

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Budget Activity

Dollars in thousands

Appropriation	FY 2011	FY 2012	FY 2013	FY 2012 TO FY 2013	
	Enacted	Enacted	Request	\$ Change	% Change
Collect the Revenue	\$50,399	\$50,939	\$47,893	(\$3,046)	-5.98%
Protect the Public	\$50,399	\$48,939	\$48,893	(\$46)	-0.09%
Subtotal, Alcohol and Tobacco Tax and Trade Bureau	\$100,798	\$99,878	\$96,786	(\$3,092)	-3.10%
Offsetting Collections - Reimbursables	\$3,958	\$4,928	\$4,928	\$0	0.00%
Total Program Operating Level	\$104,756	\$104,806	\$101,714	(\$3,092)	-2.95%
Direct FTE	535	496	482	(14)	-2.82%
Reimbursable FTE	15	15	15	0	0.00%
Total FTE	550	511	497	(14)	-2.74%

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 2013, 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 2013 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 2013 are \$101,714,000, including \$96,786,000 from direct appropriations, and \$4,928,000 from other offsetting collections and reimbursable programs.

TTB FY 2013 Budget Highlights

Dollars in thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
FY 2012 Enacted	496	\$99,878
Changes to Base:		
Maintaining Current Levels (MCLs):		
Maintaining Current Levels	-	\$987
Non-Recurring Costs:		
FY 2012 Funding for Special Agents	-	(\$2,000)
Efficiency Savings:	(6)	(\$1,079)
Permits Online Efficiencies	(6)	(\$550)
Data Center Consolidation	-	(\$529)
Subtotal FY 2013 Changes to Base	(6)	(\$2,092)
Total FY 2013 Base	490	\$97,786
Program Changes:		
Program Decreases:	(8)	(\$1,000)
Repeal Bond Requirement (Quarterly Filing)	(8)	(\$1,000)
Total FY 2013 Request	482	\$96,786

FY 2013 Budget Adjustments

FY 2012 Enacted

The FY 2012 enacted direct appropriation for TTB is \$99,878,000.

Maintaining Current Levels (MCLs)

Maintaining Current Levels

+\$987,000 / +0 FTE

Funds are requested for inflation adjustments (1.7 percent) in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employees Retirement System participation. Funds are also requested for the proposed 2013 pay raise (0.5 percent)

Non-Recurring Costs

FY 2012 Funding for Special Agents

-\$2,000,000 / +0 FTE

Congress provided TTB with funding in FY 2012 for the costs of special law enforcement agents to target tobacco smuggling and other criminal diversion activities which TTB is executing by reimbursing IRS for the use of its special agents. In FY 2013 the Administration proposes to achieve this purpose by providing the IRS with authority to use its appropriation to work these cases at the discretion of the Commissioner of Internal Revenue and in coordination with TTB.

Efficiency Savings

Permits Online Efficiencies

-\$550,000 / -6 FTE

Savings realized from staffing reduction enabled by efficiencies gained from the Permits Online electronic filing system.

Data Center Consolidation

-\$529,000 / +0 FTE

Savings realized from the move of all IT equipment and TTB core business applications from data centers hosted in commercial facilities to TTB facilities.

Program Decreases

Repeal Bond Requirement (Quarterly Filing)

-\$1,000,000 / -8 FTE

TTB proposes a statutory change to mandate quarterly excise tax filing and payment for certain beverage alcohol industry members, and to repeal the bond requirement for such taxpayers.

Explanation of Budget Activities

Collect the Revenue (\$47,893,000 from direct appropriations, \$2,464,000 from reimbursable resources)

This budget activity includes all tax processing, verification, enforcement, and outreach efforts related to administering the federal excise tax on alcohol, tobacco, firearms, and ammunition products. TTB regulates and collects taxes from 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. In FY 2011, excise tax collections reached \$15.5 billion for tobacco products, \$7.6 billion for alcohol beverage products, and \$344 million for firearms and ammunition. This budget activity supports the TTB strategic goal of ensuring that industry remits the proper federal tax on these products.

Protect the Public (\$48,893,000 from direct appropriations, \$2,464,000 from reimbursable resources)

This budget activity funds the programs that ensure the integrity of the products and industry members in the marketplace, promote compliance with federal laws and regulations by the 56,000 businesses that TTB regulates, facilitate fair and lawful commercial trade in the alcohol and tobacco commodities, and provide full and accurate alcohol beverage product information to the public as a means to prevent consumer deception. This budget activity supports the TTB strategic goal of assuring that alcohol and tobacco industry operators meet permit qualifications, and

alcohol beverage products comply with federal production, labeling, and marketing requirements.

