

Alcohol and Tobacco Tax and Trade Bureau

Mission

To collect alcohol, tobacco, firearms and ammunition excise taxes, to ensure that alcohol beverages are labeled, advertised and marketed in accordance with the law, and to administer the laws and regulations in a manner that protects the revenue, protects the consumer and promotes voluntary compliance.

(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	\$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Salaries and Expenses					
Collect the Revenue	\$45,285	\$49,618	\$45,376	(\$4,242)	-8.55%
Protect the Public	37,051	40,597	18,588	(\$22,009)	-54.21%
Total Appropriated Resources	\$82,336	\$90,215	\$63,964	(\$26,251)	-29.10%
Adjustments (+/-)					
User Fees 1/	\$0	\$0	\$28,640	\$28,640	100.00%
Unobligated balance lapsing	\$0	\$0	\$0	\$0	0.00%
Offsetting Collections - Reimbursable 1/	\$1,700	\$1,700	\$1,700	\$0	0.00%
Total Adjustments	\$1,700	\$1,700	\$30,340	\$28,640	1684.71%
Total Program Operating Level	\$84,036	\$91,915	\$94,304	\$2,389	2.60%

1/ The FY 2007 Protect the Public regulatory activity is to be funded partially from new proposed user fees in the amount of \$28,640.

2/ Reimbursable Funds from the "cover over" (return to Puerto Rico Government) for the cost of the Puerto Rico Operations.

FY 2007 Priorities

- Collect roughly \$15 billion in excise taxes.
- Process more than 4,000 original and 11,000 amended permit applications that allow for the start up of new businesses in the alcohol and tobacco industries.
- Process over 100,000 applications for certificates of label approval that allow industry members to introduce new alcohol products into the marketplace.
- Collect excise taxes for the government of Puerto Rico and the Virgin Islands under the "cover-over" imposed on rum and distilled spirits.
- Process roughly 3,000 drawback claims for manufacturers of non-beverage alcohol products resulting in claims in the range of \$300-\$400 million.
- Collect 98 percent of the federal excise tax receipts electronically.
- Conduct some 90 audits of major taxpayers who pay 98 percent of the annual federal excise tax collections
- Conduct over 900 field investigations to protect the public, based on incoming permit application requests, consumer complaints, Federal Alcohol Administration (FAA) trade practice violations leads, and work from the product integrity program.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

In Fiscal Year (FY) 2007, TTB will continue to collect federal excise taxes and to develop policies, regulations, procedures, rulings, directives, and other materials that guide the operations of the regulated industries. TTB will protect the public by preventing consumer deception and fraud and ensures that alcohol beverage products comply with federal commodity, safety and distribution standards. TTB provides regulatory and tax collection functions as well as technical, scientific, and legal expertise relating to these products.

Collect the Revenue-- TTB is charged with collecting 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. TTB has roughly 7,300 taxpayers and 200 of the largest taxpayers account for 98 percent of the annual excise tax collections. In FY 2005, the majority of taxes collected were from tobacco (50 percent of revenue collections) and alcohol (48 percent of revenue collections), with the remaining tax collections from firearms and ammunition (2 percent). The key to collecting all the revenue rightfully due is a field approach that uses analysis to target non-compliant industry members and establishes an identifiable presence within all of industry that encourages voluntary compliance. As a result, TTB strives to provide the most effective and efficient system for the collection of all revenue that is rightfully due, in addition to eliminating or preventing tax evasion and providing high quality service to its customers while imposing the least regulatory burden.

Protect the Public -- TTB's Protect the Public activity assures 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 to prevent consumer deception. Under this activity, TTB enforces federal laws related to the labeling, advertising, and marketing of alcohol products through education, investigation, and laboratory testing. TTB works with industry, foreign and state governments, and other interested parties to make it easier to comply with regulatory requirements, and maintain the appropriate level of oversight to ensure the public's safety. Innovation, partnerships, and open communication are paramount to achieving this strategic goal.

1B – Previous Highlights and Accomplishments

Collect the Revenue

The following highlights and accomplishments represent a full year activity based on FY 2005 results:

- During FY 2005, TTB collected more than \$14.7 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms and ammunition industries. The taxes collected by TTB, net of related fund disbursements, are remitted to the Department of the Treasury General Fund. The firearms and ammunition excise

- taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.
- During FY 2005, 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 program. In FY 2005, 98 percent of TTB's tax receipts were collected electronically.
 - Voluntary compliance is an important element of TTB's collection strategy. In FY 2005, 70 percent of taxpayers filed payments on or before the scheduled due date.
 - TTB will audit the largest taxpayers who pay 98 percent of the annual \$14.7 billion in federal excise tax collections. This is a multi year effort and is the driving force in measuring the tax gap and for ensuring that the bureau is collecting the amount of revenue that is rightfully due. Through FY 2005, TTB completed audits on 113 of the largest taxpayers, and plans to finish the remaining audits in FY 2006 and 2007. Audit findings have included underpayment of tax, recordkeeping violations, and internal control irregularities. Audit results include an additional \$4.3 million in collections and an additional \$10.2 million in tax, penalties, and interest potentially due. While the audit effort focuses on the major taxpayers, the remaining taxpayers are selected for audit based on risk and random sampling. In FY 2007, the bureau plans to complete 90 to 100 field audits of taxpayers. .
 - Federal excise taxes are collected on certain articles produced in Puerto Rico and the Virgin Islands that are imported into the United States. In accordance with the law, such taxes collected on Puerto Rico and Virgin Islands rum imported into the United States are "covered-over" or paid into the treasuries of Puerto Rico and the Virgin Islands. In FY 2005, TTB processed \$420 million in cover-over payments to Puerto Rico and \$6 million to the Virgin Islands.
 - Under current law, persons who use non-beverage alcohol in the manufacture or production of medicines, medical preparations, food products, flavors, flavoring extracts, or perfume may be eligible to claim drawback of excise tax paid on distilled spirits used in their products. During FY 2005, TTB processed \$317 million in drawback claims to manufacturers of non-beverage products. Claimants must submit a product formula to the TTB laboratory for analysis and approval of the non-beverage product before manufacturing the product and filing a claim.
 - During FY 2005, TTB laboratories analyzed 1,901 beverage alcohol samples for product integrity, pre-market analysis of imported products, and compliance. These analyses determine the class and type of the products for proper tax collection, and ensure that the marketed products are compliant with TTB regulations. TTB also processed 10,111 non-beverage alcohol flavor formulas, riders, and samples; 2,534 specially denatured alcohol formulas and samples; 109 tobacco tax classification submissions; and 110 submissions for 5010 tax credit. Considering the trends in the last few years, TTB expects to see at least 15 percent growth in the beverage alcohol samples analyzed by the laboratories in FY 2007. In addition, TTB anticipates a significantly larger increase in tobacco samples submitted to the laboratories in FY 2007 because of the new standards of identity for classifying cigarettes and little cigars.

