$5,500)
New Regulations to Simplify Reporting Requirements	(\$300)
Overhead/Operating (Reduced Staffing/Overtime/Travel/Contracts, etc.)	(\$841)
Paperless Initiative (Permits Online)	(\$300)
Subtotal FY 2012 Changes to Base	(\$5,122)
Total FY 2012 Base	\$97,878
Total FY 2012 Request	\$97,878

FY 2012 Budget Adjustments

FY 2011 Annualized CR Level

The FY 2011 Annualized CR Level for TTB is \$103,000,000.

Adjustment to Reach Policy Level

Adjustment to Reach FY 2011 President's Policy +\$2,571,000 / +12 FTE

Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

Maintaining Current Levels (MCLs)

Maintaining Current Levels +\$832,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation.

No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions

Audits, Investigations, Outreach & Trade Facilitation - \$1,584,000 / -15 FTE

Savings realized from a reduction of staff, combined with an improved strategy for tax and regulatory enforcement that focuses on the areas that present the highest revenue risk, and a reinvented approach to industry outreach and international trade activities.

Law Enforcement/Special Agents +\$0 / -10 FTE

Reduction of 10 FTE due to the expiration of two-year funding (FY 2010-2011) for law enforcement agents and related support personnel whose focus was on criminal activities surrounding the alcohol and tobacco commodities.

Licensing and Registration Fees Initiative - \$5,500,000 / -12 FTE

Reduction due to the exclusion from the FY 2012 Presidents Budget of a licensing and registration fee program, which would have required the collection of annual fees from alcohol and tobacco industry members to fund TTB operations.

New Regulations to Simplify Reporting Requirements - \$300,000 / -3 FTE

Savings realized from simplifying the reporting requirements for distilled spirits plants (DSP) by updating the regulations to consolidate the required monthly operations reports for non-industrial DSP.

Overhead/Operating (Reduced Staffing/Overtime/Travel/Contracts, etc.) - \$841,000 / -2 FTE

Savings realized from the reduction of operating costs such as overtime, travel, supplies, GSA rent, equipment, software, and

the reduction of management staff.

Paperless Initiative (Permits Online) - \$300,000 / -3 FTE

Savings realized from staffing reduction enabled by efficiencies gained from the Permits Online electronic filing system due to processing time reduction and the streamlining of business processes.

Explanation of Budget Activities

Salaries and Expenses

Collect the Revenue (\$48,939,000 from direct appropriations, and \$1,499,000 from reimbursable programs)

This budget activity includes all tax processing, verification, enforcement, and outreach efforts related to tax administration performed by TTB. Collect the Revenue includes three programs: 1) Alcohol and Tobacco Tax Collections, 2) Firearms and Ammunition Excise Tax Collections, and 3) Outreach and Voluntary Compliance. Principal business activities within these programs include:

- *Tax Collection, Claims, Refunds, and Classification*, which involves preparing taxpayer notices and assessments, processing claims and settlement agreements, and assigning a tax classification to a product based on regulatory standards;
- *Tax Verification, Audits, and Investigations*, which includes the reconciling and auditing of tax returns and reports of business operations; on-site audits of alcohol, tobacco, firearms, and ammunition industry members; investigating criminal allegations or indications of tax fraud; conducting compliance investigations of permittees who have substantial potential for tax liability; and initiating adverse actions for

willful violations of the Internal Revenue Code; and

- *Voluntary Compliance*, which supports outreach and education efforts for members of the regulated industries, and includes preparing regulatory guidance, Web site postings, and newsletters; participating in and/or hosting conferences and seminars; and industry and state liaison activities.

TTB uses an interagency approach in applying its enforcement strategies that involves cooperation with local, state, federal, and foreign government counterpart agencies to maximize the deterrent impact of enforcement actions.

