

Alcohol and Tobacco Tax and Trade Bureau

Mission Statement

To collect alcohol, tobacco, firearms, and ammunition excise taxes that are rightfully due; to protect the public from adulterated product, and misleading or confusing marketing; and to assist industry members to understand and comply with Federal tax and regulatory requirements.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2007	FY 2008	FY 2009		
	Enacted	Enacted	Request	\$ Change	% Change
Salaries and Expenses					
Collect the Revenue	\$46,215	\$47,693	\$49,420	\$1,727	3.62%
Protect the Public	44,403	45,822	47,480	1,658	3.62%
Total Appropriated Resources	\$90,618	\$93,515	\$96,900	\$3,385	3.62%
Total FTE	544	544	525	(19)	-3.49%

FY 2009 Priorities

- Collect roughly \$15 billion in excise taxes rightfully due to the federal government;
- Process permit applications that allow for the commencement of new alcohol and tobacco businesses;
- Process applications for certificate of label approval required to introduce alcohol beverage products into the marketplace;
- Conduct criminal investigations to effectively administer the Internal Revenue Code and Federal Alcohol Administration Act provisions with the objective to minimize tax fraud and diversion risks;
- Complete audits of large and at risk taxpayers who pay federal excise taxes;
- Conduct field investigations of alcohol and tobacco industry members regarding permit applications, consumer complaints, Federal Alcohol Administration Act trade practice violations, tax fraud, and alcohol beverage product integrity verifications.
- Refresh information technology infrastructure to ensure technology is operating to support the tax collection and regulatory functions; and
- Promote e-filing of industry member data, including taxpayer operational reports and tax returns, as well as certificate of label approval applications.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

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 federal law, namely those sections of the Internal Revenue Code of 1986 associated with the collection of excise taxes on alcohol, tobacco, firearms and ammunition; and the Federal Alcohol Administration Act, which provides for the regulation of those engaged in the alcohol beverage industry and the protection of consumers of alcohol beverages.

In Fiscal Year (FY) 2009, TTB will continue to focus efforts on helping industry members comply with alcohol, tobacco, firearms and ammunition laws and regulations, thus ensuring that all the appropriate excise taxes are collected and that alcohol beverages meet federal production, labeling, advertising and marketing requirements.

TTB’s priorities are directly linked to the following key strategic objectives:

- ***Collect all the Revenue that is rightfully due:***
 - Through partnership with industry, states, and other federal agencies, develop alternative methods of promoting voluntary tax compliance;
 - Ensure correct payment of taxes focusing on audit of “major” and “at-risk” taxpayers;
 - Account accurately for the revenue assessed and collected;
 - Reduce the taxpayer paperwork burden associated with collection of the revenue by creating alternative electronic filing methods;
 - Ensure consistent tax administration; and
 - Prevent tax evasion and identify other criminal conduct in the regulated industries, including diversion and smuggling of taxable commodities.
- ***Protect the Public through education, inspection, and investigation:***
 - Ensure the integrity of the products, people, and companies in the alcohol beverage marketplace;
 - Enforce compliance with federal laws related to the issuance of permits to industry members and the production, labeling, advertising, and marketing of alcohol products;
 - Utilize electronic government to reduce taxpayer burden and improve service with online filing for permit applications and formula submissions, business activity reports, claims, applications, certificate of label approval, and other forms;
 - Perform appropriate testing, laboratory analyses, and review documents of regulated commodities to ensure product safety and integrity;
 - Review and act on labels and formulas for domestic and imported beverage alcohol products and maintain public access to approved certificate of label approval (COLA);
 - Respond to industry and consumer complaints;
 - Investigate product contamination and adulteration incidents or allegations;
 - Investigate violations concerning unfair trade practices, labeling, and advertising in the beverage alcohol industry; and
 - Regulate the international import/export trade in beverage and industrial alcohol.

The total resources required to support TTB activities for FY 2009 are \$99,768,000 including \$96,900,000 from direct appropriations and \$2,868,000 from offsetting collections, mainly from the Puerto Rico cover-over program.

1B – Program History and Future Outlook

Program History - TTB has two primary activities that focus on collecting all the revenue rightfully due and ensuring products meet regulatory standards.

Collect the Revenue - This activity collects alcohol, tobacco, firearms, and ammunition excise taxes. These products generate nearly \$15 billion in tax revenue annually, making TTB the third largest tax collection agency in the federal government.

The excise taxes collected by TTB come from approximately 8,500 businesses, and the taxes are imposed and collected at the producer and importer level of operations. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. About 200 of the largest taxpayers account for 98 percent of the annual excise tax collected. In FY 2007, the majority of taxes collected were from tobacco (49 percent) and alcohol (49 percent), with the remainder from firearms and ammunition (2 percent).

