

## Alcohol and Tobacco Tax and Trade Bureau

### Program Summary by Budget Activity

Dollars in thousands

Budget Activity	FY 2013	FY 2014	FY 2015	FY 2014 TO FY 2015	
	Operating Level	Enacted	Request	\$ Change	% Change
Collect the Revenue	\$48,927	\$52,470	\$49,940	(\$2,530)	-4.82%
Protect the Public	\$45,727	\$46,530	\$46,060	(\$470)	-1.01%
<b>Subtotal, Alcohol and Tobacco Tax and Trade Bureau</b>	<b>\$94,654</b>	<b>\$99,000</b>	<b>\$96,000</b>	<b>(\$3,000)</b>	<b>-3.03%</b>
Offsetting Collections - Reimbursables	\$5,947	\$6,512	\$6,512	\$0	0.00%
Appropriations Transferred from IRS Program Integrity Cap Adjustment	\$0	\$0	\$5,000	\$5,000	NA
<b>Total Program Operating Level</b>	<b>\$100,601</b>	<b>\$105,512</b>	<b>\$107,512</b>	<b>\$2,000</b>	<b>1.90%</b>
Direct FTE	465	473	473	0	0.00%
Reimbursable FTE	15	9	9	0	0.00%
Appropriations Transferred from IRS Program Integrity Cap Adjustment FTE	0	0	35	35	NA
<b>Total FTE</b>	<b>480</b>	<b>482</b>	<b>517</b>	<b>35</b>	<b>7.26%</b>

### Summary

The Alcohol and Tobacco Tax and Trade Bureau (TTB) serves as the nation's primary Federal authority in the regulation and excise tax administration 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 U.S. consumers by ensuring the integrity of alcohol beverage labels and products.

In FY 2015, 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 2015 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 2015 are \$107,512,000, including \$96,000,000 from direct appropriations, \$6,512,000 from other offsetting collections and reimbursable programs, and \$5,000,000 in appropriations transferred from other accounts.

## TTB FY 2015 Budget Highlights

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
<b>FY 2014 Enacted</b>	<b>473</b>	<b>\$99,000</b>
Changes to Base:		
Adjustment to Request	-	(\$2,000)
Funding for Special Agents Provided in Cap Adjustment Transfer	-	(\$2,000)
Maintaining Current Levels (MCLs):	-	\$1,824
Pay-Raise	-	\$677
FERS Contribution Increase	-	\$514
Non-Pay	-	\$633
Efficiency Savings:	-	(\$2,824)
Contract Reduction Savings	-	(\$1,900)
Infrastructure Cost Reduction	-	(\$156)
Other Efficiency Savings from Operations	-	(\$768)
Subtotal Changes to Base	-	(\$3,000)
<b>Total FY 2015 Base</b>	<b>473</b>	<b>\$96,000</b>
Program Changes:		
Program Increases:	35	\$5,000
Alcohol and Tobacco Enforcement Program	35	\$5,000
<b>Total FY 2015 Operating Level</b>	<b>508</b>	<b>\$101,000</b>
<b>Program Integrity Cap Adjustment Included in IRS Budget Request</b>	<b>-</b>	<b>(\$5,000)</b>
<b>Total FY 2015 Net Appropriation Request</b>	<b>508</b>	<b>\$96,000</b>

### FY 2015 Budget Adjustments

#### **Adjustment to Request**

#### ***Funding for Special Agents Provided in Cap Adjustment Transfer -\$2,000,000 / +0 FTE***

In FY 2015, the Administration proposes to fund criminal enforcement activities and agents by including a request in the Internal Revenue Services (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. TTB will reimburse the IRS for the use of its special law enforcement agents to target tobacco smuggling and other criminal diversion activities.

#### **Maintaining Current Level (MCLs)**

#### ***Pay-Raise +\$677,000 / +0 FTE***

Funds are requested for the January 2015 pay-raise and the annualization of the 2014 pay-raise.

#### ***FERS Contribution Increase +\$514,000 / +0 FTE***

Funds are requested for increases in agency contributions to the Federal Employee Retirement System based on updated actuarial estimates.

#### ***Non-Pay +\$633,000 / +0 FTE***

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

#### **Efficiency Savings**

#### ***Contract Reduction Savings -\$1,900,000 / +0 FTE***

TTB will reduce costs related to its information technology commercial contracts and shared services contracts, and by rescoping other commercial contract services.

