

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Budget Activity

Dollars in thousands

Budget Activity	FY 2014	FY 2015	FY 2016	FY 2015 TO FY 2016	
	Enacted	Enacted	Request	\$ Change	% Change
Collect the Revenue	\$51,721	\$52,721	\$52,785	\$64	0.12%
Protect the Public	\$47,279	\$47,279	\$48,654	\$1,375	2.91%
Subtotal, Alcohol and Tobacco Tax and Trade Bureau	\$99,000	\$100,000	\$101,439	\$1,439	1.44%
Offsetting Collections - Reimbursables	\$6,742	\$7,022	\$6,300	(\$722)	-10.28%
Appropriations Transferred from IRS Program Integrity Cap Adjustment	\$0	\$0	\$5,000	\$5,000	NA
Transfers In/Out – TEOAF Super Surplus Fund	\$900	\$0	\$0	\$0	NA
Total Program Operating Level	\$106,642	\$107,022	\$112,739	\$5,717	5.34%
Direct FTE	473	473	474	1	0.21%
Reimbursable FTE	10	10	10	0	0.00%
Appropriations Transferred from IRS Program Integrity Cap Adjustment FTE	0	0	35	35	NA
Total FTE	483	483	519	36	7.45%

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 U.S. consumers by ensuring the integrity of alcohol beverage labels and products.

In FY 2016, 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 2016 President's Budget request enables TTB to continue the programs and activities necessary to meet its strategic goals of collecting revenue and protecting the public.

Total resources required to support TTB activities for FY 2016 are \$112,739,000, including \$101,439,000 from direct appropriations, \$6,300,000 from other offsetting collections and reimbursable programs, and \$5,000,000 in appropriations transferred from other accounts.

TTB FY 2016 Budget Highlights

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
FY 2015 Enacted	473	\$100,000
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$1,687
Pay-Raise	-	\$580
Pay Annualization	-	\$148
FERS Contribution Increase	-	\$205
Non-Pay	-	\$754
Efficiency Savings:	-	(\$248)
Reduce Infrastructure Footprint	-	(\$44)
IT Open Source Project	-	(\$60)
Travel and Other Operating Reductions	-	(\$144)
Subtotal Changes to Base	-	\$1,439
Total FY 2016 Base	473	\$101,439
Program Changes:		
Program Decreases:	-	(\$1,000)
Criminal Enforcement Program	-	(\$1,000)
Program Increases:	36	\$6,000
Improvements to Core Business Applications/Data Analytics	1	\$1,000
Alcohol and Tobacco Enforcement Program	35	\$5,000
Total FY 2016 Operating Level	509	\$106,439
Program Integrity Cap Adjustment Included in IRS Budget Request	-	(\$5,000)
Total FY 2016 Net Appropriation Request	509	\$101,439

FY 2016 Budget Adjustments

Adjustments to Request

Maintaining Current Level (MCLs)

Pay-Raise +\$580,000 / +0 FTE

Funds are requested for the proposed January 2016 pay-raise.

Pay Annualization +\$148,000 / +0 FTE

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

FERS Contribution Increase +\$205,000 / +0 FTE

Funds are requested for increases in agency contributions to the Federal Employees Retirement System (FERS) based on updated actuarial estimates.

Non-Pay +\$754,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor costs such as travel, contracts, rent, supplies, and equipment.

Efficiency Savings

Reduce Infrastructure Footprint -\$44,000 / +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 has also reconfigured and reduced the amount of office space needed to operate its headquarters in Washington, D.C., and the National Revenue Center in Cincinnati. In an ongoing effort to improve space utilization, TTB has identified additional opportunities to reduce leased space, resulting in additional savings of \$44,000.

IT Open Source Project -\$60,000 / +0 FTE

TTB has launched a project to move its custom IT applications infrastructure from proprietary hardware and software to Open Source software. This initiative will lower the cost of both hardware refresh and maintenance and software licensing and maintenance.

Travel and Other Operating Reductions -\$144,000 / +0 FTE

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

Program Decreases

Criminal Enforcement Program -\$1,000,000 / +0 FTE

TTB will reduce its Criminal Enforcement Program to the 2014 funding level. The program remains critical to the bureau's ability to effectively curtail illicit operations and deter others from engaging in diversion activity. This level will enable TTB to continue pursuing and conducting criminal investigations while allowing the bureau to address other crucial investments to maintain a competitive and compliant marketplace for the alcohol beverage industry and facilitate trade in this growing sector of the economy.