Protect the Public

The following highlights and accomplishments represent a full year activity based on FY 2005 results:

- The Federal Alcohol Administration Act requires importers and bottlers of beverage alcohol to obtain a certificate of label approval (COLA) or certificate of exemption from label approval for most alcoholic beverages prior to their introduction into interstate commerce. During FY 2005, TTB processed over 110,000 COLAs. COLAs Online was launched in FY 2003 as an e-filing option for obtaining label approval. TTB continues to encourage its use by all industry members and the number of e-filers and the percent of the e-filed applications has risen steadily since the launch. The FY 2005 performance target was that 30 percent of all COLAs would be processed within nine calendar days of receipt. In FY 2005, TTB processed 50 percent of all COLAs within nine calendar days, and received 25 percent of all COLAs electronically.
- The tobacco and alcohol industries have the potential to participate in illicit activity, so it is crucial that organized crime and terrorists are kept out of these industries. To combat illegal activity in its regulated industries, TTB issues original and amended permits to persons for the production and operation of its regulated industries. In FY 2005, TTB issued 4,000 original and 11,000 amended permits. TTB conducted 400 field inspections on these applications. In FY 2005, TTB exceeded its goals by completing 81 percent of permit transactions within 60 days.
- TTB's rulemaking activities provide information and guidance to taxpayers, industry members, and the public to help promote voluntary compliance by the regulated industry. During FY 2005, TTB resolved a controversial regulatory and excise tax issue by setting a Federal standard or definition of flavored malt beverages that could be adopted by all fifty states. This rulemaking received significant press attention and TTB addressed 16,000 comments in the process. The final rule limits the addition of flavors and non-beverage materials containing alcohol to beers and malt beverages and ensures that consumers are adequately informed about the identity of flavored malt beverages. In FY 2007, TTB will address several other controversial issues including allergen labeling, ingredient and nutritional listing and "serving facts" panels in alcohol labels.
- TTB provides significant support to the Office of the United States Trade Representative (USTR). TTB participated in negotiations between the United States and Mexico regarding cross-border trade in tequila, resulting in an agreement that will be signed in the near future. The agreement reaffirms that Mexico is prohibited from banning the export of bulk tequila to the U.S. By providing very detailed, technical, legal and regulatory advice, TTB played a crucial role in developing a satisfactory bilateral agreement. The U.S.-Mexico tequila agreement will ensure that exports of tequila from Mexico to the U.S., valued at approximately \$400 million per year, shall continue uninterrupted.
- TTB also played a significant role in negotiating the Agreement in Trade in Wine between the U.S. and the European Community. This agreement covers wine-

- making practices and labeling, and will facilitate bilateral trade in wine valued at \$2.8 billion annually.
- In FY 2007, TTB plans to complete over 900 field investigations, based on incoming permit application requests, consumer complaints, FAA trade practice violation leads, and work from the product integrity program. In FY 2005, TTB initiated over 479 product integrity investigations, 113 of which were on importers and conducted over 400 field application investigations for prospective distilleries, wineries, breweries, and importers in the U.S. and Puerto Rico.
 - During 2005, the Scientific Services Division analyzed 1,848 alcohol beverage products for methanol, a potential carcinogen. Of these, 39 products were found to contain methanol in excess of the current Food and Drug Administration (FDA) regulatory limit. The laboratories also analyzed 940 wines for sulfur dioxide content (an allergen) and label waiver requests. Eight wines, submitted for label waiver request were found to contain sulfur dioxide and required label declaration. In addition, 115 beverage alcohol products were analyzed for ingredients which are declared limited and/or prohibited in alcoholic beverages by the FDA. As part of the yearly pesticide monitoring program, the laboratories analyzed 120 imported and domestic wines for pesticides and their residues. Also, the laboratories analyzed 1,901 beverage alcohol samples for product integrity, pre-market analysis of imported products, and alcohol sampling program to ensure that the products are compliant with TTB laws and regulations so that the consumers are not misled and that the products are safe for consumption. TTB processed 517 requests for information on flavors intended for use in alcoholic beverages. This information includes TTB and FDA limited ingredients allowing TTB to make certain that products made with these flavors are safe and properly labeled. In FY 2007, the TTB laboratories will continue to analyze alcoholic beverages for adulterants, limited and prohibited ingredients to ensure the safety of the country's alcohol beverages. The yearly pesticide monitoring program for wines will also continue. TTB anticipates a greater role of the laboratories in enforcing the Food Allergen and Consumer Protection Act (FALPCA) in alcoholic beverages as mandated by the Congress starting in January 2006.

IC – Future Outlook

In FY 2007, TTB plans to conduct 90 to 100 excise tax audits, including two national audits. These audits are accomplished using a staff of approximately 93 professional auditors located throughout the United States. The goal is to complete an audit of all of the major 200 taxpayers within a 3-4 year cycle which will establish a baseline for future efforts. While the audit effort focuses on the major taxpayers, the remaining taxpayers will be selected for audit based on risk and random sampling.

As part of its investment in electronic government, TTB future plans are to consolidate all of the tax databases into a single integrated system known as the Integrated Revenue Information System (IRIS). The FY 2006 plans include merging the Federal Excise Tax (FET) database into its tax collecting and reporting to the IRIS database. This merger will eliminate duplicate entries of taxpayer information (name, address, principal parties, etc) that already reside in IRIS. TTB also plans to put into production the eFAPS

program, which is the electronic downloading of tax payment information into the FET database. This will reduce and eliminate manual entries into FET and the imaging of paper documents. TTB will continue to improve on its performance measures to process all applications and claims within a limited time, and to accurately and quickly verify that all tax that is rightfully due is paid. TTB will also continue its industry liaison work by conducting informational and educational seminars to members of regulated industries. Recent law amended the Internal Revenue Code of 1986 (IRC) in two ways that affect TTB and its taxpayers. First, it suspended the Special Occupational Tax (SOT) on most alcohol taxpayers, effective July 1, 2005. It repealed SOT for all alcohol taxpayers effective July 1, 2008. However, the SOT relating to tobacco permittees (manufacturers, importers and export warehouses) remains intact.

