

# Alcohol and Tobacco Tax and Trade Bureau

FY 2014  
President's Budget

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## Section 1 – Purpose

### 1A – Mission Statement

To collect the Federal excise taxes on alcohol, tobacco, firearms, and ammunition, and assure compliance with Federal tobacco permitting and alcohol permitting, labeling, and marketing requirements to protect consumers.

### 1.1 – Appropriations Detail Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau Resources	FY 2012		FY 2013		FY 2014		FY 2012 to FY 2014			
	Enacted		Annualized		Request		\$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Collect the Revenue	248	50,939	243	52,254	246	49,317	(2)	(1,622)	-0.81%	-3.18%
Protect the Public	248	48,939	233	48,235	227	46,894	(21)	(2,045)	-8.47%	-4.18%
<b>Subtotal New Appropriated Resources</b>	<b>496</b>	<b>\$99,878</b>	<b>476</b>	<b>\$100,489</b>	<b>473</b>	<b>\$96,211</b>	<b>(23)</b>	<b>(\$3,667)</b>	<b>-4.64%</b>	<b>-3.67%</b>
<b>Other Resources:</b>										
Reimbursables	15	4,928	15	5,562	9	5,262	(6)	334	-40.00%	6.78%
Transfers In/Out	0	0	0	0	35	5,000	35	5,000	100.00%	100.00%
<b>Subtotal Other Resources</b>	<b>15</b>	<b>\$4,928</b>	<b>15</b>	<b>\$5,562</b>	<b>44</b>	<b>\$10,262</b>	<b>29</b>	<b>\$5,334</b>	<b>193.33%</b>	<b>108.24%</b>
<b>Total Budgetary Resources</b>	<b>511</b>	<b>\$104,806</b>	<b>491</b>	<b>\$106,051</b>	<b>517</b>	<b>\$106,473</b>	<b>6</b>	<b>\$1,667</b>	<b>1.17%</b>	<b>1.59%</b>

Note: The President's Budget proposes a transfer of funds in the amount of \$5 million from the Internal Revenue Service's program integrity cap adjustment to TTB for tax enforcement and compliance.

### 1B – Vision, Priorities and Context

TTB is responsible for the administration and enforcement of those sections of the Internal Revenue Code of 1986 (IRC) associated with the collection of excise taxes on alcohol, tobacco, firearms, and ammunition, and the Federal Alcohol Administration (FAA) Act, which provides for the regulation of the alcohol beverage industry and the protection of U.S. consumers.

The TTB mission is carried out according to two principal strategic goals that, briefly stated, are: collect the revenue and protect the public. TTB's strategic goal to collect the revenue is to ensure that industry remits the proper Federal tax on alcohol, tobacco, firearms, and ammunition products. This TTB goal supports the Treasury's Agency Priority Goal to increase voluntary tax compliance. TTB's strategic goal to protect the public is to ensure that alcohol and tobacco industry operators meet permit qualifications, and alcohol beverage products comply with Federal production, labeling, and marketing requirements, and supports the Treasury strategic goal to enhance U.S. competitiveness and promote international financial stability and balanced global growth. Various activities under these two TTB strategic goals contribute to the Treasury's priority goal of increasing paperless transactions with the public.

In Fiscal Year (FY) 2014, TTB will invest its resources in program activities that provide the greatest assurance that these industries are operating in compliance with tax and regulatory requirements, in the interest of collecting the excise taxes due and ensuring fair and lawful market activity. TTB will act to prevent compliance violations by enhancing the guidance offered to industry members on Federal alcohol, tobacco, firearms, and ammunition laws and

regulations. TTB will continue its efforts to verify compliant operations and proper tax payment through its audit program, and will employ sophisticated risk modeling to target high-risk activity for the most effective and efficient use of limited enforcement resources. Enforcing the tax code requires that TTB pay particular focus to tax evasion and the illicit trade in alcohol and tobacco products, which undermines the lawful business activity of taxpaying industry members. Specifically, in FY 2014, TTB will deploy joint forensic audit and investigation teams to detect and pursue fraudulent activity in the alcohol and tobacco trade. These forensics experts use the synergy of their members' respective expertise to detect and address concealed unlawful activity that might otherwise appear legitimate.

TTB will also focus on improving its business results in two primary processing areas, permit and label applications, by enhancing the electronic filing capabilities available to industry for use in required submissions, and evaluating proposals to streamline TTB's processing work without compromising the controls in place to effectively accomplish its mission. Applications for permits continue to rise and TTB is implementing e-Gov solutions to avoid degradation to the level of service provided to entrepreneurs applying for a TTB permit. Delays in issuing permits impedes small business growth. Technology enhancements alone will not entirely address the strain on TTB resources that the continued growth in alcohol beverage label applications presents. TTB is continuing its work with industry to assess and implement opportunities to resolve delays that the flood of label applications and scarce resources to process them presents. Such delays may negatively impact businesses, which must have label approval prior to bottling or introducing their products into domestic commerce.

#### **FY 2014 Priorities**

- Collect roughly \$23 billion in annual excise tax revenues due to the Federal government;
- Complete audits and investigations of TTB taxpayers based upon risk and random selection to ensure lawful operations and tax reporting and payment compliance;
- Detect and address criminal diversion activity, including counterfeit alcohol and tobacco products, to protect the Federal revenue stream, U.S. consumers, and fair market activity;
- Reduce the burden of compliance by promoting electronic filing options for industry members, including the online system that allows industry members to apply for an original permit to start a new alcohol or tobacco business;
- Conduct statistically valid marketplace sampling programs to determine industry-wide compliance with Federal regulations for alcohol beverages, and tailor enforcement and education programs based on these findings to ensure products sold to U.S. consumers meet Federal alcohol beverage production, labeling, and marketing requirements;
- Refine TTB product safety activities that focus on the integrity and safety of domestic and imported alcohol beverage products;
- Promote U.S. exports by facilitating industry compliance with foreign requirements and by working with foreign regulators to reduce barriers to trade; and
- Strengthen global tax administration structures through work with trading partners and emerging markets to prevent tax loss from illicit trade and improve tax collection outcomes.

## **Recent 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 TTB's Collect the Revenue program is 449:1. Efforts to streamline regulations to reduce the compliance burden, enhance electronic filing systems, and address inefficiencies in internal processes should contribute to continued positive returns on the investment in TTB. The bureau also developed and employed increasingly sophisticated risk modeling to complete targeted audits, examinations, and revenue investigations. These enforcement actions contributed to the identification of additional tax revenue, penalties and interest of more than \$47 million, and act as a deterrent to fraud. In enforcing its criminal jurisdiction, TTB also used a combination of risk modeling and intelligence to conduct 48 active criminal investigations involving diversion of alcohol and tobacco products having an estimated tax liability of more than \$336 million in the last two years. In support of the nation's continued economic growth, TTB processed over 7,900 original permits, most of which were issued to small businesses. With some exceptions, a TTB permit is required before a business can operate in the alcohol and tobacco industries. In addition, TTB processed 152,700 Certificate of Label Approval (COLA) applications, of which 91 percent were filed electronically. 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 also initiated 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.