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. 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 Demo 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, and to minimize loss and skill gaps caused by an aging workforce and employee turnover;
- The Pay Demo authority fosters a results-oriented organizational culture since compensation is based upon the employees' level of performance, thus improving the bureau's overall performance; and
- The Pay Demo authority has resulted in a more diverse workforce, with increased representation of various groups (e.g., women, persons with disabilities, veterans, and persons from different age groups) across occupations and band/grade groupings under the authority.

Repeal Bond Requirement

The proposal, which is presented as part of the Administration's overall tax agenda, would require any distilled spirits, wine, and beer taxpayer who reasonably expects to be liable

for not more than \$50,000 per year in alcohol excise taxes (and who was liable for not more than \$50,000 in such taxes in the preceding calendar year) to file and pay such taxes quarterly, rather than semi-monthly. The proposal would also create an exemption from the bond requirement in the Internal Revenue Code of 1986 (IRC) for these small taxpayers. The proposal includes conforming changes to the other sections of the IRC describing bond requirements.

Additionally, the proposal would allow any distilled spirits, wine, or beer taxpayer with a reasonably expected alcohol excise tax liability of not more than \$1,000 per year to file and pay such taxes annually rather than on a quarterly basis. The proposal will create parity among alcohol taxpayers by allowing eligible distilled spirits and beer taxpayers to file annually as well.

The proposal would be effective 90 days after the date of enactment.

Internal Revenue Service/Enforcement (Special Agent Support)

Congress vested in TTB exclusive authority to enforce the criminal provisions of the IRC related to alcohol and tobacco excise taxes. In FY 2010 and FY 2012 Congress provided TTB with resources to hire special agents to work these criminal cases, which TTB has accomplished by reimbursing IRS for the use of their special agents. In FY 2013 the Administration proposes to achieve this purpose by providing the IRS with authority to use its appropriation to work these cases at the discretion of the Commissioner and in coordination with TTB.

TTB Performance by Budget Activity

Budget Activity	Performance Measure	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
		Actual	Actual	Actual	Target	Target
Collect the Revenue	Amount of Revenue Collected Per Program Dollar	427.0	478.0	468.0	410.0	400.0
Collect the Revenue	Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely and Accurately (In Terms of Revenue)	94.0	94.0	95.0	94.0	94.0
Protect the Public	Average Number of Days to Process an Original Permit Application at the National Revenue Center	64.0	65.0	74.0	75.0	75.0
Protect the Public	National Revenue Center (NRC) Customer Satisfaction Survey Results (%)	89.0	89.0	90.0	85.0	85.0
Protect the Public	Percent of Electronically Filed Certificate of Label Approval Applications	74.0	79.0	88.0	88.0	88.0
Protect the Public	Percentage of Importers Identified by TTB as Illegally Operating without a Federal Permit (%)	15.0	15.0	14.0	14.0	14.0

Key: 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 2011, TTB met all but one of its targeted performance goals, while showing continued improvements in all other performance metrics. 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 2011:

- TTB collected nearly \$24 billion in excise taxes and other revenues from 7,800 taxpayers in the alcohol, tobacco, firearms, and ammunition industries.

The return on investment for the Collect the Revenue program was \$468 for every \$1 expended on collection activities.

- TTB initiated 21 criminal investigations involving diversion of alcohol and tobacco products having an estimated tax liability of more than \$20 million.
- TTB identified 47 business entities who imported tobacco products 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 540 audits, examinations, and revenue investigations, which contributed to the identification of additional tax revenue of more than \$35 million. These tax enforcement efforts also serve to deter

fraud and other criminal activity in the industries TTB regulates.

- TTB processed \$462 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 U.S. Virgin Islands.
- TTB processed \$307 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.

The investments in Protect the Public activity resulted in the following performance highlights and accomplishments during FY 2011:

- TTB processed 145,300 COLA applications, 88 percent of which were filed through the bureau’s COLAs Online system for electronic filing of label applications. Federal law prohibits the import or domestic bottling of an alcohol beverage without an approved COLA, making this TTB service integral to U.S. business operations.
- TTB processed nearly 6,000 original permits and 19,700 amended permits. A TTB permit is required before a business can operate in the alcohol and tobacco industries.
- TTB completed more than 800 field investigations of industry members in the areas of permit qualification, consumer complaints, trade practice violations, and product integrity verifications, all of which serve the bureau’s dual mission of revenue collection and consumer protection.