Likewise, the law amended the tax payment and return provisions of IRC section 5061 to extend the existing semi-monthly payment and return periods for taxpayers whose annual liability does not exceed \$50,000. Effective January 1, 2006, taxpayers under this category may pay their taxes and submit their returns on a quarterly basis, as provided under the IRC.

In FY 2007, the TTB Office of Headquarters Operations plans to continue to make improvements to its processes, systems and availability of information to enhance its ability to service TTB's industry members. The Scientific Services Division will finalize method development of utilizing chemical analysis to verify grape variety claims in wine. The International Trade Division will increase assistance to U.S. alcohol exporters by providing comprehensive beverage and industrial alcohol export requirements for all major world markets via the TTB website. The Advertising, Labeling and Formulation Division will continue to market the use of the Certificate of Label Approval (COLA) e-filing system.

The Trade Investigations Division (TID) is planning over 900 field investigations in FY 2007. Investigations will be based on incoming permit application requests, risk assessment results, consumer complaints and information referrals. TTB completed its initial Federal Alcohol Administration trade practice enforcement training in FY 2006 and can expect results in the number of cases and hours worked per case in FY 2007.

Anticipated activities for the Protect the Public function include:

- permit application investigations
- product integrity investigations (includes consumer complaints)
- trade practice investigations (includes alcohol advertising investigations)
- revenue investigations, and
- Industry seminars.

Succession planning is high on the list of TTB strategic priorities for future transitioning, especially as it relates to TTB's investigator forces. TTB expects to lose fifty percent of its workforce between now and 2010 due to retirements and other attrition. To mitigate these losses, it is vital that TTB continue to have the use of 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 must have the flexibility to continue to use the 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. Continuation of the pay demonstration authority is a key component in TTB's ability to close skill gaps in mission critical occupations. It is essential that the authority be extended to continue this pilot program.

Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Budget Increases and Decreases Table 2.1 (Dollars in Thousands)				
Appropriation: TTB Salaries and Expenses	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2005 Consolidated Appropriations (P.L. 108-447)	544	\$83,000		
Rescission (P.L. 108-447)		(664)		
FY 2005 Enacted	544	82,336		
FY 2006 Appropriation (P.L. 109-115)	544	91,126		
Rescission (P.L. 109-148)		(911)		
FY 2006 Enacted	544	90,215		
Changes to Base				
Proposed Pay Raise		1,103		
Pay Annualization		401		
Non-Pay Inflation Adjustment		909		
Base Reinvestments		1,576		
Program Reduction				
Tax Services-SOT Suspension/Quarterly Tax Filings		(1,600)	Collect the Rev F4A	
Total FY 2007 Base	544	92,604		
Total FY 2007 Request	544	92,604		
Offsetting Fees				
User Fees Proposal		(\$28,640)		
Total Net FY 2007 Request	544	\$63,964		

2A – Budget Increases and Decreases Description

Changes to Base..... +\$2,413,000

Adjustments to Maintain Current Levels +\$2,413,000/ 0 FTE Funds are requested for the FY 2007 pay inflation cost relating to the January 2006 pay increase which carries into the next fiscal year (October 2006 to December 2006) and the proposed January 2007 pay raise, the total estimated pay inflation adjustment is \$1,504,000 and the proposed non pay inflation and annualization adjustment is \$909,000.

Program Reduction..... -\$1,600,000

Recent law amended the Internal Revenue Code of 1986 (IRC) in two ways that affect TTB and its taxpayers. First, it suspended the Special Occupational Tax (SOT) on most

alcohol taxpayers, effective July 1, 2005. It repealed SOT for all alcohol taxpayers effective July 1, 2008. However, the SOT relating to tobacco permittees (manufacturers, importers and export warehouses) remained intact.

Likewise, the law amended the tax payment and return provisions of IRC section 5061 to extend the existing semi-monthly payment and return periods for taxpayers whose annual liability does not exceed \$50,000. Effective January 1, 2006, taxpayers under this category may pay their taxes and submit their returns on a quarterly basis, as provided under the IRC.

The anticipated pay and non pay savings realized from this legislation is \$1,600,000. The bureau plans to reinvest this savings.

TTB expects to realize a savings of 12 Full Time Equivalent (FTE) because of the amendments and plans to redeploy the FTE into other areas of the National Revenue Center (NRC) to meet increasing workloads in these critical program areas. Assuming a savings of 12 FTE, 10 FTE would originate from the savings realized by the SOT suspension and repeal; the other two FTE are projected to result from the reduction in payment and return submissions incident to the extended return and payment periods that will be available for qualified taxpayers described above.

TTB maintained a staff of 12 FTE to administer the SOT program. In FY 2005, one FTE was redeployed to meet workload demands in other areas of the NRC. Of the remaining 11 FTE, one FTE is required to continue administering the SOT requirements applicable to tobacco permittees, as these provisions were not suspended or repealed. The remaining 10 FTE will be available for reassignment to meet other critical needs at the NRC as the work on SOT diminishes over the next three years until the time of SOT repeal.

TTB expects a savings of two FTE realized from the implementation of quarterly payment and return periods. Currently, TTB has 7 FTE at the NRC assigned as tax specialists who process payments and returns for approximately 4,200 taxpayers who are eligible to pay and file quarterly based upon their annual tax liability. Of these 4,200 taxpayers, TTB expects that, at a maximum, only 1,500 (37 percent, which consists of every qualified brewer) will opt to avail themselves of the quarterly payment and filing option. This projection is based upon the fact that, in contrast to other taxpayers, the brewers' bonds are based upon their annual tax liability. Consequently, their option to file on a quarterly basis has no effect on their required bond coverage. By contrast, other taxpayers' bonds are based upon their liability within their return period. If their return period is extended from the existing semi-monthly period to a quarterly period, their corresponding bond coverage must increase proportionately, or 5 times. TTB believes this increased bond requirement will dissuade otherwise eligible taxpayers from opting in to the quarterly payment and filing option.

TTB anticipates that it will require 37 percent fewer FTE in payment and return processing at the NRC. This equates to a savings of two FTE.

Base Reinvestment..... +\$1,576,000

To meet the demands caused by the steady increase in permit activity and associated tax administration duties demonstrated over the last three years, TTB intends to reinvest the 12 FTE realized from the changes outlined above into Application Services and Tax Services, as follows.

a) Process Wine, Beer and Wholesaler/Importer Applications \$308,000/5 FTE.