## **Challenges in FY 2014**

### ***Alcohol and Tobacco Diversion***

TTB is the sole agency with jurisdiction over Federal excise tax evasion in relation to alcohol and tobacco products. The diversion of these products outside of legitimate commercial channels without the payment of taxes due threatens Federal revenues, undermines fair competition, and provides a well-established source of funding for criminal enterprises.

Diversion schemes vary widely and change in response to targeted enforcement efforts. Schemes include the illicit manufacture of taxable product, diversion of "non-taxpaid product, and misclassification of imported product to evade tax. The breadth and variety of tax evasion schemes are outlined by the Government Accountability Office (GAO) in its March 2011 report entitled "Illicit Tobacco Various Schemes Are Used to Evade Taxes and Fees" (GAO-11-313).

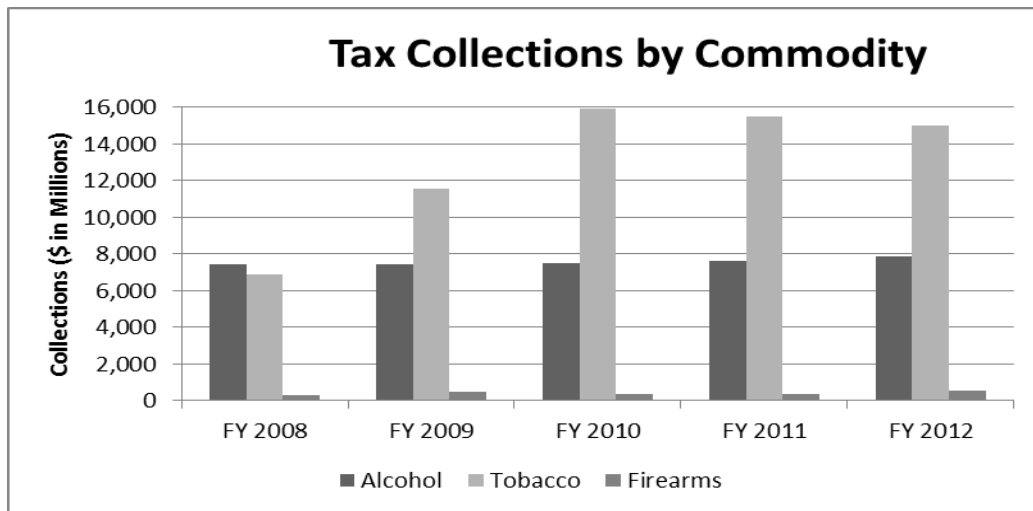
Accurately measuring the loss in Federal tax receipts from alcohol and tobacco diversion is difficult because of the clandestine nature of the activity. In February 2010, the Department of the Treasury issued a report to Congress ("Report to Congress on Federal Tax Receipts Lost Due to Illicit Trade and Recommendations for Increased Enforcement"), which included an effort to estimate the amount of Federal tax receipts lost as a result of cigarette diversion. The study emphasized the substantial uncertainty surrounding the magnitude of the Federal tax receipts lost due to cigarette diversion; however, in any case where the intrinsic value of a product is dwarfed by its tax value, there is incentive to evade the tax to gain an illegal profit. The recent tobacco tax rate increase, roughly 150 percent for cigarettes, serves to enhance the potential for illegal gains. With regard to alcohol, recent TTB investigations indicate multiple schemes in the wholesaler and importer points in the alcohol distribution system.

To address the illicit trade in these commodities, in FY 2012, TTB was provided \$2 million to continue a law enforcement program initiated in FY 2011. TTB entered into an interagency agreement for the services of law enforcement agents on a reimbursable basis from the Internal Revenue Service Criminal Investigation (IRS CI) division. The funding expired on September 30, 2012; however, the FY 2013 continuing resolution (CR) allowed for the program to continue. Alcohol and tobacco diversion are long-term tax enforcement challenges given the high profits to be gained from illegal activity, the relative ease of diversion, and the substantial revenue loss that it represents. In FY 2014, the Administration proposes a transfer of \$5 million in appropriated funds from the IRS’s program integrity cap adjustment for TTB tax enforcement and compliance programs to narrow the tax gap in the tobacco and alcohol industries and reduce the deficit through increased revenue collections. Of this \$5 million, TTB will use \$2 million to continue funding its interagency agreement with IRS CI for agent support. These funds will support the heightened enforcement of tax compliance including, but not limited to, alcohol and tobacco diversion.

**Operating Environment**

***TTB Tax Collections and the Regulated Industries***

TTB is the third largest tax collection agency in the U.S. Government, after the IRS and U.S. Customs and Border Protection. Annual revenues from the alcohol, tobacco, firearms and ammunition industries are approximately \$23 billion, with trends in the volume of permit applications submitted to TTB, a leading indicator of tax collections, demonstrating the continued expansion and robust business activity in these trades.



Alcohol Tax Collections

The alcohol beverage industry in the United States pays \$7.9 billion in Federal excise taxes each year and also provides a source of tax revenue for state and local governments. Industry trade association reports state that the alcohol beverage industry contributes directly or indirectly to the U.S. economy by providing nearly 4 million jobs and roughly \$400 – \$500 billion in economic activity. Economic forecasts predict continued modest growth in the alcohol industry, and taxes collected on alcohol beverages are expected to continue to rise throughout the period

of FY 2013 – FY 2014. TTB expects that the increase in new alcohol businesses will be most prominent in the number of wineries, craft breweries, and craft distilleries.

#### Tobacco Tax Collections

In FY 2012, TTB collected \$15 billion in tobacco excise tax collections, a decrease of 3 percent compared to the prior year. In forecasting tobacco revenues, the Congressional Budget Office (CBO) predicted that Federal collections would decline after peaking in FY 2010 following the enactment of the increased tax rate under 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), cigarette papers, and cigarette tubes, effective April 1, 2009. Higher prices on tobacco products have historically resulted in decreased consumption and increased illicit trade, which combined would indicate declining tax revenues in the out years. Further, recent analysis of tobacco collections has shown significant market shifts for tobacco products since the passage of CHIPRA. The law introduced large Federal excise tax disparities among tobacco products, which created opportunities for tax avoidance and led manufacturers and price sensitive consumers to shift toward lower-taxed products. From April 2009 through FY 2011, GAO estimated that Federal revenue losses due to market shifts from roll-your-own (RYO) to pipe tobacco and from small to large cigars range from about \$615 million to \$1.1 billion for the same period. GAO recommended that Congress consider equalizing tax rates on RYO and pipe tobacco and, in consultation with the Department of the Treasury, consider options for reducing tax avoidance due to tax differentials between small and large cigars. GAO also recognized that TTB has taken steps to respond to these market shifts, including its efforts to differentiate between RYO and pipe tobacco for tax collection purposes, but noted that TTB has limited options.