#### ***Infrastructure Cost Reduction -\$156,000 / +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 is now reconfiguring and reducing its headquarters office space in Washington, D.C. TTB expects to achieve cumulative savings of \$506,000 over fiscal years 2014 and 2015, of which \$156,000 will be realized in FY 2015 from reduced rent, utilities and security costs.

#### ***Other Efficiency Savings from Operations -\$768,000 / +0 FTE***

TTB will further reduce its operational costs through savings in administrative overhead and its program operations.

#### **Program Increases**

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

The FY 2015 President's Budget includes a proposal to amend section 251 of the Balanced Budget and Emergency Deficit Control Act 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. 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 Integrity Cap Adjustment."

The proposed cap adjustment for TTB tax enforcement and compliance activities includes \$5 million to support the existing program and new revenue-producing tax compliance initiatives and \$5 million in additional new initiatives each year from 2016 through 2019. TTB will target known points in the supply chain that are susceptible to diversion activity and prioritize forensic audits and investigations of high-risk activity and entities in the alcohol and tobacco trade. Because these enforcement initiatives must be sustained over time in order to maximize their potential taxpayer returns, the total above-base adjustment funding is \$193 million over the 10-year period. Over this same time period, these additional investments will generate an estimated \$285 million in additional tax revenue over the 10-year period. The net savings from these investments is \$92 million.

***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 2015 President's Budget as part of the IRS's program integrity cap adjustment

**Explanation of Budget Activities**

***Collect the Revenue (\$49,940,000 from direct appropriations, \$3,451,000 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 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 2013, excise tax collections reached \$14.3 billion for tobacco products, \$7.9 billion for alcohol beverage products, and \$763 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 and the Treasury strategic objective to improve the execution of the tax code.

***Protect the Public (\$46,060,000 from direct appropriations, \$3,061,000 from reimbursable resources)***

This budget activity funds the programs that ensure the integrity of the products and industry members in the marketplace by promoting compliance with Federal alcohol and tobacco laws and regulations by the 66,600 businesses that hold a TTB permit or registration. This budget activity also supports the TTB and Treasury objectives to facilitate fair and lawful commercial trade in the alcohol and tobacco commodities. This budget activity supports the TTB strategic goal of assuring that alcohol and tobacco industry

operators meet permit qualifications, and alcohol beverage products comply with Federal production, labeling, and marketing requirements.

## **Legislative Proposals**

TTB has no legislative proposals.

### **TTB Performance by Budget Activity**

Budget Activity	Performance Measure	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
		Actual	Actual	Actual	Target	Target
Collect the Revenue	Amount of Revenue Collected Per Program Dollar	468.0	449.0	457.0	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)	95.0	92.0	92.0	91.0	92.0
Protect the Public	Average Number of Days to Process an Original Permit Application for a New Alcohol or Tobacco Business	77.0	69.0	81.0	75.0	62.0
Protect the Public	Percent of Electronically Filed Certificate of Label Approval Applications	88.0	91.0	92.0	93.0	94.0
Protect the Public	Percentage of Importers Identified by TTB as Illegally Operating without a Federal Permit (%)	14.0	13.0	11.0	12.0	11.0

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 2013, TTB met four out of five 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 2013:

- TTB collected \$23 billion in excise taxes and other revenues from 9,300 taxpayers in the alcohol, tobacco, firearms, and

ammunition industries. The return on investment for the Collect the Revenue program was \$457 for every \$1 expended on collection activities.

- TTB opened 17 new criminal cases involving the diversion of alcohol and tobacco products, bringing the total number of cases opened during three years of operations to 64. These cases represent nearly \$350 million in tax evasion and, in FY 2013, the total amount of tax loss at issue in prosecuted cases exceeded \$57 million. TTB's enforcement efforts also resulted in an additional \$117 million in seizures and forfeitures.
- TTB completed 520 audits, examinations, and revenue investigations, which contributed to the identification of additional tax revenue of nearly \$40 million.

- TTB processed \$358 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 \$345 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 2013:

- TTB issued 119,000 Certificates of Label Approval (COLA) to ensure compliance with the FAA Act provisions that prevent consumer deception. TTB also achieved a 92 percent electronic filing rate for alcohol

beverage 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 issued approximately 5,900 Federal permits. A TTB permit or registration is required before a business can lawfully operate in the alcohol and tobacco industries. TTB ensures a fair and lawful marketplace and protects consumers by screening permit applicants to ensure only qualified persons engage in operations in the alcohol and tobacco industries.
- TTB completed more than 275 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.