

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Budget Activity

Dollars in thousands

Budget Activity	FY 2012	FY 2013	FY 2014	FY 2012 TO FY 2014	
	Enacted	Annualized CR Rate	Request	\$ Change	% Change
Collect the Revenue	\$50,939	\$52,254	\$49,317	(\$1,622)	-3.18%
Protect the Public	\$48,939	\$48,235	\$46,894	(\$2,045)	-4.18%
Subtotal, Alcohol and Tobacco Tax and Trade Bureau	\$99,878	\$100,489	\$96,211	(\$3,667)	-3.67%
Offsetting Collections - Reimbursables	\$4,928	\$5,562	\$5,262	\$334	6.78%
Appropriations Transferred from IRS Program Cap Adjustment	\$0	\$0	\$5,000	\$5,000	100.00%
Total Program Operating Level	\$104,806	\$106,051	\$106,473	\$1,667	1.59%
Direct FTE	496	476	473	(23)	-4.64%
Reimbursable FTE	15	15	9	(6)	-40.00%
Appropriations Transferred from IRS Program Cap Adjustment FTE	0	0	35	35	100.00%
Total FTE	511	491	517	6	1.17%

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 2014, 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 2014 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 2014 are \$106,473,000, including \$96,211,000 from direct appropriations, \$5,262,000 from other offsetting collections and reimbursable programs, and \$5,000,000 in appropriations transferred from the Internal Revenue Service (IRS).

TTB FY 2014 Budget Highlights

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
FY 2012 Enacted	496	\$99,878
FY 2013 Annualized CR Rate	476	\$100,489

Changes to Base:

Adjustment to Request	-	(\$3,703)
Efficiency Savings Proposed in FY 2013	-	(\$1,092)
Funding for Special Agents Provided in Cap Adjustment Transfer	-	(\$2,000)
Non-Recur CR Increase	-	(\$611)
Maintaining Current Levels (MCLs):	-	\$1,148
Pay-Raise	-	\$507
Non-Pay	-	\$641
Efficiency Savings:	(3)	(\$1,723)
Administrative Overhead & Travel Reduction	-	(\$473)
Increase E Filing	-	(\$250)
Service Contracts Reduction	-	(\$220)
Infrastructure Cost Reduction	-	(\$350)
Reduction of Brewer's Bond and Mandating Quarterly Filing for Small Brewers	(2)	(\$300)
Revision to SDA/CDA Regulations	(1)	(\$130)
Subtotal Changes to Base	(3)	(\$4,278)
Total FY 2014 Base	473	\$96,211

Program Changes:

Program Increases:	35	\$5,000
Alcohol and Tobacco Enforcement Program	35	\$5,000
Total FY 2014 Operating Level	508	\$101,211
Program Cap Adjustment Included in IRS Budget Request	-	(\$5,000)
Total FY 2014 Request	508	\$96,211

FY 2014 Budget Adjustments

Adjustments to Request

Efficiency Savings Proposed in FY 2013

-\$1,092,000 / +0 FTE

The FY 2013 budget proposed Savings realized from staffing reduction enabled by efficiencies gained from the Permits Online electronic filing system and from the move of all IT equipment and TTB core business applications from commercial data centers to TTB facilities.

Funding for Special Agents Provided in Cap Adjustment Transfer

-\$2,000,000 / +0 FTE
The FY 2013 CR continued the funding provided to TTB by Congress 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 2014, the Administration proposes to achieve this purpose by including a request in the IRS budget for a program integrity cap adjustment for both TTB and IRS to cover tax enforcement and compliance, with a transfer of funds to be made from the IRS to TTB to cover these activities.

Non-Recur CR Increase

-\$611,000 / +0 FTE
The across-the-board 0.612 percent increase provided in the CR through March 27, 2013 is non-recurred.

Maintaining Current Level (MCLs)

Pay-Raise +\$507,000 / +0 FTE

The President's Budget proposes a 1 percent pay-raise for Federal employees in 2014.

Non-Pay +\$641,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies, and equipment.