TTB intends to redeploy five FTE to Application Services, to be distributed between the Wine Applications Branch and the Beer and Wholesaler/Importer Application Branch to handle the increase workload associated with permit and applications work in the wine, beer and wholesaler/importer area. From FY 2000 to present, the number of original applications to establish new wine premises has grown dramatically, with over 3,900 applications processed during FY 2005, which represents a 25 percent increase from FY 2004. Also, the number of Beer and Wholesaler/Importer applications has grown, with nearly 9,000 applications processed during FY 2005, which represents a 12 percent increase from FY 2004.

b) Administer Excise Tax Accounts for Wine, Spirits, and Tobacco \$425,000 / 7 FTE

➤ *Wine Excise Tax Group - Redeploy 4 FTE*

The Wine Excise Tax Group currently has a staff of eight specialists who administer roughly 4,200 taxpayer accounts. These specialists examine and conduct analyses of tax accounts including tax returns, operational reports, export documentation, and claims; initiate collection actions; and handle other tax-related transactions for the over 4,200 active wineries.

TTB has seen a proliferation in new wine permittees over the last several years, with 774 new accounts established during FY 2005. In order to administer the excise tax requirements relating to this growing number of permittees, and to handle related support activities to other components of the Bureau for the Collect the Revenue function, TTB intends to redeploy four FTE to this group (for a total staff level of 12 tax specialists). These additional FTE will reduce the number of accounts assigned to each specialist to 375 accounts per specialist, and enable this group to examine effectively wine tax accounts which ensures that TTB collects all the revenue that is rightfully due from these taxpayers and conducts necessary support functions for other Bureau components.

➤ *Spirits and Tobacco Excise Tax Group – Redeploy 3 FTE*

The Spirits and Tobacco Excise Tax Group currently has a staff of eight tax specialists who perform all tax related services for approximately 400 distilled spirits plants and 275 tobacco permittees who represent approximately 50 percent or \$7.5 billion of the annual federal excise tax collections that TTB collects. Among other duties, these specialists administer the cover-over for Puerto Rico and the Virgin Islands, process monthly and quarterly claims for drawback of tax on spirits used to manufacture non-beverage

products (MNBP); process disaster claims; process operational reports, notices, and claims for all 400 distilled spirits plants and 275 tobacco permittees; and reconcile these documents to ensure that TTB collects the revenue rightfully due. Where a taxpayer has failed to pay the tax or to file a report, these specialists conduct follow-up activities to bring the taxpayer into compliance and to protect the revenue. These specialists also perform a support function for other TTB and NRC components. For example, specialists in the Spirits and Tobacco Excise Tax Group investigate and respond to inquiries from the Applications Group on issues relating to the current tax payment status of particular taxpayers whose security or collateral bonds are proposed for cancellation or refund. As a result of their work, TTB collected \$675,000 in unpaid tax liability in FY 2005 alone.

In the area of non-beverage drawback, TTB receives and processes approximately 3,000 MNBP claims involving an estimated \$317 million each year. Because of the high dollar amount involved for the respective taxpayers, TTB set a goal of processing these claims within 30 days of their submission. While TTB currently meets this performance standard, it has required a realignment of existing resources and has caused a resulting drain on other branch functions, to include reconciliation and support activities. Redeployment of additional FTE to this group will enable the NRC to meet its performance goals for processing of drawback claims without a detrimental impact upon its tax collection and reconciliation activities or its support function to other Bureau components.

TTB intends to redirect three FTE to the Spirits and Tobacco Excise Tax Group to equip this group with the resources necessary to meet its revenue protection mission.

c) Treasury Working Capital Fund for TCS and DTS (Telecommunications) - \$503,000

The Treasury Office of the Chief Information Officer for the Department of the Treasury Departmental Offices has acknowledged that costs for working capital telecommunications costs is to increase by \$503,000 for bureau specific costs related to the new IT infrastructure. This increase is the result of having to add more circuits than originally planned as the bureau went from two computer rooms to four computer rooms as it separated its IT infrastructure from ATF. Additional circuit capacity was required to keep all four computer rooms synchronized and accessible by all TTB users. The reinvestment strategy is to absorb the costs with the savings from the anticipated non pay savings realized from the repeal of the SOT and change in tax filings.

d) Bureau of Public Debt Administrative Resource Center (BPD ARC) \$340,000

The Bureau of Public Debt Administrative Resource Center provides administrative support services for TTB and has acknowledged that costs for these services will increase by \$340,000 based on anticipated workload activity.

Program Increases\$0/ 0 FTE

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007*	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
Collect the Revenue	299	\$45,285	299	\$49,618	267	\$45,376	-10.91%	-8.55%
Protect the Public 1/	245	\$37,051	245	\$40,597	109	\$18,588	-55.47%	-54.21%
Subtotal Newly Appropriated Resources	544	\$82,336	544	\$90,215	376	\$63,964	-30.96%	-29.10%
Other Resources:								
Recoveries								
User Fees 1/	0	\$0	0	\$0	168	\$28,640	100.00%	100.00%
Offsetting Collections - Reimbursable 2/	15	\$1,700	15	\$1,700	15	\$1,700	0.00%	0.00%
Transfers In/Out								
Subtotal Other Resources	15	1,700	15	1,700	183	30,340	1120.00%	1684.71%
Total Resources Available for Obligation	559	\$84,036	559	\$91,915	559	\$94,304	-0.08%	2.60%

1/ The FY 2007 Protect the Public regulatory activity is to be funded partially from new proposed user fees in the amount of \$28,640. See proposed new user fee language.

2/ Reimbursable Funds from the "cover over" (return with Puerto Rico) covers the cost of the Puerto Rico Operations.

3/ Budget and FTE information covering estimates of staff participation in projects and programs under each activity is based on prior year budget

3A – Budget Activity Description

Collect the Revenue (Total funding \$46,209,000; direct portion \$45,376,000 and reimbursable funding portion of \$833,000)

TTB strategic goals in the "Collect the Revenue" budget activity include providing the most effective and efficient systems 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 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) is establishing a baseline of risk data upon which to select future audits will audit several taxpayers. In FY 2004, 54 audits were conducted and roughly 1/3 of the total federal excise tax revenues collected during a three-year period were audited and the amount of tax was established as rightfully due and collected. The goal is to complete an audit of all of the major taxpayers that contribute roughly 98 percent of the federal excise tax revenue within a 3-4 year cycle. The Office of Field Operations will continue to provide industry outreach to encourage compliance, investigate allegations/indications of tax fraud where a full tax audit is not contemplated, verify destruction of large quantities of taxable commodities, and conduct compliance inspections of non-taxpaying permittees who have substantial potential for tax liability. In FY 2005, TTB completed 400 permit application qualifications and 479 product integrity investigations/inspections. TTB expects the demand for these services to continue in FY 2007.