Program Increases

Improvements to Core Business Applications/ Data Analytics +\$1,000,000 / +1 FTE

TTB is requesting \$1 million to invest in its priority project to modernize the alcohol beverage labeling program by streamlining and simplifying the Certificate of Label Approval (COLA) submission and approval process. Given TTB's limited resources and the increased demand for its services from a growing business sector, TTB's current business model is unsustainable. TTB intends to address these challenges by working towards an automated solution to facilitate compliant label applications so that products may proceed to market more quickly. The requested investment would support: 1) system enhancements to COLAs Online to improve system checks and automate certain review and approval functions, 2) enhanced functionality of COLAs Online and Formulas Online to improve the availability and utility of data for analytics purposes, and 3) advanced risk modeling to support market-based enforcement. The initial investment will allow TTB to complete a comprehensive requirements analysis and begin implementing the business system enhancements for the labeling modernization priority project.

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

The FY 2016 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 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 is included under the IRS budget, which includes 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 in new revenue-producing tax compliance initiatives in FY 2016 and \$5 million in additional new initiatives each fiscal year from 2017 through 2020. 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 cap adjustment including inflation is \$193 million over the 10-year period. Over this same time period, these additional investments will generate an estimated \$338 million in additional tax revenue over the 10-year period. The net savings from these investments is \$145 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 2016 President's Budget as part of the IRS's program integrity cap adjustment.

Explanation of Budget Activities

Collect the Revenue (\$52,785,000 from direct appropriations, \$3,276,000 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 2014, excise tax collections reached nearly \$13.6 billion for tobacco products, over \$7.9 billion for alcohol beverage products, and \$769 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 (\$48,654,000 from direct appropriations, \$3,024,000 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 nearly 72,000 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 2012	FY 2013	FY 2014	FY 2015	FY 2016
		Actual	Actual	Actual	Target	Target
Collect the Revenue	Amount of Revenue Collected Per Program Dollar	449.0	457.0	457.0	400.0	400.0
Collect the Revenue	Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely (In Terms of Revenue)	92.0	92.0	90.0	92.0	94.0
Protect the Public	Percent of Electronically Filed Permit Applications (NEW)	62.0	70.0	79.0	82.0	85.0
Protect the Public	Percentage of Permit Applications Processed with Service Standards (NEW)	61.0	50.0	58.0	85.0	85.0
Protect the Public	Average Number of Days to Process an Original Permit Application for a New Alcohol or Tobacco Business	69.0	81.0	84.0	DISC	DISC
Protect the Public	Customer Satisfaction Rate with TTB Permitting Process (NEW)	N/A	N/A	B	80.0	80.0
Protect the Public	Percent of Electronically Filed Label and Formula Applications (NEW)	88.0	90.0	93.0	94.0	95.0
Protect the Public	Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards (NEW)	83.0	49.0	67.0	85.0	85.0
Protect the Public	Percent of Electronically Filed Certificate of Label Approval Applications	91.0	92.0	94.0	DISC	DISC
Protect the Public	Percentage of Importers Identified by TTB as Operating without a Federal Permit	13.0	11.0	15.0	DISC	DISC

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 2014, TTB met two out of five of its targeted performance goals, and made substantial progress in its initiatives intended to improve performance in all other performance metrics. The bureau plans to continue to monitor its performance, and will use performance information to improve the effectiveness of its programs.

The investments in the Collect the Revenue activity resulted in the following performance highlights and accomplishments during FY 2014:

- TTB collected \$22.2 billion in excise taxes and other revenues from over 10,500 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.
- In three years of operating, TTB opened 72 criminal cases involving the diversion of alcohol and tobacco products. These cases represent approximately \$345 million in tax evasion and, in FY 2014, the total amount of tax loss at issue in prosecuted cases exceeded \$149 million. TTB's enforcement efforts also resulted in an additional \$117 million in seizures and forfeitures.
- TTB completed more than 400 audits, examinations, and revenue investigations, which contributed to the identification of additional tax revenue of approximately \$62 million.
- TTB processed \$312 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 \$316 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 2014:

- TTB issued over 125,000 COLAs to ensure compliance with the FAA Act provisions that prevent consumer deception. TTB also achieved a 94 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 more than 6,100 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 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.