Efficiency Savings

Administrative Overhead & Travel Reduction
-\$473,000 / +0 FTE

Savings realized from reducing administrative overhead and travel costs.

Increase E Filing *-\$250,000 / +0 FTE*

Savings realized from increasing the customer e-filing rate in TTB's automated systems.

Service Contracts Reduction *-\$220,000 / +0 FTE*

TTB will review its procurement spending in its service contracts, identifying approximately \$220 thousand in savings.

Infrastructure Cost Reduction *-\$350,000 / +0 FTE*

During the past few years, TTB has launched an aggressive telework program. This has enabled TTB to close half of its field offices, with the remaining field offices being vital to TTB's mission. TTB now intends to pursue a

reduction of its headquarters office space in Washington, D.C., which will result in savings from reduced rent, utilities, and security costs.

Reduction of Brewer's Bond and Mandating Quarterly Filing for Small Brewers -\$300,000 / -2 FTE

The FY 2013 President's Budget included a proposal for a statutory change to the Internal Revenue Code to mandate quarterly excise tax filing and payment for certain beverage alcohol industry members (i.e., distillers, wineries, bonded wine cellars, and brewers) and repeal the bond requirement for such taxpayers. To date, there has been no legislative action on this proposal. In the interim, given the scope of the statutory bond provisions for brewers, and to encourage more small brewers to file quarterly and thereby reduce the volume of tax filings it receives annually, TTB used its regulatory authority to publish a temporary rule to amend its beer regulations (27 CFR Part 25) to provide that for a period of three years, the penal sum of the required bond is \$1,000 for small brewers filing excise tax returns and remitting taxes quarterly. (Under the rulemaking, a brewer is considered "small" if a taxpayer's annual liability is not expected to be more than \$50,000 and it was not liable for more than \$50,000 in taxes in the preceding calendar year.) TTB concurrently published a notice of proposed rulemaking proposing amendments to the regulations to make these provisions permanent. (Note: TTB cannot make an equivalent change in the regulatory requirements for distillers and wine makers; modifying the bond requirements for those industries would require a legislative change to the current law.)

Revision to SDA/CDA Regulations -\$130,000 / -1 FTE

TTB intends to propose changes to the regulations for specially denatured alcohol (SDA) and completely denatured alcohol

(CDA) that would result in cost savings for both TTB and regulated industry members. Under the authority of the Internal Revenue Code, TTB regulates denatured alcohol that is unfit for beverage use, which may be removed from a regulated distilled spirits plant without payment of tax. TTB intends to propose to reclassify certain SDA formulas as CDA and to issue new general-use formulas for articles made with SDA so that industry members would less frequently need to seek formula approval from TTB, which would decrease the dedication of TTB resources to formula review.

Program Increases

Alcohol and Tobacco Enforcement Program +\$5,000,000 / +35 FTE

The Administration proposes to amend section 251 of the Balanced Budget and Emergency Deficit Control Act (BBEDCA) of 1985, as amended, to provide a program integrity cap adjustment of \$5 million (of which \$2 million will be used for agent support) for TTB's tax enforcement and compliance program to narrow the tax gap in the tobacco and alcohol industries and reduce the deficit through increased revenue collections. These funds will support the heightened enforcement of tax laws including, but not limited to, alcohol and tobacco diversion. This specific funding request has been included under the IRS budget, which will include the tax enforcement and compliance program integrity cap adjustment for both the IRS and TTB. Under the TTB budget, this item is being reported as "Appropriations Transferred from IRS Program Cap Adjustment."

The proposed cap adjustment for TTB tax enforcement and compliance activities includes \$5 million in new, revenue-producing tax compliance initiatives in 2014 and \$5 million in additional new initiatives each year from 2015 through 2018 and continued through 2023. TTB will target known points

in the supply chain that are susceptible to diversion activity and prioritize forensic audits and investigations of targeted entities in the alcohol and tobacco industries. Because these new initiatives, as well as current enforcement activities, must be sustained over time in order to maximize their potential taxpayer returns, the total above-base cap adjustment including inflation is \$202 million over the 10-year period. Over this same time period, these additional investments will generate an estimated \$406 million in additional tax revenue over the 10-year period. The net savings from these investments is \$204 million.