The goals of reducing taxpayer burden and improving service remain a priority at TTB. TTB will continue working to increase the number of taxpayers who can file their returns electronically. The ultimate goal is to allow permittees and taxpayers to file all

payments, returns and applications online with the National Revenue Center. The FY 2007 budget request enables the continuation of efforts towards achieving 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.

In FY 2005, TTB established an entire field structure for tax audit and trade investigation. This involved recruiting and hiring supervisors, auditors, investigators, and locating, equipping, and opening field offices. Several investigations and audits of large taxpayers were conducted. The goal by FY 2007 is to continue such audits of the major taxpayers that represent 98 percent of the federal excise tax collections.

TTB's FY 2007 budget request supports Treasury's financial strategic goal to "Manage the Government's Finances Effectively" by maintaining a level of funding that effectively collects nearly \$15 billion in federal excise taxes through the following strategic objectives:

- Reduce taxpayer burden and improve service
- Use Electronic Government;
 - Reduce the taxpayer paperwork burden associated with collection of the revenue by creating alternative electronic filing methods
 - Increase online filing for permit applications and formula submissions, and payment of tax returns, business activity reports, claims, applications, COLAs, and other forms
 - Increase program effectiveness through partnerships with industry, States, and other Federal agencies
 - Continue to automate business applications at the National Revenue Center (NRC)
 - Improve collections and efficiency of service through information sharing efforts, such as seminars, publications, and industry meetings.
 - Ensure consistent tax administration
- Collect all the revenue that is rightfully due;
 - Account accurately for the revenue assessed and collected.
 - Increase review of taxpayer returns and collect delinquencies to ensure voluntary compliance
 - Ensure correct payment of taxes through audit of "at-risk" taxpayers
 - Implement and refine ways to identify potential tax jeopardy patterns
 - Through partnership with industry, States, and other Federal agencies, develop alternative methods of promoting voluntary tax compliance
- Prevent tax evasion and identify other criminal conduct in the regulated industries
 - Investigate and assist with the prosecution of business entities suspected of being involved in tax evasion schemes, including diversion and smuggling of taxable commodities
 - Forge partnerships with and provide training to Federal, State, local, tribal, and foreign governments to enforce tax laws

Protect the Public (Total funding \$48,095,000; direct portion \$18,588,000; \$28,640,000 of reimbursable funding under proposed "User Fee" initiative; and reimbursable funding portion of \$867,000

TTB's Protect the Public strategy assures 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 labeling, advertising and marketing of alcohol products through education, investigation, and laboratory testing. 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 the public's safety. Innovation, partnerships, and open communication are paramount to achieving this strategic goal. Pursuant to provisions of the Internal Revenue Code (IRC) of 1986, TTB has agreements with 40 States to share tax information.

TTB monitors trade practices of the alcohol industry and takes enforcement actions on violations or discrepancies, monitors and reviews international trade in alcoholic beverages to identify trade barriers, promotes free access to foreign markets, and suppresses incidents of international fraud and contaminated products. TTB also processes applications for certificates of label approval and proposed formulas for imported and domestic distilled spirits, beer, and wine products to ensure that products are manufactured in accordance with standards of identity, are properly classified for excise tax, and that labels and advertisements are not misleading.

TTB examines all alcohol labels prior to 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 number of COLA submissions increases each year, while TTB staffing remains at a steady state. On May 21, 2003, TTB launched COLAs Online, the first facet of TTB's e-Gov initiative. This system enables the submission and processing of COLA applications via the Internet. The innovation improved the submission and review process for alcohol beverage labels by providing an expedient and paperless means of obtaining Federal label approval. The number of electronically filed COLAs is expected to increase in FY 2007.

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's Non-Beverage Products Laboratory (NPL) has pledged in its Customer Service Plans to process 90 percent of the non-beverage and SDA formulas within 10 working days of receipt. The NPL is meeting the target of 10 days for non-beverage formulas and the FY 2007 budget initiative will ensure that with the steady increase in workload demand from industry and a steadfast number of chemists that this performance standard can continue to be achieved.

In order to protect the consumer, TTB will continue to document responses internally to unsafe conditions and product deficiencies related to alcohol products and labels. TTB does this through various methods including responding to consumer complaints, responding to referrals from foreign governments, market basket sampling at retail locations, and product integrity inspections conducted at domestic alcohol plants. Through these programs, TTB tests samples of alcoholic beverages sold at the retail level and obtained directly from producers to ensure that alcoholic 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.

Strategic Objectives:

- Assure the integrity of the products, people, and companies in the marketplace
- Ensure that only qualified applicants enter the regulated industries
- 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 COLAs
- Ensure compliance with laws and regulations through education, inspection, and investigation
- Respond to industry and consumer complaints. Investigate product contamination and adulteration
- Investigate thefts of regulated commodities
- Investigate violations of trade practices, labeling, and advertising in the beverage alcohol industry
- Inspect alcohol beverages at producer and importer premises to detect consumer deception on health issues
- Educate interested parties on the laws and regulations of the United States and other countries in areas concerning the regulated industries