Strategies used to collect the revenue rightfully due focus on identifying any gaps in tax payment, any illegal entities, individuals operating outside the excise tax system, developing a balanced field approach of audits and investigations that targets non-compliant industry members, and establishing an identifiable presence within the industry that encourages voluntary compliance. Alcohol and tobacco taxes collected by TTB are remitted to the Department of the Treasury General Fund. Firearms and ammunition excise taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

The investments in this activity resulted in the following performance highlights and accomplishments during FY 2007:

- Collected \$14.7 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries.
- 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. In FY 2007, 98 percent of TTB's tax receipts were collected electronically.
- Improved voluntary compliance – 75 percent of taxpayers filed payments on or before the scheduled due date.
- Processed \$459 million in cover-over payments to Puerto Rico and \$8 million to the Virgin Islands. Federal excise taxes collected on all imported rum and on rum produced in Puerto Rico and the Virgin Islands and subsequently brought into the United States are “covered-over” (or paid into) the treasuries of Puerto Rico and the Virgin Islands.
- Processed \$336 million in drawback claims. Under current law, persons who use non-beverage 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 TTB laboratory analyzes and approves a product formula before a company can manufacture a product and file a claim. The Non-Beverage Products Lab completed 7,300 non-beverage drawback formulas and 1,623 specially denatured alcohol formulas.

- Laboratories analyzed a total of 2,000 beverage alcohol samples for product integrity, pre-import analysis, and IRC section 5010-tax credit determination. TTB also analyzed 152 tobacco product samples for tax classification. TTB laboratories review formulations or analyze alcohol and tobacco products to ensure compliance with TTB tax and classification regulations.
- Rulemaking initiatives included new regulatory guidance on the tax classification of cigars and cigarettes. The regulatory changes seek to provide industry with clearer and more objective classification criteria for tobacco products in order to reduce the risks of misclassification of cigarettes as little cigars. This regulatory change is in the comment and analysis stage.

This table displays the amount of federal excise tax collections at the bureau from FY 2003 – 2007 by revenue type.

Revenue Type	2003	2004	2005	2006	2007
Alcohol	\$6,857,456,528	\$6,989,010,058	\$7,075,430,170	\$7,183,043,493	\$7,232,154,000
Tobacco	\$7,435,494,644	\$7,440,206,609	\$7,408,285,850	\$7,350,594,192	\$7,194,097,000
Firearms Ammunition Mfg	\$193,414,143	\$216,005,637	\$225,817,132	\$249,577,917	\$287,835,000
Special Occupational Taxes 1/	\$102,178,604	\$100,573,837	\$10,189,069	\$2,895,164	\$2,808,000
TOTALS	\$14,588,543,918	\$14,745,796,141	\$14,719,722,221	\$14,786,110,766	\$14,716,894,000

1/ Special Occupational Taxes (SOT) were suspended on most alcohol taxpayers, effective July 1, 2005 and repealed for all alcohol taxpayers effective July 1, 2008. However, the SOT relating to tobacco permittees (manufacturers, importers, and export warehouses) remained intact.

Economic Impact and Tax Collections from the Alcohol Industry

Studies of the wine,¹ distilled spirits,² and beer industries³ disclosed that the annual economic impact from those businesses on the U.S. domestic economy is rapidly approaching \$500 billion (Wine - \$162 billion; Beer - \$189 billion; and Distilled Spirits - \$103 billion) and represents 3 to 4 percent of the GNP. The alcohol beverage industry in the United States pays over \$7 billion in federal excise taxes each year and also contributes tax revenues for state and local governments. Economic forecasts predict continued modest growth in the alcohol industry, and taxes collected on alcoholic beverages are expected to continue to rise throughout the period FY 2007 – FY 2009. TTB envisions that in the next few years the increase in new alcohol businesses will be most prominent in the number of new alcohol fuel plants (ethanol), wineries, craft breweries, and craft distilleries.

¹ “The Impact of Wine, Grapes and Grape Products on the American Economy 2007,” MKF Research LLC.

² “The National Trade Association Representing Producers and Marketers of American’s Favorite Brands of Distilled Spirits,” Distilled Spirits Council of the United States.

³ “The Beer Industry Economic Contribution Study Prepared for The Beer Institute,” Guerrilla Economics, LLC, April 2007.

Tobacco Collections

The federal excise tax collections from tobacco imports and domestic sales fell slightly in 2007. TTB collects the federal excise tax only upon products from domestic manufacturers and U.S. Customs and Border Protection (CBP) collects the tax on imported tobacco products. The reduction of tobacco tax collections is likely attributable to an increased consumption of domestic cigarette alternatives (such as little cigars and roll your own tobacco), which are taxed at lower rates than cigarettes. Also, this decline in domestic sales may also be attributable to a proliferation of the sale of illegal or smuggled cigarettes, which adversely impacts collections at TTB. Based upon the bureau's own findings as well as recent Center of Disease Control findings,⁴ TTB does not believe decreased collections are the result of an overall decrease in the use of tobacco products.