Protect the Public (\$48,939,000 from direct appropriations, and \$1,498,000 from reimbursable programs)

This budget activity funds the programs that ensure the integrity of products and industry members in the marketplace, promote compliance with laws and regulations by regulated industries, and provide information to the public as a means to prevent consumer deception. Protect the Public includes four programs: 1) Permits and Business Assurance; 2) Advertising, Labeling, and Product Safety; 3) Trade Facilitation; and 4) Outreach and Voluntary Compliance. Principal business activities within these programs include:

- *Business Integrity*, which involves enforcing compliance with federal laws related to the issuance of permits to those who wish to operate in the alcohol, tobacco, firearms, and ammunition industries;
- *Product Integrity*, which includes reviewing alcohol beverage label applications; evaluating alcohol beverage product advertisements; reviewing alcohol beverage formula submissions; evaluating

specially denatured alcohol and other nonbeverage alcohol formulas to verify the tax drawback claim of the applicant; investigating incidents of suspected unsafe conditions or product deficiencies related to the production and labeling of alcohol beverages; and testing samples of beverage alcohol sold at the retail and producer levels to ensure that these products meet formulation and labeling requirements, do not contain unauthorized substances or contaminants, and are properly classified for tax purposes; and

- *Market Integrity*, which includes monitoring the trade practices of the alcohol industry and taking enforcement actions on violations, monitoring and reviewing international trade in alcohol beverages to identify, prevent, and address trade barriers and incidents of international fraud and contaminated products, and promoting international agreements on product integrity.

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. Industry education, interagency partnerships, international cooperation, and open communication are paramount strategies in facilitating compliance with regulatory product and trade requirements.

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.

TTB Performance by Budget Activity

Budget Activity	Performance Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Economic competitiveness	Average Number of Days to Process an Original Permit Application at the National Revenue Center (E)	64.0	64.0	65.0	72.0	65.0
Economic competitiveness	National Revenue Center (NRC) Customer Satisfaction Survey Results (%) (Oe)	90.0	89.0	89.0	85.0	85.0
Economic competitiveness	Percent of Electronically Filed Certificate of Label Approval Applications (E)	62.0	74.0	79.0	81.0	83.0
Economic competitiveness	Percentage of Importers Identified by TTB as Illegally Operating without a Federal Permit (%) (Oe)	22.0	15.0	15.0	19.0	14.0
Revenue collected	Amount of Revenue Collected Per Program Dollar (E)	313.0	427.0	478.0	400.0	410.0
Revenue collected	Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely and Accurately (In Terms of Revenue) (Oe)	94.0	94.0	94.0	92.0	94.0

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, M - Management/Cust. Satisfaction, 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 enforce compliance with alcohol and tobacco laws and regulations. During FY 2010, 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 use performance information 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 2010:

- TTB collected \$23.8 billion in excise taxes and other revenues from 7,070 taxpayers in the alcohol, tobacco, firearms, and ammunition industries. The recent rise in excise tax collections for tobacco resulted in a return on investment for the Collect the Revenue program of \$478 for every \$1 expended on collection activities.
- TTB closed 36 criminal investigations involving diversion of products having an estimated tax liability of more than \$30 million.
- TTB identified 190 business entities who imported cigarettes into the U.S. without a Federal permit. All entities either ceased their illegal operations or obtained a permit to import tobacco products.
- TTB completed 145 targeted audits, which contributed to the identification of

additional tax revenue of more than \$8 million.

- TTB processed \$387 million in cover-over payments to Puerto Rico and 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.
- TTB processed \$297 million in drawback claims. Under current law, persons who use nonbeverage 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.
- TTB processed 5,771 original permits and approved 18,230 amended permits. A TTB permit is required before a business can operate in the alcohol and tobacco industries.
- TTB initiated more than 700 field investigations of industry members regarding permit applications, consumer complaints, tax fraud, trade practice violations, and product and labeling integrity verifications.

through the bureau’s COLAs Online system for electronic filing of label applications. About 79 percent of the applications were filed electronically. The Federal Alcohol Administration Act requires importers and bottlers of alcohol beverages to obtain a COLA prior to introduction of the product into commerce.

The investments in Protect the Public activity resulted in the following performance highlights and accomplishments during FY 2010:

- TTB processed 132,600 Certificate of Label Approval (COLAs) applications