#### 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. The U.S. Fish and Wildlife Service, which oversees the fund, apportions the money to state governments for wildlife restoration and research, and hunter education programs. Federal excise tax collections on firearms and ammunition have increased from \$193 million in FY 2003 to \$515 million in FY 2012, an increase of \$322 million over the past nine years, or a 167 percent growth in Federal FAET revenues. The increase in reported tax revenue can be attributed, in part, to industry growth, effective outreach and collection initiatives at the bureau, and the field presence of TTB’s auditors, which continues to promote voluntary taxpayer compliance.

#### ***Expansion of U.S. Exports***

TTB’s program work to promote fair and open trade with U.S. trading partners supports the nation’s economic recovery. Overseas demand for the products TTB regulates continues to grow, with U.S. exports of all alcohol beverages totaling \$3.2 billion in 2012. In line with increases in overall export volume, alcohol beverage exports increased 10 percent compared to the prior calendar year. The majority of these exports are spirits and wine products. Examining just the wine sector, approximately 80 percent of world wine consumption is outside of the U.S., indicating that these industries may contribute significantly to the U.S. trade policy goal of doubling all exports in 5 years, as stated in the President’s National Export Initiative.

As the recognized technical expert in these commodities, TTB seeks to promote U.S. exports by facilitating industry compliance with foreign requirements and by working with foreign regulators to address barriers that block market access for U.S. products. In FY 2012, TTB issued more than 10,000 export certificates for beer, wine, and distilled spirits. Without these certificates, which are only issued by TTB, U.S. producers of alcohol beverages cannot sell their products in many major markets abroad. In order to facilitate and expedite the issuance of certificates, TTB implemented an enhancement to its Permits Online system to enable the electronic submission of certificate requests. Through its international outreach, TTB has arranged for the elimination or reduction of burdensome requirements and routine certifications.

In supporting the nation's economic recovery, TTB works to open burgeoning markets to U.S. producers, including member countries of the Asia-Pacific Economic Cooperation forum. Emerging markets commonly issue unnecessarily restrictive technical trade barriers; educating their regulators about the U.S. system will help prevent those countries from issuing technical barriers that impede U.S. exports.

***Human Capital Management – Federal Employee Viewpoint Survey***

Employee satisfaction is critical to a productive workplace. Each year, the Office of Personnel Management (OPM) administers the Federal Employee Viewpoint Survey (FEVS) to measure the satisfaction of the Federal workforce. The TTB FEVS average score for FY 2012 trended up to a 77.1 percent positive response rate from employees. Based on this survey data, the Partnership for Public Service determines rankings for Federal agencies. TTB ranked 15th out of 292 sub-component agencies on the FY 2012 Best Places to Work in the Federal Government rankings, an increase from its FY 2011 ranking of 34 out of 240. In response to the scores TTB received on this Government-wide survey, TTB will develop an FY 2013 FEVS Action Plan to address opportunities for improvement.



## Section 2 – Budget Adjustments and Appropriation Language

### 2.1 – Budget Adjustments Table

Dollars in Thousands

<b>Alcohol and Tobacco Tax and Trade Bureau</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2012 Enacted</b>	<b>496</b>	<b>\$99,878</b>
<b>FY 2013 Annualized CR Rate</b>	<b>476</b>	<b>\$100,489</b>
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)
<b>Total FY 2014 Base</b>	<b>473</b>	<b>\$96,211</b>
Program Changes:		
Program Increases:	35	\$5,000
Alcohol and Tobacco Enforcement Program	35	\$5,000
<b>Total FY 2014 Operating Level</b>	<b>508</b>	<b>\$101,211</b>
<b>Program Cap Adjustment Included in IRS Budget Request</b>	<b>-</b>	<b>(\$5,000)</b>
<b>Total FY 2014 Net Appropriation Request</b>	<b>508</b>	<b>\$96,211</b>

### 2A – Budget Increases and Decreases Description

**Adjustment to Request .....-\$3,703,000 / +0 FTE**

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 that Congress provided to TTB 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 Levels (MCLs) ..... +\$1,148,000 / +0 FTE**

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 ..... -\$1,723,000 / -3 FTE**

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 IRC 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 IRC, 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 ..... +\$5,000,000 / +35 FTE**

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 compliance 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.

**TTB Excise Tax Enforcement and Compliance Funding Summary**  
(In millions of dollars)

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2014-2023</b>
<b>Cap Adjustment, Proposed BBEDCA (Discretionary Budget Authority)</b>	5	10	14	20	25	202
Change from Prior Year		5	4	6	6	
<b>Revenue</b>	(4)	(9)	(19)	(30)	(42)	(406)
Change from Prior Year		(5)	(10)	(11)	(12)	
<b>Net 10-Year Savings</b>						(204)

*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.

## 2.2 – Operating Levels Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FY 2012	FY 2013	FY 2014	FY 2014	FY 2014
Object Classification	Actual	Annualized CR Rate	Request	Transfer From IRS	Total Discretionary Appropriation
11.1 - Full-time permanent	45,785	47,867	47,038	2,230	49,268
11.5 - Other personnel compensation	744	761	752	27	779
<b>11.9 - Personnel Compensation (Total)</b>	<b>46,529</b>	<b>48,628</b>	<b>47,790</b>	<b>2,257</b>	<b>50,047</b>
12.0 - Personnel benefits	13,057	13,287	13,305	442	13,747
<b>Total Personnel and Compensation Benefits</b>	<b>\$59,586</b>	<b>\$61,915</b>	<b>\$61,095</b>	<b>\$2,699</b>	<b>\$63,794</b>
21.0 - Travel and transportation of persons	2,330	2,169	2,214	220	2,434
22.0 - Transportation of things	36	51	51	0	51
23.1 - Rental payments to GSA	4,938	5,125	4,851	0	4,851
23.3 - Communication, utilities, and misc charges	1,419	1,666	1,466	0	1,466
24.0 - Printing and reproduction	168	253	253	0	253
25.2 - Other services	25,876	25,263	24,486	41	24,527
25.3 - Other purchases of goods & serv frm Govt accounts	7,807	7,694	5,442	2,000	7,442
26.0 - Supplies and materials	575	621	621	8	629
31.0 - Equipment	3,923	1,294	994	32	1,026
<b>Total Non-Personnel</b>	<b>47,072</b>	<b>44,136</b>	<b>40,378</b>	<b>2,301</b>	<b>42,679</b>
<b>Total Budgetary Resources</b>	<b>\$106,658</b>	<b>\$106,051</b>	<b>\$101,473</b>	<b>\$5,000</b>	<b>\$106,473</b>
<b>Budget Activities:</b>					
Collect the Revenue	55,769	55,147	51,751	5,000	56,751
Protect the Public	50,889	50,904	49,722	0	49,722
<b>Total Budgetary Resources</b>	<b>\$106,658</b>	<b>\$106,051</b>	<b>\$101,473</b>	<b>\$5,000</b>	<b>\$106,473</b>
<b>FTE</b>	<b>481</b>	<b>491</b>	<b>482</b>	<b>35</b>	<b>517</b>

This table includes all available resources, including annual and available multi-year appropriations, reimbursable resources, offsetting collections and user fees.