3.2 – Budget and Performance Plan Table

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)						
Resource Level	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Requested
Treasury Strategic Objective F4A:						
Budget Activities: Collect the Revenue						
Financial Resources						
Newly Appropriated Resources	\$51,830	\$56,431	\$56,801	\$45,285	\$49,618	\$45,376
Other Resources		\$1,171	\$1,700	\$935	\$935	\$833
Total Operating Level	\$51,830	\$57,602	\$58,501	\$46,220	\$50,553	\$46,209
Human Resources						
Newly Appropriated FTE	363	363	363	299	299	267
Other FTE	15	15	15	8	8	7
Total FTE (direct and reimbursable)	378	378	378	307	307	274
Treasury Strategic Goal: Promote Stable U.S. and World Economies (E2)						
Resource Level	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Enacted	FY 2007 Requested
Treasury Strategic Objective E2A:						
Budget Activities: Protect the Public						
Financial Resources						
Newly Appropriated Resources	\$21,170	\$23,049	\$22,727	\$37,051	\$40,597	\$18,588
Reimbursable User Fees	\$0	\$0	\$0	\$0	\$0	\$28,640
Other Resources	\$0	\$0	\$0	\$0	\$765	\$867
Total Operating Level	\$21,170	\$23,049	\$22,727	\$37,051	\$41,362	\$48,095
Human Resources						
Newly Appropriated FTE	181	181	181	245	245	109
Reimbursable User Fees/Full-time equivalents (FTE)	0	0	0	0	0	168
Reimbursable Full-time equivalents (FTE)	0	0	0	7	7	8
Total FTE (direct and reimbursable)	181	181	181	252	252	285

Strategic Objective: Collect Federal Tax Revenue When Due Through a Fair and Uniform Application of the Law - F4A

Budget Activity: Collect the Revenue

Performance Goal: Apply statistically valid state-of-the-art methods to measure and analyze compliance with tax laws, and identify any gaps in tax payment

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Cumulative percentage of excise tax revenue audited over 3 years (%) (Ot)						
Target				65	90	98
Actual				82		
Target Met?	N/A	N/A	N/A	Y		
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)(%) (Oe)						
Target				70	74	78
Actual				70		
Target Met?	N/A	N/A	N/A	Y		
Ratio of taxes collected vs. resources expended (Ot) [DISCONTINUED FY 2006]						
Target		211	257	250	Discontinued	Discontinued
Actual		242	368	367		
Target Met?	N/A	Y	Y	Y		
Resources as a percentage of revenue (%) (E)						
Target				.4	.34	.34
Actual				.37		
Target Met?	N/A	N/A	N/A	Y		
Unit cost to process an excise tax return based on new legislation (\$) (E)						
Target				Baseline	Baseline	TBD
Actual				71		
Target Met?	N/A	N/A	N/A	Y		

Budget Activity: Collect the Revenue

Performance Goal: Reduce the paperwork burden by continuing to create alternative reporting and filing methods through electronic government

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue) (%) (Oe)						
Target		Baseline	82	84	86	88
Actual		80	81.2	86.3		
Target Met?	N/A	Y	N	Y		
Percentage of total tax receipts collected electronically (%) (Oe)						
Target	Baseline	98	98	98	98	98
Actual	98	98	97.3	98		
Target Met?	Y	Y	N	Y		

Strategic Objective: Increase Citizens Economic Security - E2A

Budget Activity: Protect the Public

Performance Goal: Improve customer service by decreasing turn-around times for Certification and Label Approval (COLA) processing (electronic and paper). Promote use of COLAs Online in an effort to improve the completeness and accuracy of submitted COLA applications while allowing TTB and the regulated industry to exchange information instantly via electronic means, thus reducing the burden to industry

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Percentage of COLA approval applications processed within 9 calendar days of receipt (%) (E)						
Target		Baseline	60	30	55	57
Actual		57	23	50		
Target Met?	N/A	Y	N	Y		
Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days (%) (E)						
Target				67	80	82
Actual				81		
Target Met?	N/A	N/A	N/A	Y		

Budget Activity: Protect the Public

Performance Goal: Protect the consumer

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Percent of electronically filed Certificate of Label Approval applications (%) (Oe)						
Target		10	7	16	27	30
Actual		3	10	25		
Target Met?	N/A	N	Y	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

3B – Description of Performance

TTB met all of its performance measures in FY 2005, and set ambitious targets for FY 2007. TTB plans to continue to improve its core business operations and provide high quality service to its industry members.

TTB continues to expand its e-filing program to allow all excise taxpayers (roughly 7,300) to file and pay taxes electronically through the Pay.Gov program. There are approximately 1,000 industry members enrolled to e-file through the Pay.Gov program. TTB met its FY 2005 performance target of 98 percent of tax receipts collected via electronic funds and plans to meet the goal again in FY 2007. Voluntary compliance is an important element of the TTB collection strategy. TTB met its FY 2005 target to have 70 percent of the total taxpayers file payments on or before the scheduled due date and plans to meet its target of 78 percent set for FY 2007.

TTB will audit the largest 200 taxpayers who pay 98 percent of federal excise tax collections. This multi year effort is the driving force in measuring and closing the tax gap. Through FY 2005, TTB audited 113 of the largest taxpayers, and plans to finish audits of the remaining taxpayers in FY 2007 and FY 2008. Audit findings have resulted in an additional \$4.3 million in unpaid revenue and an additional \$10.2 million in tax penalties and interest. While the audit effort focuses on the major taxpayers, the

remaining taxpayers are selected for audit based on risk and random sampling. In FY 2007, the Bureau plans to complete 90 to 100 field audits of taxpayers. The FY 2005 audit performance target for the cumulative percentage of revenue that the audits have examined was met.

The tobacco and alcohol industries have the potential to participate in illicit activity, so it is crucial that organized crime and terrorists are kept out of these industries. To combat illegal activity in its regulated industries TTB issues original and amended permits to persons for the production and operation of its regulated industries. In FY 2005, TTB issued 4,000 original and 11,000 amended permits. TTB conducted field inspections on 400 of these applications. The Bureau exceeded its FY 2005 performance target by completing 81 percent of the transactions within 60 days. TTB plans to meet its FY 2007 target of 82 percent.

The Federal Alcohol Administration Act requires importers and bottlers of beverage alcohol to obtain a certificate of label approval or certificate of exemption from label approval (COLA) for most alcoholic beverages prior to their introduction into interstate commerce. During FY 2005, TTB processed over 110,000 COLAs. In FY 2003, TTB launched an e-filing option for obtaining label approval. TTB continues to encourage its use by all industry members. The number of e-filers and the percent of the e-filed applications have risen steadily since the launch. In FY 2005, TTB exceeded its performance target of processing 30 percent of all COLAs within nine calendar days of receipt. TTB plans to meet or exceed the target of 57 percent for FY 2007. TTB also met the performance goal to receive 25 percent of all COLAs electronically, and TTB plans to meet or exceed its FY 2007 target of 30 percent.

TTB received an Effective rating (93 out of 100) on its FY 2005 Collect the Revenue Program Assessment Rating Tool (PART) evaluation. This was the first PART review conducted under the TTB umbrella. The results of the PART indicate that TTB has an effective program in place for the collection of federal excise taxes and the Bureau has developed an action plan that will address OMB's findings and recommendations resulting from this review.