Since many states increased their taxes on cigarettes following the Master Settlement Agreement⁵ (particularly premium brands), sales of domestic cigarettes have decreased, while sales of lower-taxed alternative tobacco products (such as little cigars and roll your own tobacco) have increased. Even so, the increases in lower-taxed alternative domestic tobacco product sales are too modest to fully compensate for the decrease in domestic cigarette sales.

Finally, while consumers purchase less expensive cigarettes (generic) manufactured in the United States over their premium brand competitors, TTB has found an increased risk in underreporting related to tax liability for many generic products. To ensure that all taxes rightfully due are collected for generic products, TTB has deployed audit and investigation resources to investigate these cases and take appropriate action to resolve liability and associated compliance violations.

Firearms, Ammunitions 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 firearms and ammunition business industry continues to grow. Federal excise tax collections on firearms and ammunition has increased from \$193 million in FY 2003 to \$289 million during FY 2007, an increase of \$96 million over the past four years, or 50 percent growth in federal revenues. The increase in reported tax revenue can be attributed to industry growth; effective outreach initiatives at the bureau; and the presence of field audits which continues to promote voluntary taxpayer compliance.

⁴ "Cigarette Smoking Among Adults – United States, 2006," Morbidity and Mortality Weekly Reports, November 9, 2007.

⁵ In 1998, the Attorneys General of 46 states signed the Master Settlement Agreement (MSA) with the four largest tobacco companies in the United States to settle state suits to recover billions of dollars in costs associated with treating smoking-related illnesses. Four states - Florida, Minnesota, Mississippi, and Texas - settled their tobacco cases separately from the MSA states.

Protect the Public - This activity ensures the integrity of the alcohol and tobacco industries and of beverage alcohol products found in the marketplace, and regulates roughly 45,600 alcohol and tobacco businesses. Under this activity, TTB enforces federal laws related to the issuance of permits to industry members and the production, importation, exportation, labeling, advertising, and marketing of alcohol products. TTB conducts these activities through investigations, application reviews, laboratory testing, and educational programs. TTB works with industry, foreign and state governments, and other interested parties to make it easier to comply with regulatory requirements and to maintain the appropriate level of oversight to ensure public safety. Education, partnerships, and open communication are paramount strategies in facilitating compliance with regulatory requirements.

The investments in this budget activity have resulted in the following performance highlights and accomplishments during FY 2007:

- Processed 125,117 Certificate of Label Approval (COLAs) applications, of which 63,811 applications were filed electronically through COLAs Online, a total of 51 percent. The Federal Alcohol Administration Act requires importers and bottlers of alcoholic beverages to obtain a COLA prior to introduction of the product into commerce.
- Issued 4,600 original permits, approved 22,116 amended permits, and prepared related correspondence. TTB issues original and amended permits to persons who are engaged in the alcohol and tobacco industries. Illicit activity in these industries has the potential to be highly lucrative, so it is crucial that organized crime and terrorists are kept out of these industries.
- The Scientific Services Division (SSD) received its accreditation from the International Organization for Standardization (ISO).
- Conducted 467 field investigations on the most high-risk applications to ensure objectives of the Anti-Terrorism Act of 2001 were met.
- Conducted 945 field application investigations of industry members regarding applications, consumer complaints, tax fraud, trade practice violations, and product and labeling integrity verifications.
- Assisted in the labeling agreement with the World Wine Trade Group (WWTG). WWTG members include the U.S., Argentina, Australia, Canada, Chile, and New Zealand. The labeling agreement was signed in January 23, 2007, which will facilitate the export trade in wine from the U.S. to WWTG countries.

Specific Challenges in FY 2009

Law Enforcement

TTB is dependent upon the availability of other agencies to supply law enforcement resources to pursue criminal cases. The law enforcement challenges on the alcohol and tobacco industries revolve around tax fraud, label fraud, unlawful diversion, and unlawful trade practices. Tax fraud issues have also arisen in the firearms and ammunition industry as well.

Tax fraud, through unlawful diversion or other means, represents an extremely high risk to the revenue as well as a funding source for organized crime and terrorists. The lost revenue from these illegal activities is estimated to be in the range of \$1 billion, conservatively. The proliferation of alcohol fuel plants presents a serious concern for significant revenue loss that may result from unlawful diversion. Label fraud and unlawful trade practices also represent a serious threat to the economic stability of the alcohol trade. Label fraud deceives consumers as to what they are buying, but also threatens domestic producer's ability to effectively trade in interstate commerce. Unlawful trade practices present a similar threat to free commerce because of their potential to undermine healthy small business activity and limit consumer choices.

Alcohol Fuel Plants (AFPs)

Another challenge is the accelerated growth of alcohol fuel production. In 2005, total U.S. production of alcohol for fuel use was approximately 4 billion gallons, and in 2006 it was nearly 5 billion gallons. Current capacity is nearly 7 billion gallons per year, and plants under construction will make an additional 5 billion gallons annually. The recent Energy Independence and Security Act of 2007 mandates the use of 36 billion gallons of renewable fuel per year by 2022. In comparison, total U.S. consumption of beverage distilled spirits is only 420 million gallons per year – and beverage spirits contain less than half the ethanol that is in alcohol fuel. Most alcohol fuel production comes from fewer than 150 large plants, but hundreds of smaller plants have applied for TTB permits in each of the last four fiscal years. TTB currently has 1,567 active alcohol fuel plants. These developments present a serious concern for TTB because of the possibility for significant revenue losses that would result from unlawful diversion.