**2B – Appropriations Language and Explanation of Changes**

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY ALCOHOL AND TOBACCO TAX AND TRADE BUREAU <i>Federal Funds</i></p> <p>SALARIES AND EXPENSES <i>For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, \$96,211,000; of which 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, of the amounts provided under this heading, such sums as are necessary shall be available to fully support tax enforcement and compliance activities including tax compliance to address the Federal tax gap, as specified for purposes of Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.</i></p>	

**2C – 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 Demonstration (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 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 demos and provide uniformity and integrity within the program. The following legislative language is proposed to discontinue TTB’s current Pay Demo program:

*Sec.206. Hereafter, funds appropriated by this or any other Act under the heading Alcohol and Tobacco Tax and Trade Bureau, Salaries and Expenses shall be available for retention*

*pay for any employee who would otherwise be subject to a reduction in pay upon the termination of the Bureau's Demonstration Project. Such retention pay shall comply with section 5363 of title 5, United States Code, and related Office of Personnel Management regulations, except as provided in this section. Such retention pay shall be paid at the employee's rate of pay immediately prior to the termination of the demonstration project and shall not be subject to the limitation set forth in section 5304(g)(1) of title 5, United States Code, and related regulations. Further, the rate of pay of any employee receiving retention pay pursuant to this provision shall be increased at the time of any increase in the maximum rate of basic pay payable for the grade of the employee's position by 50 percent of the dollar amount of each such increase, except that an employee's retained rate of basic pay shall not be so increased if both (a) the employee's retained rate of basic pay immediately prior to the time of such increase exceeds the limitation set forth in section 5304(g)(1) of title 5, United States Code, and related regulations, and (b) the employee's increased rate of pay would exceed the maximum rate of basic pay payable for the employee's position.*

## **Section 3 – Budget and Performance Plan**

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### **3A – Collect the Revenue**

*(\$49,317,000 from direct appropriations, and \$2,684,000 from reimbursable resources, and a transfer of \$5,000,000):*

This budget activity includes all tax processing, verification, enforcement, and outreach efforts related to administering the Federal excise taxes due on alcohol and tobacco products, and firearms and ammunition. TTB collects approximately \$23 billion in Federal tax revenue annually from roughly 8,500 businesses, making TTB the third largest tax collection agency in the Federal government. Members of the regulated industries that are subject to 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. 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. The goal owner for this budget activity is the TTB Assistant Administrator for Field Operations.

#### *Description of Performance – Collect the Revenue:*

In FY 2012, TTB met one of its two annual targets for the performance measures under the Collect the Revenue budget activity. Taken together, TTB's measures of the Amount of Revenue Collected per Program Dollar and the Percent of Voluntary Compliance from Large Taxpayers in Filing Payments Timely and Accurately demonstrate the effectiveness and efficiency with which TTB operates its revenue collection mission. Streamlining efforts in its tax processing function along with improved targeting in its enforcement will help TTB achieve its FY 2014 targeted performance level of \$400 for every \$1 invested in collections activities. Further, improvements to the electronic filing options available to the industries regulated by TTB will contribute to achieving a 91 percent rate of voluntary compliance in terms of timely filed tax payments. Achieving results for both measures will be supported by an effective tax enforcement presence that leverages both real-time intelligence data and interagency partnerships with counterpart enforcement agencies.

#### **Improve Efficiency of Tax Collection**

The Amount of Revenue Collected per Program Dollar measure uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2012, TTB reported a return on investment of \$449 for every program dollar spent on collection activities. TTB exceeded its annual performance target of \$410 due to ongoing and successful compliance audit and investigation efforts combined with process improvements and streamlining efforts. Moving forward, TTB expects to meet its FY 2014 targeted performance level of \$400 due to savings achieved from the implementation of improved targeting techniques for enforcement efforts and through proposed revisions to its industry reporting requirements.

#### Tax Collection Activities

Each year, TTB collects approximately \$23 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries. In determining its performance



targets for this measure, TTB examines historical collections trends across each of its regulated commodities, as well as other predictors that influence consumer behaviors. The following displays the historical collections at TTB from FY 2001 to 2012 by revenue type:

### Excise Tax and Other Collections by Fiscal Year

Dollars in Thousands

Fiscal Year	Alcohol	Tobacco	FAET	SOT	FST	Other	Total
2001	\$ 6,674,425	\$ 7,119,726	\$ 175,959	\$ 103,610	\$ 528	\$ 168	\$ 14,074,416
2002	6,889,401	7,763,652	205,027	101,893	115,609	159	15,075,741
2003	6,910,631	7,380,807	193,414	103,781	1,628	-	14,590,261
2004	6,995,366	7,433,852	216,006	100,562	-	359	14,746,145
2005	7,074,076	7,409,608	225,818	10,190	9	141	14,719,842
2006	7,182,940	7,350,058	249,578	2,895	638	146	14,786,255
2007	7,232,138	7,194,081	287,835	2,808	-	32	14,716,894
2008	7,420,576	6,851,705	312,622	448	-	634	14,585,985
2009	7,424,292	11,548,504	452,693	272	1,192,375	970	20,619,106
2010	7,476,789	15,913,479	360,813	300	8,558	180	23,760,119
2011	7,594,330	15,515,073	344,262	268	5,220	2,257	23,461,410
2012	7,856,391	15,002,616	514,622	249	5,942	61	23,379,881
<b>Average</b>	<b>\$ 7,170,451</b>	<b>\$ 9,706,930</b>	<b>\$ 294,887</b>	<b>\$ 35,606</b>	<b>\$ 110,876</b>	<b>\$ 426</b>	<b>\$ 17,376,338</b>

FAET - Firearms and Ammunition Excise Tax      SOT - Special Occupational Tax      FST - Floor Stock Tax      Other - Suspense Account

*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. Also, legislation was enacted in July 2005 that repealed the SOT for all alcohol taxpayers. The SOT for tobacco permittees remains intact.*

Since 2008, the return on investment for the Collect the Revenue program increased by more than 43 percent, principally because of the higher Federal excise tax rate imposed on tobacco products under the February 2009 CHIPRA legislation. This legislation nearly tripled the Federal tax rate on certain tobacco products and, as a result, TTB's return on investment reached an historic high in FY 2010 of 478:1. However, shifts in consumption patterns, product manufacturing, and trade will impact Federal revenues in the years ahead. In accounting for these types of marketplace shifts, TTB used CBO revenue projections for increased tobacco excise tax collections to determine its targeted performance level of 400:1 for fiscal years 2013 – 2014.

This measure will be impacted should the program integrity cap adjustment requested in the FY 2014 budget receive approval. The anticipated significant increases to additional collections from the planned enforcement initiatives will not occur until year three, once new personnel reach full performance levels.

### Streamlining Efforts for Tax and Regulatory Requirements

The performance target of \$400 in FY 2014 for TTB's measure of the amount of revenue collected per program dollar reflects TTB's analysis of collections data, and will be met, in part, through continued efficiencies gained in TTB's costs to operate its Collect the Revenue activities. Specifically, TTB issued a proposed regulation in December 2011 to streamline its distilled spirits plant reporting requirements to reduce the compliance burden for industry and, consequently, the TTB workload. This revision to the regulations would replace the current four report forms used by distilled spirits plants to report their operations on a monthly basis with just two report forms. Plants that qualify to file taxes on a quarterly basis would submit the new

reports on a quarterly basis. The bureau plans to re-open the comment period for the revised forms in FY 2013, and publish a final rule to implement this change early in FY 2014.