3C – PMA Evaluation Description

Human Capital

- TTB developed a Federal Employment Opportunity Recruitment Plan (FEORP) for FY 2005 – FY 2008 to promote the employment and advancement of minorities and women within the Bureau.
- TTB established its FY 2005 – FY 2008 Disabled Veterans Affirmative Action Plan to promote the hiring and advancement of disabled veterans within the Bureau.
- TTB published an Equal Employment Opportunity and Diversity Advancement policy statement.

- TTB conducted a total workforce diversity/affirmative employment analysis identifying barriers, goals, and measures of progress.
- TTB revised its Senior Executive Service performance plans to document the linkage with the Bureau's strategic objectives and cascaded to the next lower level of management.
- TTB implemented Career Connector for use in filling supervisory/managerial jobs as a tool to improve the hiring process.
- TTB established a performance workgroup to improve the TTB General Schedule performance management system.
- TTB established a flexi-place program that covers all TTB offices and most employees, and implemented a hoteling program at certain field offices. These initiatives save the bureau valuable dollars that were invested in improved services to for stakeholders.
- TTB has established an annual awards ceremony as a tool for recognizing and retaining outstanding employees.
- TTB implemented the Demonstration Project (PAY DEMO) to enhance the Bureau's ability to effectively recruit, develop, and retain highly qualified employees. It seeks to attain these objectives by implementing changes in management, personnel, and compensation practices. The project focuses on designated occupations that are mission critical (e.g., chemists and information technology staff)
- Beginning in June 2004, TTB outsourced all of its human resource functions to the Bureau of Public Debt (BPD). The human resource services provided by BPD include staffing and recruitment, personnel/payroll actions, employee benefits and retirement, time and attendance, official personnel records, classification, training, employee/labor relations, and performance management. Performance benchmarks and measures have been established to monitor contract performance.
- TTB has adopted a progressive five-tier performance management system that cascades throughout the organization. The new performance system holds employees and managers accountable for program results.
- TTB is in the process of developing succession plans for mission critical occupations and a comprehensive Human Capital Plan. The successful implementation of these two initiatives will contribute to TTB obtaining a green score.

Electronic Government

- TTB expanded the Pay.Gov program to allow all federal excise taxpayers to file and pay electronically.
- TTB launched an online system for Certificates of Label Approval (COLA) that allows industry members to file their applications for labels electronically.
- Security accreditation has been achieved for all TTB Information Technology systems.
- TTB has begun to consolidate its major databases into a single integrated system to promote greater efficiency and reduce costs.
- TTB has implemented enhancements to both its Internet and Intranet sites to provide greater benefits to external and internal customers.
- The Bureau is completing its enterprise architecture program, which was based on the use of the Enterprise Architecture Assessment tool, and TTB is confident that the program changes have now elevated the enterprise architecture score beyond the required standard level.

Competitive Sourcing

- In creating TTB, the executive leadership decided to create a lean organization by contracting with governmental and commercial sources for services that are not inherently governmental (e.g., Human Resources, Information Technology, Training, Property Management, Finance, Procurement, and Records Management). Contractors are providing TTB with all operational IT services except for Contracting Officers Technical Representative responsibilities, which were kept in-house. TTB is comprised of 88 percent inherently governmental services and 12 percent commercial, as substantiated by its FY 2005 FAIR Act Inventory.
- TTB has migrated its information technology operations from the Bureau of Alcohol, Tobacco, Firearms and Explosives and outsourced its Information Technology services to commercial firms.

Budget & Performance Integration

- TTB has migrated its financial operations to Bureau of Public Debt Administrative Resource Center (BPD ARC), including key legacy tax information.
- TTB has improved its tracking of activity based costing for its two budget activities

- Implementation of WebTA (time keeping) system allows TTB to track its direct labor costs for over ninety project codes under these two key activities.
- The Bureau is using performance information to make budget decisions, and has realigned its account code structure to capture and measure program and project costs.
- TTB has worked extensively to define performance measures and continues to strive to identify the right measures and mix of measures that portray the best picture of the Bureau's operations and performance. TTB is working with a contractor to refine its outcome-oriented performance measures and align them with business processes and budget submissions. The Bureau needs to improve its managerial cost accounting, and deciphering the cost of doing business and its relationship to TTB measures and goals will do this. By working closely with Treasury, TTB will identify some system changes that would provide the ability to provide marginal unit cost information on budget initiatives and performance.

Improving Financial Performance

- TTB continues to monitor its financial performance and improve its ability to interface with budget information.
- TTB has successfully migrated its accounting and financial data, including its legacy data the Bureau of Public Debt Administrative Resource Center repository for tax information.
- Improved classification and account coding of projects and activities.
- Benchmarks have been established on service provider's performance of financial operations.
- TTB has achieved green status in this initiative, because no unresolved internal control material weaknesses or reportable conditions were found and all audits have been unqualified. The bureau has successfully used financial management to meet financial deadlines and avoid Anti-Deficiency Act violations. TTB is working to integrate financial management into its management framework, which will facilitate the integration of all five PMA initiatives and align financial management closely with Budget and Performance Integration, in order to provide current and accurate information.