Succession Planning

Succession planning is high on the list of TTB strategic priorities, especially regarding TTB's investigative forces. TTB expects to lose forty percent of its workforce by 2010 due to retirements and other attrition. To mitigate these losses, TTB continues to use the personnel interventions identified in the Pay Demonstration project to enable the bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB uses tailored approaches designed, developed, and implemented specifically for the bureau's continuing and evolving needs in order to meet mission requirements and remain competitive for highly skilled talent. The FY 2009 budget seeks authority to continue this program an additional year.

Rulemaking

Over the next few years TTB anticipates continued industry and interest group petitions, inquiries, and other expressions of interest in more detailed beverage labeling. An advance notice of proposed rulemaking published in mid-2005 on the labeling and advertising of wines, distilled spirits, and malt beverages sought comments on various labeling issues including, among others, information panels, alcohol content, and allergen labeling; this notice generated over 19,000 comments. In July 2006, TTB published in the Federal Register an interim rule setting forth standards for voluntary allergen labeling of alcohol beverages concurrently with a notice of proposed rulemaking for mandatory allergen labeling for alcohol beverages. In FY 2008 and 2009, the bureau will consider

the feasibility of regulatory changes in response to the comments received on the 2005 advance notice.

In July 2007, TTB published in the Federal Register for public comment proposed regulatory changes which would require a statement of alcohol content for all alcohol beverage products, expressed as a percentage of alcohol by volume and appearing on any label affixed to the container. Also included in the proposed regulatory changes is a requirement for a Serving Facts panel on alcohol beverage labels, which would include a content statement covering calories, carbohydrates, fat, and protein. Under the proposals, industry members may also disclose on the serving facts panel the number of U.S. fluid ounces of pure alcohol per serving as part of a statement that includes alcohol content expressed as a percentage of alcohol by volume. The new regulations would also specify reference serving sizes for wines, distilled spirits, and malt beverages based on the amount of beverage customarily consumed as a single serving rather than based on a definition of a standard drink. The purpose of these proposed regulatory changes is to ensure that alcohol beverage labels provide consumers with adequate information about the products they are consuming.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Salaries and Expenses	FTE	Amount
FY 2008 Enacted	544	\$93,515
Base Realignment:		
Base Realignment from Collect the Revenue		(935)
Base Realignment to Protect the Public		935
Increased Reimbursable Payments from PR Gov't	(11)	(1,149)
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		752
Pay Annualization		402
Pay Inflation Adjustment		1,075
Total FY 2009 Base	533	\$94,595
Program Decreases:		
Efficiency Savings	(8)	(685)
Program Increases:		
IT Infrastructure (Hardware Refresh)		2,990
Subtotal FY 2009 Program Changes	(8)	2,305
Total FY 2009 Request	525	\$96,900

2A – Budget Increases and Decreases Description

Base Realignment-\$1,149,000 / -11 FTE

Base Realignment from Collect the Revenue -\$935,000 / +0 FTE

Realignment of funds from the Collect the Revenue Budget Activity based on historical spending patterns.

Base Realignment to Protect the Public +\$935,000 / +0 FTE

Realignment to Protect the Public Budget Activity.

Increased Reimbursable Payments from Puerto Rican Government -\$1,149,000 / -11 FTE

Recovery for indirect costs for general administrative, information technology, legal, and other enforcement bureau activities which support the Puerto Rico cover over program.

The cost model which was adopted by the bureau was determined to be in full compliance with the guidelines promulgated by the Office of Management and Budget, the CFO Act, and Statements of Federal Financial Accounting Standards. These reimbursable funds have been used to supplant the direct appropriations.

Maintaining Current Levels (MCLs)+\$2,229,000 / +0 FTE

Non-Pay Inflation Adjustment +\$752,000 / +0 FTE

Non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments.

Pay Annualization +\$402,000 / +0 FTE

Funds are requested for the FY 2009 cost of the January 2008 pay increase.

Pay Inflation Adjustment +\$1,075,000 / +0 FTE

Funds are requested for the January 2009 pay raise.

Program Decreases-\$685,000 / -8 FTE

Efficiency Savings -\$685,000 / -8 FTE

Reduction in funding due to anticipated savings to be realized from improvements in business processes, systems, and operations at the bureau.