TTB also expects to achieve savings in the processing of surety bonds and tax filings through a legislative initiative included in the FY 2013 President's Budget, which, in turn, should improve the efficiency quotient for this measure. TTB continues its efforts to seek a legislative change to repeal the bond requirement for businesses owing \$50,000 or less annually and mandate the quarterly filing of tax returns. Currently, the cost of the bond requirement deters these taxpayers from filing tax returns and payments on a quarterly basis, and its elimination will reduce this filing and financial burden on industry, increase quarterly filings, and, thus, result in efficiencies for TTB.

In the interim period, under its regulatory authority, TTB intends to amend its regulations to eliminate the bond requirement for small brewers and mandate quarterly filing of tax returns and reports for these taxpayers to produce efficiencies for both the industry and the bureau. This initiative, as described previously, will result in approximately \$300,000 in savings in FY 2014.

### **Increase Voluntary Compliance from Taxpayers**

Fostering voluntary compliance among excise taxpayers is a primary tax administration strategy for TTB and supports the Agency Priority Goal of the Department of the Treasury, Increase Voluntary Tax Compliance. The Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely and Accurately is a key performance metric that shows the rate of compliance by large taxpayers (i.e., those that pay more than \$50,000 in annual taxes) in voluntarily filing their tax payments on or before the scheduled due date. In FY 2012, TTB set a performance target of 94 percent, and achieved a 92 percent rate of compliance. The year-to-year decline in performance results between fiscal years 2011 and 2012 is due, in part, to TTB's improved ability to detect non-compliance. Specifically, TTB's effective use of an automated tool, the Error Tracking Database (ETD), to identify and address late tax payments resulted in increased filings in FY 2012; however, as these additional filings were submitted late, TTB's overall rate of voluntary compliance under this measure declined 2 percent compared to the prior fiscal year. Initiated in FY 2010, TTB has continued to develop the ETD to identify late filers, non-filers, and errant filings of operational reports as well as missing excise tax returns for breweries and tobacco manufacturers. As industry members take action in response to TTB's notifications, TTB expects that compliance in timely filings may continue to decline before these enforcement efforts lead to improved compliance rates.

The FY 2014 requested funding level enables the continuation of efforts to achieve the target of 91 percent established for the voluntary compliance performance measure. During a period of economic recovery, TTB believes that this is an aggressive target for taxpayer compliance. Strategies that TTB will employ to meet its FY 2014 performance target focus on enhancing e-filing options, developing a balanced field approach of audits and investigations that targets non-compliant industry members, establishing an identifiable presence within the industry that encourages voluntary compliance, and identifying any gaps in tax payment from illegal entities operating outside of the lawful distribution system for alcohol and tobacco products.

### Electronic Filing Improvements

TTB aims to improve voluntary compliance by working toward allowing TTB permittees and taxpayers to file all payments, returns, and applications online with the National Revenue Center. In FY 2012, TTB 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 in FY 2012 increased over the prior year by 33 percent, bringing the total to almost 9,500.

To meet its FY 2014 performance target, TTB is intensifying its efforts to increase the electronic filing rate of operational reports and tax returns through the Pay.gov system. In order to raise the industry awareness level and demonstrate the benefits of electronic submissions, a multi-faceted approach has been initiated, which includes: conducting Pay.gov presentations at industry-sponsored seminars; emphasizing Pay.gov in communications with new industry members; adding information about Pay.gov to notification letters related to missing or late tax payments; and increasing the number of TTB tax-related forms available in Pay.gov.

Further, TTB is working to allow credit card payments through Pay.gov, which would address a system issue that requires early payment of taxes for those that elect to e-file. This timing issue is the primary obstacle that prevents industry members from filing and paying their taxes through the electronic filing system.

### Tax Enforcement Audits and Investigations

An identifiable enforcement presence is a well-established driver of compliance rates. In FY 2012, in support of its voluntary compliance efforts, TTB used increasingly sophisticated risk models and audit targeting techniques to complete audits, examinations, and revenue investigations. These audits and investigations resulted in the identification of \$47.7 million in additional tax, penalties, and interest from industry members.

TTB initiated several priority enforcement initiatives in FY 2012 that leverage technology and analytical techniques to better identify high-risk targets so that TTB makes the most efficient use of its enforcement resources. A primary focus was the development of an integrated tobacco risk model for the identification of high-risk tobacco importers for audit or investigation. With this new model, TTB is able to perform more real-time targeting of tobacco importers, including importers of processed tobacco.

In FY 2012, due to the potential for tax evasion, TTB concentrated a portion of its enforcement resources on manufacturers of processed tobacco. Under the CHIPRA legislation, tobacco processors must now obtain a permit and report on the first removal, transfer, or sale of processed tobacco to another entity. There is no requirement that processed tobacco be transferred or sold to a permitted or that subsequent transfers be reported. Consequently, transfers of this non-taxpaid tobacco product carry a high revenue risk. TTB initiated a pilot project, driven by a newly developed risk model, which directs its auditors and investigators to conduct “forward traces” of processed tobacco through the distribution system. These forward trace investigations have resulted in multiple civil and criminal cases that have identified more than \$182 million in potential revenue loss from the diversion of more than 10 million pounds of processed tobacco to non-permitted entities.

Going forward, TTB will continue its development of a similar risk model for alcohol importers. The alcohol importer risk model analyzes import data from U.S. Customs and Border Protection (CBP) and alcohol importer permit data from TTB's databases to identify potential import activity by non-permitted entities and other anomalies for potential audit. After initial testing in FY 2012, TTB is refining and expanding the scope of the alcohol importer risk model to include national data on alcohol imports. In fiscal years 2013 and 2014, TTB plans to use the new risk model in its audit planning, and to continue refinements to all of its alcohol and tobacco risk models through the integration of viable external data, including FinCEN data and Census population data, among other sources.

Further, in a continuation of efforts to enforce the CHIPRA legislation enacted in 2009, TTB continued its Floor Stocks Tax (FST) enforcement efforts through its FST non-filer program. Under this program, TTB is able to take enforcement action on companies where TTB's targeting analysis indicates that FST liabilities still exist, but where it is not cost effective or practical for TTB to conduct an on-site examination. The National Revenue Center uses the results of TTB's targeting analysis to initiate a "substitute-for-return" process to issue assessments on the estimated tax liabilities en masse. The IRC allows TTB to create a tax return for a taxpayer where no return has been filed, or where the return that was filed is considered false. In FY 2012, this approach resulted in TTB compliance actions against 188 taxpayers that had failed to file FST, with potential FST liabilities of \$22.5 million, plus interest and penalties. In total, the FST non-filer program has resulted in TTB collections in excess of \$1.28 million in FY 2012. In FY 2013, TTB will continue collection actions and seek resolution of outstanding FST liabilities identified through the non-filer project.

