



The goal of the *Collect Revenue* activity is to maintain an efficient and effective revenue management and regulatory system that continues to reduce taxpayer burden and Government oversight, and collects the revenue due under Federal laws administered by ATF. This activity is supported by two major programs: Ensure Collection of Revenue Due and Manage and Process Revenue.

ENSURE COLLECTION OF REVENUE DUE

ATF collected \$12.7 billion before refunds in taxes, interest, penalties, and fees in FY 1996. Ninety-eight percent of collections derived from alcohol and tobacco excise taxes. On-site inspections of those who pay alcohol, tobacco, firearms, and ammunition taxes are focused on facilities offering the greatest risk to the revenue based on the volume of operations, past history of violations, relative strength of internal controls, and financial condition. *A more detailed description of the various types and sources of revenues starts on page 48 in the Financial Analysis and Discussion section.*

ATF employees continuously monitor tax collections by auditing tax returns and assessments, initiating enforced collection action, analyzing required reports, and accounting for tax payments, licensing fees, and related refunds. ATF also reviews and acts on applications and surety bonds submitted by companies that produce or sell alcohol or tobacco products.

When criminal conduct is suspected—as with diversion or some label fraud cases—teams of ATF special agents, auditors, and inspectors conduct complex investigations of violations of the Federal Alcohol Administration Act and the Internal Revenue Code. At year end, ATF was investigating more than 100 domestic and international cases. ATF also investigates domestic trafficking in contraband tobacco products that deprives states of needed tax revenue and violates Federal law.

In partnership with the Internal Revenue Service, ATF instructed foreign tax police on the U.S. alcohol and tobacco licensing and taxation system. In FY 1996, 422 students from Russia, Ukraine, Belarus, and the Baltic States received this training.

MANAGE AND PROCESS REVENUE

ATF's revenue management program includes a variety of processes and functions based on the processing, auditing, and recording of tax returns and monthly operating reports, as well as the accounting for all deposits and payments for taxes, licenses, permits, and fees from the alcohol, tobacco, firearms, ammunition, and explosives industries.

Effective management of taxpayer accounts and proper receipt of tax returns and payments ensure accurate collections and reporting of all receivables. ATF's collection systems include work by the technical services staffs located in the districts and the Tax Processing Center in Cincinnati. The principal activities of these entities are office audits of tax returns and reports, audits of claims, collection actions, review and approval of applications for permits, registration of plants and surety bonds, and processing and custody of official case files.

During FY 1996, ATF continued efforts to reduce the number of technical services offices, ultimately leading to a single ATF tax- and permit-processing center serving the entire country from Cincinnati. In accomplishing this, ATF plans to maintain or enhance customer service and revenue protection despite an overall reduction in resources allocated to these functions.

DIVERSION AND SMUGGLING

ATF is engaged in an ongoing endeavor to reduce the rising trend of illegal diversion activities involving cigarettes and distilled spirits.

Criminal violations committed in these diversion schemes include violations of the Internal Revenue Code

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ALCOHOL AND TOBACCO PERMITS AND INSPECTIONS		
	FY 1996	FY 1995
Alcohol Permittees (beginning of year)	26,795	26,001
Alcohol Inspections		
Application inspections	1,314	1,240
Compliance inspections*	1,902	2,515
Violations disclosed	1,169	2,187
Additional taxes assessed	\$4,253,000	\$2,494,000
*Note: Product integrity, market integrity, and tax compliance inspections.		
Tobacco Permittees (beginning of year)	331	314
Tobacco Inspections		
Application inspections	72	81
Compliance inspections	196	218
Violations disclosed	68	78
Additional taxes assessed	\$4,207,000	\$321,000
<ul style="list-style-type: none"> • New measures being reported in FY 1996: Alcohol and tobacco permittees • Measures reported in FY 1995 and discontinued in FY 1996: Alcohol and tobacco permit applications received and processed 		

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recordkeeping requirements, Federal Alcohol Administration Act permit requirements, statutes relating to commerce with Native Americans, wire and/or mail fraud, money laundering, and conspiracy. ATF's goal is to achieve compliance with U.S. laws that will greatly reduce the illegal diversion of alcohol and tobacco products.

Diversion activities also defraud the United States of tax revenues. In this case, non-tax-paid cigarettes and distilled spirits are fraudulently claimed for export markets (for which there is no tax liability) when in fact they may be illegally diverted back into the U.S. domestic market for sale where taxes should apply.

ATF pursues tax assessments against a number of domestic producers because the documentation offered to ATF to support the tax-free exportation of these products often is either counterfeit or absent. Such assessments are largely responsible for the marked increase in additional taxes assessed in FY 1996. ATF considers administrative action or criminal prosecution against retailers, wholesalers, and manufacturers who knowingly supply smuggling organizations.

ATF participates in joint investigations with the Internal Revenue Service, U.S. Customs Service, Revenue Canada, and state and local law enforcement. These investigations focus on significant tobacco- and distilled spirits-related criminal diversion activities in the United States and Canada. ATF is developing a northeast border strategy to stop the large-scale diversion of alcohol, tobacco, and firearms to Canada.

During FY 1996, ATF began developing an intelligence database for alcohol and tobacco diversion and contraband trafficking. In conjunction with the Federation of Tax Administrators, ATF established a toll-free number, 1-800-659-6242, to report large thefts and hijacked shipments of cigarettes. ATF and states use the asset forfeiture laws to combat diversion, and ATF is currently pursuing the enactment of an interstate trafficking law that will cover tax-paid liquor and cigarettes.

The seizure of alcohol beverages and tobacco products by ATF agents and inspectors in 1996 has resulted in over \$804 thousand being credited to the Treasury Forfeiture Fund. Through our efforts, several members of organized crime groups have been successfully prosecuted. Also, in FY 1996, ATF accepted \$107 thousand from subject distilleries and wholesalers to settle cases involving illegal activity. There are currently 135 open diversion cases.

Alcohol Trade Issues

The solidification of the European Union, the emergence of new Pacific Rim economies and the movement of former Soviet States to market economies have had a major influence on the

world economy. While this global economy provides new opportunities for U.S. producers of alcohol beverages, the changing political economic landscape also produces discriminatory trade barriers that limit market access to U.S. manufacturers.

ATF assists U.S. businesses in overcoming trade barriers through direct intervention with foreign governments, by supporting the United States Trade Representative in negotiations concerning the North American Free Trade Agreement, and in negotiations with the European Union. ATF also monitors and analyzes changes in foreign trade and political policies in order to anticipate and overcome potential barriers to U.S. interests. ATF represents the U.S. wine and brandy interests through membership and participation in the International Organization of Vine and Wine.

ATF also assists the governments of these developing world market economies to establish effective revenue collection models through training courses offered in cooperation with the Department of State.



ATF inspectors verify an inventory of finished alcohol products.