Program Increases+\$2,990,000 / +0 FTE

IT Infrastructure (Hardware Refresh) +\$2,990,000 / +0 FTE

The funding will be used to refresh the information technology hardware and infrastructure in order to facilitate mission critical functions in support of departmental and bureau strategic goals and objectives of collecting the revenue and protecting the public. TTB has two core business applications to support this mission: Integrated Revenue Information System (IRIS) and Certification/Exception of Label/Bottle Approval (COLAs) Online. IRIS supports the collection of nearly \$15 billion in federal excise taxes per year by automating the examination of industry member tax accounts. COLAs Online provides industry members with an internet-based application to submit, track, and review applications for label approval, thereby expediting TTB business processes and improving customer service.

Based on internal systems reviews and industry best practices, TTB has determined that by FY 2009 a significant portion of the current infrastructure will become technically obsolete and that the risk of business disruption from malfunctioning equipment will negatively impact basic tax and regulatory services. TTB has identified significant impacts of an obsolete infrastructure including, but not limited to, risks to excise tax collection, public safety concerns, decreased customer satisfaction, management reporting issues, staff productivity inefficiencies and impacts to the compliance with federal mandates. Meeting federal mandates such as Internet Protocol Version 6, HSPD-12, GPEA, FISMA, and e-government initiatives will be facilitated with this infrastructure refresh.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Salaries and Expenses	FY 2007 Enacted	FY 2008 President's Budget	Cong. Action including Recission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	544	544		544	525
Object Classification:					
11.1 - Full-time permanent	42,695	43,640	0	43,640	44,940
11.3 - Other than full-time permanent	0	0	0	0	0
11.5 - Other personnel compensation	698	778	0	778	778
11.8 - Special personal services payments	0	0	0	0	0
12 - Personnel benefits	10,979	11,525	0	11,525	11,235
13 - Benefits for former personnel	0	0	0	0	0
21 - Travel and transportation of persons	3,265	3,363	0	3,363	3,000
22 - Transportation of things	98	101	0	101	101
23.1 - Rental payments to GSA	4,943	4,981	0	4,981	5,219
23.2 - Rental payments to others	0	0	0	0	0
23.3 - Comm, utilities, and misc charges	4,787	4,931	0	4,931	5,049
24 - Printing and reproduction	367	378	0	378	387
25 - Other contractual Services	0	0	0	0	0
25.1 - Advisory and assistance services	0	0	0	0	0
25.2 - Other services	20,762	21,733	0	21,733	22,131
25.3 - Other purchases of goods and services from Govt. accounts	0	0	0	0	0
25.4 - Operation and maintenance of facilities	0	0	0	0	0
25.5 - Research and development contracts	0	0	0	0	0
25.6 - Medical care	0	0	0	0	0
25.7 - Operation and maintenance of equip	0	0	0	0	0
25.8 - Subsistence and support of persons	0	0	0	0	0
26 - Supplies and materials	650	670	0	670	670
31 - Equipment	1,374	1,415	0	1,415	3,390
31.6 - ADP Equipment	0	0	0	0	0
32 - Land and structures	0	0	0	0	0
33 - Investments and loans	0	0	0	0	0
41 - Grants, subsidies, and contributions	0	0	0	0	0
42 - Insurance claims and indemnities	0	0	0	0	0
43 - Interest and dividends	0	0	0	0	0
44 - Refunds	0	0	0	0	0
Total Budget Authority	\$90,618	\$93,515	\$0	\$93,515	\$96,900
Budget Activities:					
Collect the Revenue	46,215	47,693	0	47,693	49,420
Protect the Public	44,403	45,822	0	45,822	47,480
Total Budget Authority	\$90,618	\$93,515	\$0	\$93,515	\$96,900

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Collect the Revenue	277	\$46,215	277	\$46,215	277	\$47,693	268	\$49,420	-3.25%	3.62%
Protect the Public	267	44,403	267	44,403	267	45,822	257	47,480	-3.75%	3.62%
Subtotal New Appropriated Resources	544	\$90,618	544	\$90,618	544	\$93,515	525	\$96,900	-3.49%	3.62%
Other Resources:										
Recoveries										
Offsetting Collections - Reimbursable	15	3,024	15	3,024	15	3,755	15	2,868	0.00%	-23.62%
Available multi-year/no-year funds										
Transfers In/Out										
Subtotal Other Resources	15	\$3,024	15	\$3,024	15	\$3,755	15	\$2,868	0.00%	-23.62%
Total Resources Available for Obligation	559	\$93,642	559	\$93,642	559	\$97,270	540	\$99,768	-3.40%	2.57%

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 Federal Funds</p> <p><u>SALARIES AND EXPENSES:</u> For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, [\$93,515,000] \$96,900,000 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.</p> <p><u>Treasury Administrative Provisions:</u> Sec. 115. Section 122(g) (1) of Public Law 105-119 as amended (5 U.S.C. 3104 note), is further amended by striking [“8 years”] “10 years” and inserting [“10 years”] “11 years”.</p>	<p>TTB proposes to continue the Pay Demonstration Program by amending the language to extend the program for one additional year.</p>