#### Interagency Partnerships

TTB also 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. In FY 2012, in response to the specific revenue threat from imported alcohol and tobacco products, TTB engaged CBP to address alcohol and tobacco importers that are delinquent in paying tax liabilities, as identified through TTB audits and investigations. In general, CBP's decisions regarding duty and tax collection are deemed to be final within 180 days after liquidation. However, in 2009, CHIPRA extended the statute of limitations for the collection of taxes on imported alcohol and tobacco products to three years. While this amendment addressed the time period in which assessment and collection can occur, it did not address how these actions were to be enforced. TTB seeks to close this gap by partnering with CBP's Office of Regulatory Audits to conduct joint audits of tobacco importers. TTB initiated a pilot project with CBP in FY 2012 to conduct joint audits of alcohol and tobacco importers, and intends to begin implementing this unified enforcement approach in FY 2013.

#### Criminal Enforcement

In its efforts to maintain tax compliance within the industries it regulates and to collect all revenue due on alcohol and tobacco products, TTB worked to address the illicit activity present in the marketplace. Failure to address illicit trade not only deprives governments of revenue, but also gives non-compliant actors an unfair competitive advantage over their lawful counterparts. TTB has criminal enforcement authority under the IRC, which includes penalties for illicit tobacco product manufacturing and evasion of excise tax. Until FY 2010, however, TTB did not

have the resources for special agents to effectuate this authority. Instead, TTB had to rely on the availability and interest of other Federal and state law enforcement agencies, agencies with separate and distinct missions, to either initiate joint investigations that would include violations of IRC provisions enforced by TTB or accept a criminal investigation referral.

Using two-year funding, TTB entered into an interagency agreement in FY 2011 to reimburse the Internal Revenue Service (IRS) for agent services to enforce the criminal provisions of TTB's jurisdiction. After a lapse in funding, while operating under a continuing resolution, TTB received an additional \$2 million in its FY 2012 appropriation to continue its efforts to combat tobacco smuggling and other criminal diversion activities. TTB used this funding to recommence its criminal enforcement program under an interagency agreement with the IRS. Between fiscal years 2011 and 2012, in just 16 months of actively opening new investigations, this program has resulted in the initiation of 48 cases (27 of which were opened in FY 2012) with a total estimated Federal excise tax liability of over \$336 million, and combined seizures and forfeitures totaling more than \$115 million.

Of the 48 active cases, 25 relate to illicit tobacco trade (52 percent), 21 relate to the illegal alcohol trade (44 percent), and 2 cases involve both alcohol and tobacco products, demonstrating that criminal activity is present across the industries TTB regulates. TTB has presented 43 cases to an AUSA for prosecutorial investigation, and 100 percent have been accepted, indicating the quality of the cases that TTB has referred. The earmark that provides for the reimbursement of the IRS for its agent services expired at the close of FY 2012. Under the FY 2013 CR, TTB has continued an interagency agreement with the IRS for these services. In FY 2014, TTB is requesting agent funding as part of a program integrity cap adjustment for its Alcohol and Tobacco Enforcement Program so that the bureau is able to continue its criminal enforcement program to uphold a fair marketplace through the compliant trade of alcohol and tobacco products. The FY 2014 President's Budget proposes a transfer of \$5 million from the IRS program integrity cap adjustment, of which \$2 million will be used to fund agent support, to provide the necessary resources to TTB to investigate complex, multi-year cases.

### 3.1.1 – Collect the Revenue Budget and Performance Plan

Dollars in Thousands

Collect the Revenue Budget Activity								
Resource Level	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	Annualized CR Rate	Request
Appropriated Resources	\$46,215	\$47,693	\$50,524	\$53,000	\$50,399	\$50,939	\$52,254	\$49,317
Reimbursable Resources	\$1,350	\$1,733	\$1,898	\$2,117	\$1,979	\$2,464	\$2,892	\$2,684
Appropriations Transferred from IRS Cap Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,000
<b>Total</b>	<b>\$47,565</b>	<b>\$49,426</b>	<b>\$52,422</b>	<b>\$55,117</b>	<b>\$52,378</b>	<b>\$53,403</b>	<b>\$55,146</b>	<b>\$57,001</b>
<b>Budget Activity Total</b>	<b>\$47,565</b>	<b>\$49,426</b>	<b>\$52,422</b>	<b>\$55,117</b>	<b>\$52,378</b>	<b>\$53,403</b>	<b>\$55,146</b>	<b>\$57,001</b>

Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Actual	Actual	Actual	Actual	Actual	Actual	Target	Target
Amount of Revenue Collected Per Program Dollar	N/A	313.0	427.0	478.0	468.0	449.0	400.0	400.0
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely and Accurately (In Terms of Revenue)	N/A	94.0	94.0	94.0	95.0	92.0	90.0	91.0

Key: N/A - Not in Effect; DISC - Discontinued; B - Baseline

### 3B – Protect the Public

*(\$46,894,000 from direct appropriations, and \$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 nearly 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. The goal owner for this budget activity is the TTB Assistant Administrator for Headquarters Operations.

#### *Description of Performance – Protect the Public:*

In FY 2012, TTB met three of its four annual targets for the performance measures under the Protect the Public budget activity. TTB tracks its success in meeting its trade and consumer protections goals through four principal performance measures that indicate how timely the bureau is in issuing permits to qualified alcohol and tobacco businesses, how satisfied businesses are with TTB's permitting and claims process, how effective TTB is in deterring illicit importation of tobacco products by non-permitted entities, and the efficiency of the bureau's alcohol beverage label application processing activity. Taken together, these measures reflect the priorities of a service-oriented organization, which applies technology to the greatest extent in order to perform its consumer protection role and in order to assure that commerce is fair, lawful, and open. TTB's strategies to achieve its performance targets in this budget activity

include a combination of streamlining its internal procedures, implementing enhancements to its online filing systems, and publishing clear guidance to industry members. As a result of these efforts, TTB expects to achieve an improvement in its processing time for original permit applications of 63 days in FY 2014. Given these improvements to service and processing times, TTB anticipates maintaining a customer satisfaction rate of 85 percent or better in FY 2014, but will reconsider this targeted performance level following the implementation of a new e-mail survey tool. TTB also anticipates that its streamlining efforts in the label processing area will continue to drive down processing times and drive up usage rates for the COLAs Online system. TTB expects to achieve an e-filing rate for alcohol beverage label applications of 92 percent in FY 2014, a result that reflects the industry's satisfaction with this e-Gov system. Finally, through focused and cooperative enforcement efforts, TTB expects to improve upon its prior year performance in reducing the number of importers that are importing tobacco products without a Federal permit, achieving a rate of 13 percent for FY 2014.