Program Decreases

Program Integrity Cap Adjustment Included in IRS Budget Request -\$5,000,000 / -0 FTE

This adjustment ensures that the program increase for TTB's Alcohol and Tobacco Enforcement Program is reflected only once in the 2014 President's Budget as part of the IRS's program integrity cap adjustment.

Explanation of Budget Activities

Collect the Revenue (\$49,317,000 from direct appropriations, \$2,684,000 from reimbursable resources, and \$5,000,000 from appropriations transferred from the IRS)

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 ensuring a level playing field for all those engaged in the trade of these strictly regulated commodities, TTB also takes appropriate enforcement action to detect and address diversion activity and ensure all products sold in the marketplace are properly

taxpaid. In FY 2012, excise tax collections reached \$15 billion for tobacco products, \$8 billion for alcohol beverage products, and \$515 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 (\$46,894,000 from direct appropriations, \$2,578,000 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 61,700 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.

Additional Information

Discontinue Pay Demonstration Project

Congress granted authority to establish a personnel management demonstration project to the Secretary of the Treasury under the Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY 1999 (Pub. L. 105-277, 122 Stat. 2681) to enhance Treasury's ability to effectively recruit and retain employees in designated critical, technical positions. The Homeland Security Act of 2002, (Pub. L. 107-296) abolished the Bureau of Alcohol, Tobacco and Firearms (ATF), and dual authority for the Pay Demo project was transferred in 2003 to two new agencies formed to carry out the tax, trade, and law enforcement functions of the former ATF. The new Bureau of Alcohol, Tobacco,

Firearms, and Explosives was established under the Department of Justice (DOJ) and TTB was placed in the Department of the Treasury. TTB has received authorization to extend its alternative compensation program annually since FY 2004.

As this program did not originate as a pilot pay-for-performance system under the Office of Personnel Management (OPM), and as such has not been subject to the direct oversight of OPM, the Administration does not support the permanence of the program for Treasury or DOJ. However, the Administration would

allow TTB to petition OPM for authorization for a new demonstration project and to use the results of the five-year pilot program to determine whether such a program should be permanent. This will allow TTB to leverage best-practices found in other OPM pay demonstration projects and provide uniformity and integrity within the program. Section 114 of the Treasury administrative provisions proposes to grandfather current pay demonstration project employees at their current salaries.

TTB Performance by Budget Activity

Budget Activity	Performance Measure	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
		Actual	Actual	Actual	Target	Target
Collect the Revenue	Amount of Revenue Collected Per Program Dollar	478.0	468.0	449.0	400.0	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	95.0	92.0	90.0	91.0
Protect the Public	Average Number of Days to Process an Original Permit Application at the National Revenue Center	65.0	74.0	67.0	65.0	63.0
Protect the Public	Percent of Electronically Filed Certificate of Label Approval Applications	79.0	88.0	91.0	92.0	92.0
Protect the Public	Percentage of Importers Identified by TTB as Illegally Operating without a Federal Permit (%)	15.0	14.0	13.0	14.0	13.0

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 2012, TTB met four out of six 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 2012:

- TTB collected over \$23 billion in excise taxes and other revenues from 8,500 taxpayers in the alcohol, tobacco, firearms, and ammunition industries.

The return on investment for the Collect the Revenue program was \$449 for every \$1 expended on collection activities.

- TTB conducted 48 active criminal investigations involving diversion of alcohol and tobacco products having an estimated tax liability of more than \$336 million.
- TTB completed audits, examinations, and revenue investigations, which contributed to the identification of additional tax revenue of more than \$47 million.
- TTB processed \$386 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 \$289 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 2012:

- TTB processed 152,700 Certificate of Label Approval (COLA) applications, 91 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 over 7,900 original permits and 19,400 amended permits. A TTB permit is required before a business can operate in the alcohol and tobacco industries.
- TTB completed more than 600 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.