2C – Legislative Proposals

Extend Pay Demonstration Program for one additional year. TTB proposes to continue the Pay Demonstration Program (Pay Demo) by amending the general provision language to extend the program for one additional year. This project was established to enhance TTB's ability to effectively recruit and retain highly qualified employees. Pay Demo has been extended every year since it was first established in FY 1999. In FY 2006, TTB contracted for a study to provide an independent evaluation of this program. The results of the study are being examined.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 resources by strategic goal, objective, and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: <http://www.treas.gov/offices/management/budget/strategic-plan/>

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Goal	FY 2008	FY 2009	Percent
TREASURY Strategic Objective	Enacted	Request	Change
TREASURY Strategic Outcome	AMOUNT	AMOUNT	AMOUNT
Economic competitiveness	47,662	48,885	2.6%
Revenue collected	49,608	50,883	2.6%
Total	\$97,270	\$99,768	2.6%

3A – Collect the Revenue (\$49,420,000 from direct appropriations and \$1,463,000 from reimbursable programs): The Collect the Revenue activity works toward providing the most effective and efficient systems for the collection of tax revenue, eliminating or preventing tax evasion and other criminal conduct, and providing high quality service while imposing the least regulatory burden on taxpayers. TTB will employ a number of strategies to ensure that the revenue that is rightfully due is collected. The Tax Audit Division (TAD) will focus its audit resources on large and at risk taxpayers. The Office of Field Operations will continue to provide industry outreach to facilitate voluntary compliance, investigate allegations or indications of tax fraud, verify destruction of large quantities of taxable commodities, and conduct compliance investigations of permittees who have substantial potential for tax liability.

Reducing taxpayer burden and improving service remain priorities at TTB. The ultimate goal is to allow permittees and taxpayers to file all payments, returns, and applications online with the National Revenue Center. The FY 2009 budget request enables the continuation of efforts to achieve the performance measures supporting TTB’s strategic goal of providing the most effective and efficient system for the collection of all revenue that is rightfully due, eliminating or preventing tax evasion and other criminal conduct, and providing high quality service while imposing the least regulatory burden.

Offsetting Collections	Total \$1,463,000
Federal Sources (Laboratory Services).....	\$27,000
Non Federal Sources (Puerto Rico).....	1,436,000

The non- federal reimbursable funds cover the costs associated with the functioning and support of the Puerto Rico office, and are paid from the “cover-over” (return) which is offset from the roughly \$459 million in cover-over taxes collected in the United States on

products originating in Puerto Rico. Also, the bureau collects a nominal amount of reimbursable funding for lab services performed to support criminal investigations being conducted at the Alcohol Tobacco Firearms and Explosives Agency (ATFE).

3.2.1 – Collect the Revenue Budget and Performance Plan

Collect the Revenue Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$45,285	\$49,618	\$46,215	\$47,693	\$49,420
Reimbursable Resources	\$935	\$935	\$1,512	\$1,915	\$1,463
Total Resources	\$46,220	\$50,553	\$47,727	\$49,608	\$50,883

Budget Activity Total	\$46,220	\$50,553	\$47,727	\$49,608	\$50,883
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Collect the Revenue Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue) (Revenue %) (Oe)	86	87	86	87	87
Cumulative percentage of excise tax revenue audited over 3 years (%) (Ot)	82%	93%	16%	74%	90%
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)(%) (Oe)	70%	76%	75%	75%	75%
Percentage of total tax receipts collected electronically (%) (E)	98%	98%	98%	98%	98%
Resources as a percentage of revenue (%) (E)	.37%	.31%	.31%	.34%	.34%
Unit cost to process an excise tax return based on new legislation (\$) (E)	Baseline	76	61	76	76

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance:

In FY 2007, TTB met all of its performance measures under the Collect the Revenue strategy, while showing continued improvements in performance scores. TTB continues to collect nearly \$15 billion in federal excise taxes in a highly efficient manner. Also, key performance metrics show that 98 percent of the federal excise tax receipts are collected electronically at the bureau and that 75 percent of industry members voluntarily file their tax and operational reports on or before the scheduled due date and the filing information is both accurate and reliable. TTB’s audit strategy is to audit regulated businesses based on its risk model, and continue its audits of the largest taxpayers, with its goal of 90 percent revenue audited in its second cycle by FY 2009. TTB’s “Resources as a percentage of revenue (%)” measure continues to benchmark as one of the most efficient tax collection agencies or bureaus in the world.

3B – Protect the Public (*\$47,480,000 from direct appropriations and \$1,405,000 from reimbursable programs*): The Protect the Public activity ensures the integrity of products and industry members in the marketplace, ensures compliance with laws and regulations by regulated industries, and provides information to the public as a means to prevent consumer deception. Under this activity, TTB enforces compliance with federal laws related to the issuance of permits to industry members and the production, importation, exportation, labeling, advertising, and marketing of alcohol products. TTB conducts investigations, application reviews, laboratory testing, and educational programs in support of its mission. TTB works with industry, other federal and state governments, and other interested parties to make it easier to comply with regulatory requirements, while maintaining the appropriate level of oversight to ensure public safety. Innovation, partnerships, and open communication are paramount to achieving this strategic goal.