### **Improve Efficiency and Effectives of Permitting Process**

TTB protects consumers by screening permit applicants to ensure only qualified persons engage in operations in the alcohol, tobacco, firearms, and ammunition industries. For this purpose, in FY 2012, TTB processed approximately 7,940 original and 19,400 amended permits, and performed 300 investigations into high-risk applicants to meet TTB's business integrity objective. TTB also monitors its timeliness in processing permit applications through its measure of the Average Number of Days to Process an Original Permit Application at the National Revenue Center. Undue delays in permit application processing stunt Federal revenues and impede economic growth, primarily in the small business sector, as taxable commodities, such as finished wine, beer or spirits products, cannot be lawfully produced without a Federal permit from TTB. TTB targeted a 75-day turnaround time for original permit applications in FY 2012, and exceeded its target by achieving an average processing time of 67 days for applications. Moving forward, TTB will promote electronic filing, continue to implement system enhancements to Permits Online, and streamline its processing procedures to meet its performance target of 63 days in FY 2014.

TTB completed its rollout of the Permits Online system in FY 2012 in order to improve permit processing times and increase the number of paperless transactions with the business community TTB services. Permits Online provides a secure, web-based solution that allows members of the alcohol and tobacco industries to electronically submit applications for permits to operate. Applicants who plan to produce finished distilled spirits, wines, malt beverages, and tobacco products, and 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. TTB's National Revenue Center currently processes original application packets for 23 types of permits or registrations.

Over the past several years, however, the volume of applications has increased, making it difficult to maintain service levels. Between 2008 and 2011, TTB experienced an average annual increase of 3 percent in original permits applications. In FY 2012, however, the number of original permit applications received increased 33 percent, primarily due to growth in the craft brewers and alcohol wholesalers segments. In comparing applications received in FY 2012 to

those received in FY 2011, the number of brewer and alcohol wholesaler applications increased 74 percent and 61 percent, respectively.

Even with greater than anticipated adoption rates for the Permits Online system, which reached 62 percent for the year, TTB does not anticipate achieving reductions to turnaround time until the latter quarters of FY 2013 or early FY 2014. Rather, the immediate benefit of Permits Online has been cost savings, with system efficiencies contributing to nearly \$1 million in budget reductions. These reductions (equivalent to 9 FTE) have produced monetary savings, but have slowed anticipated improvements in service delivery. TTB projects to average 65 days to process an original permit application at the close of FY 2013, and 63 days by the close of FY 2014. Incremental improvements to performance during a period of declining staff and increasing workloads will demonstrate TTB's effectiveness and the success of its new e-filing system, without which processing times would exceed 90 days.

TTB intends to meet this performance target through a combination of streamlining its internal procedures, industry outreach, and ongoing system enhancements. TTB will update its risk model and its procedures used to process permit applications. Increased focus on risk modeling and statistical sampling will help TTB maintain its assurance that it is permitting only qualified applicants while managing workloads. In addition, TTB will continue to promote use of the Permits Online system by all permit applicants, including through Webinars and online training modules.

TTB also understands that the customer experience with the system is a critical driver of adoption rates. TTB routinely updates the business rules and customer support features embedded in the system to help prospective industry members submit complete and accurate information on their permit application the first time. By receiving complete applications, TTB can reduce the time spent in returning applications to customers for correction and reviewing corrected submissions, thus improving the time from application to permit issuance.

TTB is also making steps to speed its transition to an entirely online processing environment. System enhancements planned for fiscal years 2013 and 2014 include the data upload of historical permit application data from TTB's legacy permit and tax database to the Permits Online system. This initiative will allow 61,700 TTB permittees who originally filed a paper permit application to file for amendments to their permit (i.e., change in control or change in address) electronically through Permits Online. As TTB receives between 18,000 – 20,000 permit amendments annually, this project will result in efficiencies for both TTB and the businesses it serves.

### **Increase Customer Satisfaction with TTB Service Delivery**

TTB also measures its performance in its permit processing function through surveying the businesses that apply for a TTB permit in its measure of the National Revenue Center Customer Satisfaction Survey Results. The National Revenue Center customer survey solicits feedback on the level of service provided to applicants for an original or amended permit, and those industry members who file a claim to recover taxes paid on nonbeverage alcohol or overpayments of tax. TTB targets a sustained score of 85 percent on customer satisfaction for permit application and claims processing, and achieved a composite score of 84 percent in FY 2012. TTB's satisfaction



rate, derived from a telephone survey of industry members who received permitting or claims service from the TTB National Revenue Center in the prior month, decreased in FY 2012 due in part to the process changes associated with the Permits Online system. For those who elected to file original or amended permit applications electronically, increased satisfaction with faster response times was potentially offset by the learning curve associated with adapting to the new system. This was true for those industry members types added to the system in FY 2012, which represented the most complex permit applications, and who reported decreased satisfaction rates. For those who paper-filed their permit applications, satisfaction scores were also impacted due to the Permits Online rollout, as processing times for paper applications increased during this period.

Service enhancements, including the initiative to enable all permittees to file a permit amendment electronically through Permits Online, are expected to contribute to the bureau's ability to meet its customer expectations. In FY 2013, TTB also will implement improvements to its business processes and TTB call centers that directly impact the business community that TTB services. TTB introduced an e-mail survey in FY 2013 to replace the labor intensive telephonic surveying method that supports this measure. TTB, therefore, discontinued its current measure and will reconsider its performance target after establishing a new baseline measure in FY 2013.

### **Ensure Compliance with Importer Permit Requirement**

Maintaining lawful operations in the trade of alcohol and tobacco commodities is a principal TTB objective. TTB continues its enforcement of Federal permit requirements, targeting entities identified as importing cigarettes and other tobacco products without a TTB permit. Through its measure of Percentage of Importers Identified by TTB as Illegally Operating without a Federal Permit, TTB monitors CBP's International Trade Data System, and compares the import data to the permittees on file with TTB, which enables the bureau to identify and take action against those entities engaging in unlawful operations. In FY 2012, TTB set a performance target of 14 percent and, through this data comparison, determined that just 13 percent of entities reporting importations of tobacco products had done so without a permit. The number of importers has remained steady throughout the fiscal year, with the vast majority of unpermitted importers consisting of individuals purchasing tobacco products from overseas via the Internet. TTB's issuance of cease and desist letters, and appropriate follow up activities, ensured that the responsible parties ended operations or obtained a permit.

TTB intends to meet its FY 2014 performance target of 13 percent for this measure by continuing to monitor and take action to address imports of tobacco products by non-permitted parties. These efforts support the enforcement of Federal laws designed to prevent tobacco smuggling and to ensure the collection of all taxes levied on tobacco products. As an example, the Prevent All Cigarette Trafficking Act (PACT Act), a law enacted in 2010, prohibits shipments of tobacco products via the U.S. Postal Service (USPS). As the vast majority of the non-permitted importers are individuals purchasing tobacco products in small quantities for personal consumption through online tobacco outlets via the USPS and FedEx, TTB continues to coordinate with the USPS and other ground carriers to provide enforcement assistance. TTB also will continue to focus its enforcement efforts on the importation of processed tobacco, which is subject to new regulation and oversight under CHIPRA, to ensure that importers

comply with Federal law. Processed tobacco is the subject of intense TTB enforcement scrutiny, as it is a non-taxpaid tobacco product that may be diverted for illegal manufacturing of cigarettes. TTB will incorporate import data into its risk models for audit and investigation targets to help deter illegal importations of tobacco.

### **Improve Efficiency and Effectiveness of Alcohol Beverage Label Processing**

TTB protects U.S. consumers by ensuring that the alcohol beverage products offered at retail outlets are properly labeled and comply with Federal production standards. In FY 2012, TTB met this objective and facilitated U.S. commerce through the approval of 134,600 of the 152,700 COLA applications received; the remaining 18,100 (12 percent) were rejected, returned for correction, withdrawn, or expired. In furtherance of Treasury's Agency Priority Goal of increasing paperless transactions, the bureau targeted a performance level of 88 percent electronic filing for COLA applications, and in FY 2012 reached an electronic filing rate of 91 percent. The ongoing rise in electronic filing is due to system improvements that track with customer feedback and which simplify the filing process for industry members.

TTB has set a performance target of 92 percent for FY 2014 for this electronic filing measure and, to meet this performance goal, the bureau will use targeted outreach to reach the segments of the industry that have not migrated to the online filing environment. Beginning in FY 2013, TTB plans to modify its internal operating procedures to process paper label applications electronically. This move to a paperless processing environment will result in efficiencies in communicating with industry members regarding rejected applications or applications that are returned to the applicant for correction.

Even with high rates of electronic filing, annual increases in label applications necessitate consideration of broader efforts to streamline the alcohol beverage label application process. Between fiscal years 2011 and 2012, the number of label applications has increased 5 percent, and since 2008, the number of applications has increased by 14 percent. Addressing this issue requires TTB to continue its efforts to update and streamline its labeling program. Through various changes to forms, guidance, and internal processing procedures, as well as planned modernization of the Federal alcohol labeling regulations, the bureau will shift from a labor-intensive label application pre-approval process to a more useful marketplace review of labels. These efforts will reduce the time it takes industry to enter compliantly labeled alcohol beverages into the marketplace. TTB plans to publish a rulemaking document proposing changes to its labeling and advertising regulations in FY 2014, and will follow up with a final rule after reviewing the comments.

Additionally, in FY 2012, TTB acted to further its unique regulatory role in assuring that alcohol beverage products in the marketplace meet Federal standards and do not mislead consumers. The integrity of U.S. products is critical in global commerce, and incidents of mislabeling or product safety can have crippling effects on trade. In support of this objective, TTB conducted its fifth year of the Alcohol Beverage Sampling Program (ABSP)—a program designed to generate statistically reliable information that can be used to estimate the percentage of alcohol beverage products in the market that are fully and accurately labeled. TTB uses this information to target enforcement efforts as well as to make improvements to industry guidance.

Approximately 650 products were inspected and tested in FY 2012, and the program results will be published in FY 2013. This program augments the routine formula evaluation and scientific analysis work that TTB performs annually. In FY 2012, TTB evaluated over 11,700 beverage alcohol formulas and analyzed about 2,900 alcohol beverage samples in support of the ABSP, tax enforcement, and consumer complaint activities.

### 3.1.2 – Protect the Public Budget and Performance Plan

Dollars in Thousands

<b>Protect the Public Budget Activity</b>								
<b>Resource Level</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
	<b>Enacted</b>	<b>Enacted</b>	<b>Enacted</b>	<b>Enacted</b>	<b>Enacted</b>	<b>Enacted</b>	<b>Annualized CR Rate</b>	<b>Request</b>
Appropriated Resources	\$44,403	\$45,822	\$48,541	\$50,000	\$50,399	\$48,939	\$48,235	\$46,894
Reimbursable Resources	\$1,349	\$1,733	\$1,898	\$2,117	\$1,979	\$2,464	\$2,670	\$2,578
<b>Budget Activity Total</b>	<b>\$45,752</b>	<b>\$47,555</b>	<b>\$50,439</b>	<b>\$52,117</b>	<b>\$52,378</b>	<b>\$51,403</b>	<b>\$50,905</b>	<b>\$49,472</b>

<b>Measure</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Target</b>	<b>Target</b>
Average Number of Days to Process an Original Permit Application at the National Revenue Center	N/A	64.0	64.0	65.0	74.0	67.0	65.0	63.0
Percent of Electronically Filed Certificate of Label Approval Applications	51.0	62.0	74.0	79.0	88.0	91.0	92.0	92.0
Percentage of Importers Identified by TTB as Illegally Operating without a Federal Permit (%)	N/A	22.0	15.0	15.0	14.0	13.0	14.0	13.0

Key: N/A - Not in Effect; DISC - Discontinued; B - Baseline

## **Section 4 – Supplemental Information**

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### **4A – Summary of Capital Investments**

#### **Information Technology**

TTB's Strategic Plan establishes the vision and objectives for the bureau in the business context. TTB's Information Technology (IT) Strategic Plan is a five-year plan based on the business strategy, which includes the bureau's mission, vision, goals, and objectives from the IT perspective. This plan charts the course the bureau will follow in the coming years to develop and implement IT solutions that are aimed at streamlining the collection of data, leveraging web technologies, and making the Internet the method of choice for the reporting and exchanging of information. By aligning business and technical strategy, TTB is able to leverage technology to enable the bureau to meet its objectives in the most efficient and cost-effective manner while identifying ways to minimize system redundancy.

TTB has no major IT investments based on the OMB and the Department of Treasury criteria. Several non-major investments, however, directly support the mission, strategy, and day-to-day operations of the bureau. These include:

**TTB Tax System:** This investment consists of several component applications that ensure fair and proper collection of revenue from the industry members for alcohol, tobacco, firearms, and ammunition excise taxes and to ensure compliance with the excise tax regulations.

**TTB Regulatory System:** This investment includes applications that streamline the beverage and nonbeverage alcohol formula approval process and COLA issuance for tax and regulatory compliance.

**TTB General Support Services:** This investment provides TTB users with the infrastructure applications necessary to conduct daily business.

**TTB Enterprise Architecture:** This investment supports strategic management of IT operations (e.g., business process redesign efforts not part of an individual investment, enterprise architecture development, capital planning and investment control processes, procurement management, and IT policy development and implementation) and costs for Chief Information Officer functions.

In addition to leveraging IT to support the mission, strategy, and day-to-day operations of the bureau, TTB supports and maintains strategy alignment with OMB and Treasury through enterprise-wide IT initiatives. These include: Cyber Security; IT Infrastructure; Electronic Identity and Access Management (HSPD-12); Enterprise-wide Contracts and Services; and Program Metrics and Milestones.

#### **Scientific Equipment for Laboratories**

This investment will enable chemists to provide accurate and reproducible scientific data and laboratory results to support regulatory compliance, tax enforcement, tax classification, rulemaking, and investigations for both the alcohol and tobacco commodities. Laboratory instruments require periodic replacement, as they have finite lifecycles due to use and as

scientific advances continue to evolve. Technologies applied at these laboratories eventually become obsolete and the instruments are not serviceable as vendors stop carrying parts and software. Periodic replacement of the existing technologies is essential for TTB laboratories to remain state-of-the-art and effective to support the bureau's mission, strategy, and day-to-day operations.

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed/downloaded here:

<http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>