TTB monitors trade practices of the alcohol industry and takes enforcement actions on violations or discrepancies, monitors and reviews international trade in alcohol beverages to identify trade barriers and incidents of international fraud and contaminated products; and to promote international agreements on product integrity.

Users of specially denatured alcohol (SDA) are required to submit a formula to the TTB Laboratory. Likewise, those using alcohol for non-beverage purposes, such as in the manufacture of flavorings or medicines, must also gain approval of their formula in order to file a claim for drawback of excise taxes previously paid. In both cases, the TTB Lab reviews the formula and analyzes samples to grant or deny the action requested by the applicant.

TTB also protects the consumer by monitoring alcohol products and investigating incidents of suspected unsafe conditions or product deficiencies related to production and labeling. TTB does this by testing samples of alcohol beverages sold at the retail level and obtained directly from producers. The purpose of this testing is to ensure that alcohol beverages marketed in the United States meet formulation and labeling requirements, do not contain unauthorized substances or contaminants, and are properly classified for tax purposes.

<i>Offsetting Collections</i>	<i>Total \$1,405,000</i>
<i>Federal Sources (Laboratory Services)</i>	<i>\$26,000</i>
<i>Non-Federal Sources (Puerto Rico)</i>	<i>\$1,379,000</i>

The non-federal reimbursable funds cover the costs associated with the functioning and support of the Puerto Rico office, and are paid from the “cover-over” (return) which is offset from the roughly \$359 million in cover-over taxes collected in the United States on products originating in Puerto Rico. Also, the bureau collects a nominal amount of reimbursable funding for lab services performed to support criminal investigations being conducted at ATFE.

3.2.2 – Protect the Public Budget and Performance Plan

Protect the Public Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$37,051	\$40,597	\$44,403	\$45,822	\$47,480
Reimbursable Resources	\$765	\$765	\$1,512	\$1,840	\$1,405
Total Resources	\$37,816	\$41,362	\$45,915	\$47,662	\$48,885
Budget Activity Total					
	\$37,816	\$41,362	\$45,915	\$47,662	\$48,885

Protect the Public Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Percent of electronically filed Certificate of Label Approval applications (%) (E)	25%	38%	51%	48%	48%
Percentage of COLA approval applications processed within 9 calendar days of receipt (%) (E) (This measure will become inactive beginning in FY 2008.)	50%	44%	42%	35%	Discontinued
Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days (%) (E)	81%	86%	85%	80%	80%
Unit cost to process a Wine Certificate of Label Approval	null%	null%	34%	34%	85%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance:

In FY 2007, TTB met all but one of its performance measures under the Protect the Public budget activity. The results from the metrics, along with program performance during the year, demonstrate that the bureau administered the laws and regulations in a manner that protects the consumer, promotes voluntary compliance, and facilitates import and export trade in beverage and industrial alcohols. The performance measure not met was the “Percentage of certificate of label applications (COLA) processed within 9 calendar days of receipt.” TTB examines all alcohol labels prior to their use and issues a certificate of label approval (COLA) to ensure alcohol beverage labels adequately identify the product and do not contain misleading information. The performance metric target was 45 percent and the final result was 42 percent. This measure was difficult to achieve because the complexity and volume of this COLA workload, which is driven from industry members, has continued to increase for several years. Since 1999, COLA applications have risen over 84 percent, while the available staff dedicated to this operation has remained constant. While this challenge will continue, the bureau fully expects to gain efficiency of operations from encouraging industry members to file their COLA applications electronically versus paper. The number of electronic submissions has increased from 25 percent in FY 2005 to over 50 percent in FY 2007.

For detailed information about each performance measure, including definition, verification and validation, please go to:

<http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml>

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

By properly managing its human capital needs, TTB supports the Department of the Treasury's strategic goals:

- Effectively managed U.S. government finances;
- U.S. and world economies perform at full economic potential,

To accomplish and fulfill both TTB's and the Department of the Treasury's strategic plans, TTB has taken several steps to maintain and improve its current professional workforce. TTB's Human Capital Strategic Plan, which is aligned with the Bureau Strategic Plan, documents strategies to improve skill and competency gaps, demographics, workforce management and performance measurement efforts, and succession planning. The model for strategically assessing TTB's skills gap outlook for future years is predicated on assumptions regarding future changes in the workforce, including retirement eligibility rules and rates of attrition.

Succession planning is a strategic priority for TTB's future transitioning, especially as it relates to the bureau's mission critical positions. TTB expects to lose approximately forty percent of its workforce between 2008 and 2010 due to retirements and other attrition. To mitigate these losses, it is vital that TTB continue to recruit, develop, and retain high-caliber employees in mission critical positions.

Other HR Highlights

During FY 2007, TTB:

- Completed an independent evaluation of the TTB Pay Demonstration Project over a three year period. This included conducting an Attitude Survey and Survey Follow-up Focus Groups with Pay Demo Project employees and supervisors and an analysis of cost comparisons with General Schedule and other Pay Demonstration Programs. As a result of the evaluation, TTB chartered a Labor/Management Workgroup that developed cost containment options for future Pay Demo Project Performance Payouts that were implemented for the FY 2007 performance cycle.
- Achieved a top five percent of agency subcomponents ranking according to the Partnership for Public Service's report on "The Best Places to Work in the Federal Government". The ranking was based on employee responses to the 2006 Federal Human Capital Survey. TTB's response rate on the survey was the highest within the Department of the Treasury (78 percent).
- Designed, developed, tested, and deployed a new performance management program and automated performance management system that provides a clear line of sight for each employee to the overall Bureau strategic plan. In addition, conducted related Performance Management Training for both General Schedule and Pay Demonstration Project employees.
- Negotiated the first Master Labor Agreement exclusively for TTB with the National Treasury Employees Union (NTEU).

- Established an Early Conflict Prevention and Resolution (CPR) Program to assist TTB employees in seeking fair, equitable solutions to work-related concerns through an informal confidential process apart and separate from both the Equal Employment Opportunity (EEO) Complaints and the Administrative Grievance processes. The CPR Program assists with maintaining a harmonious and productive workplace for our employees.
- Implemented a Mentoring Program to provide guidance and motivation, strengthen relationships, and ensure that all the talents and skills of Bureau employees are maximized in accomplishing the Bureau's mission. The Mentoring Program supports workforce and succession planning by developing employees to be future leaders.
- Established three Leadership Development Programs (LDPs) based on grade level and supervisory level. These programs consist of short-term executive, management, leadership and supervisory programs to prepare employees for the next level in their career progression and professional development and create a cadre of employees prepared to compete for positions with greater leadership responsibility to meet the bureau's needs.
- Published the first TTB recruitment brochure featuring TTB's mission critical positions.
- Continued to exceed the Treasury hiring goal of 45 days with an annual overall average of 33 days time to hire.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments (Dollars in Thousands)		FY 2006 & Earlier Enacted	FY 2007 Enacted	FY 2008 President's Budget	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
Major IT Investments / Funding Source	Budget Activity						
Subtotal, Major IT Investments	Collect the Revenue/Protect the Public	\$ -	\$ -	\$ -	0.0%	\$ -	0.0%
Non-Major IT Investments	Collect the Revenue/Protect the Public	\$ 2,780	\$ 2,850	\$ 2,925	2.6%	\$ 3,001	2.6%
Infrastructure Investments	Collect the Revenue/Protect the Public	\$ 15,111	\$ 15,514	\$ 15,915	2.6%	\$ 19,320	12.0%
Enterprise Architecture	Collect the Revenue/Protect the Public	\$ 464	\$ 477	\$ 491	2.9%	\$ 502	2.2%
Total IT Investments	Collect the Revenue/Protect the Public	\$ 18,355	\$ 18,841	\$ 19,331	2.6%	\$ 22,823	10.4%

4B – Information Technology Strategy

TTB has a modernization blueprint that focuses information technology (IT) investments on important bureau functions and defines how those functions will be measurably improved. All TTB systems and projects have business cases that have been approved by the Department of the Treasury's Office of the Chief Information Officer, and 100 percent of IT systems have certification and accreditation. The bureau will aggressively pursue all e-Gov opportunities that will reduce taxpayer burden for tax filing and increase all regulatory compliance. TTB has established its own investment review board that evaluates and makes preliminary selection decisions by addressing high level questions:

- Does the initiative have value to TTB and to Treasury?
- Is there a balance of benefits against costs and risks?
- Is TTB eliminating duplication and stovepipe projects?

TTB's investment review board ensures compliance with guidance and legislation (OMB Circular A-130, Management of Federal Information Resources and Clinger Cohen Act of 1996). A scoring criterion was developed to help ensure that only sound and viable initiatives that support the bureau's mission and strategic goals are included in the portfolio.

4.2 – PART Evaluation Table

PART Name: Collect the Revenue

Year PARTed: FY 2004

Rating: Effective

OMB Major Findings/Recommendations

1. Develop baseline for annual performance measures .
2. Improve estimates of how funds are distributed across TTB's two lines of business to ensure that funds are obligated in accordance with planned schedules.
3. Develop a baseline to compare the incremental cost and net benefits of regulation.

Bureau Actions Planned or Underway

1. TTB is in the process of completing the baselines for its annual performance measures in FY 2006.
2. TTB currently uses the BPD ARC accounting system, which allows for the allocation and tracking of funds. In FY 2008 TTB introduced a new account code structure to capture and measure costs by strategic goals, programs, projects and budget activities.
3. TTB has completed several economic impact studies which provide incremental cost and social net benefits of regulations. TTB has only collected several cost/social net benefit studies (e.g. economic impact studies which support TTB's impact study positions).

For a complete list of PART results visit the following website:

<http://www.whitehouse.gov/omb/expectmore/all.html>