3.3 – PART Evaluation Table 3.3

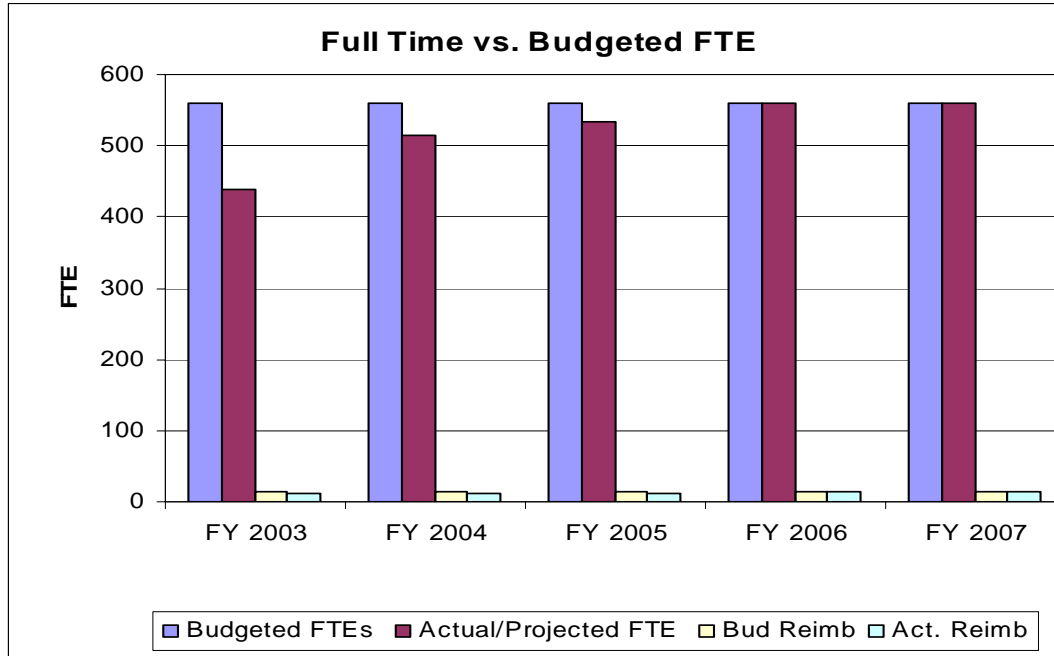
PART Name:	Collect the Revenue
Strategic Goal:	Manage the Government's Finances Effectively (F4)
Rating:	Effective

OMB Major Findings/Recommendations <ol style="list-style-type: none">1. The Collect the Revenue program has a clear purpose and is well designed to achieve its goals. TTB administers and ensures compliance with portions of the Internal Revenue Code dealing with collection of excise taxes on alcohol, tobacco, firearms and ammunitions and regulation of those manufactures.2. The program has developed adequate long-term performance measures with ambitious targets and timeframes. TTB measures the percent of voluntary compliance in filing tax payments and will increase this targets from 82% in 2004 to 92% in 2010.3. The program has not developed adequate baselines for its annual performance measures. Three out of the four annual measures do not have baselines.

Bureau Actions Planned or Underway. <p>We are taking the following actions to improve the performance of the program</p> <ol style="list-style-type: none">1. Developing baselines for annual performance measures.2. Improving 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. Developing a baseline to compare the incremental costs and net benefits of regulation.

Section 4 – Supporting Materials

4.1 – Human Resources Table



Base: Year-end Actual from Prior Year	FY 2005 514	FY 2006 523	FY 2007 559
Increases: <i>(Break-out the FTE changes by as many reasons for the change as possible, and include a description for each the increase or decrease)</i>			
Reason #1:	9	36	
The Alcohol and Tobacco Tax and Trade Bureau was established January 24, 2003 as a result of the Homeland Security Act of 2002. A key strategic challenge for TTB was staffing the Division of Field Operations with auditors (Budget Activity: Collect the Revenue) and investigators (Budget Activity: Protect the Public) to establish a field presence with industry members. The Bureau currently has 539 full time positions on board and the remaining positions are in various stages of recruitment, but we anticipate to be fully staffed at 559 full time positions. TTB has created a streamlined organization by contracting with governmental and commercial sources for all services that are not inherently governmental (e.g., human resources, IT, accounting, etc.). The TTB E Gov strategy incorporates Treasury Enterprise Solutions and the President's twenty four government initiatives to the maximum extent possible.			
Subtotal, Increases	9	36	0
Decreases: <i>(Break-out the FTE changes by as many reasons for the change as possible, and include a description for each the increase or decrease)</i>			
Reason #1:			
Subtotal, Decreases	0	0	0
Year-end Actual/Estimated FTEs	523	559	559
Net Change from prior year SOY to budget year EOY		1/	0
1/ Direct FTEs 544 and Reimbursable (Puerto Rico Cover Over) FTEs 15 = 559			

4A – Human Capital Strategy Description

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

1. Increase Citizens' Economic Security, and;
2. Manage the U.S. Government's Finances Effectively,

To accomplish and fulfill both TTB's and Treasury's strategic plans, TTB has taken several steps in order to not only maintain its current professional workforce but also augment it. TTB has completed its first Human Capital Strategic Plan that is aligned with the Bureau Strategic Plan. The 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. The skills gap

forecast will be developed by assessing and modeling the changing nature of TTB's mission critical occupations and the Bureau's mission.

The Treasury Department is introducing legislative language to extend the Pay Demo Pilot Program for FY 2007. A recommendation will be made on the results of the evaluation of the pilot program. The Pay Demo program will continue to be used by the Bureau to develop and retain high caliber employees. TTB expects to lose 50 percent of its workforce between now and 2010 due to retirements and other attrition. To accommodate these losses from the baseline it is vital that TTB continue to have the use of 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 must have the flexibility to continue to utilize the tailored approaches designed, developed and implemented specifically to the Bureau's continuing and evolving needs in order to meet mission requirements and remain competitive with private industry and other Federal agencies for highly skilled talent. TTB has roughly 120 participants in the program that function in mission critical occupations such as chemists, industry analysts, auditors and information technology specialists.

The estimated pay for performance awards per participant covered under this program average \$3,900 or 5 percent of the base pay, and at full hiring capacity TTB estimated 120-132 program participants with total payouts in FY 2007 estimated at roughly \$550,000.

4.2– Summary of IT and Non-IT Resources Table

Summary of IT and Non-IT Resources

Table 4.2

(Dollars in Millions)

Major Investments	Budget Activity	FY 2005 Obligations	FY 2006 Enacted	FY 2007 Request
Information Technology:				
	Protect the Public and Collect the Revenue	\$0.000	\$1.700	\$0.000
		0.000	0.000	0.000
Subtotal		\$0.000	\$1.700	\$0.000
Non-Information Technology:				
		0.000	0.000	0.000
Subtotal		\$0.000	\$0.000	\$0.000
Total Major Investments		\$0.000	\$1.700	\$0.000

4B – Information Technology and Non-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 Treasury’s Office of 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:

- 1) Does the initiative have value to TTB?
- 2) Is there a balance of benefits against costs and risks?
- 3) Are TTB eliminating duplication and stovepipe projects?

TTB’s investment review board ensures compliance with guidance and legislation. 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.

4.3 – Operating Levels

Operating Levels
Table 4.3
 (Dollars in Thousands)

Appropriation Title: TTB Salaries & Expenses	FY 2006					FY 2007			
	FY 2005 Enacted	President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted	FY 2006 Proposed Operating Level	Total Budget Estimate	Direct Funding	Reimbursable (Proposed User Fees)
	FTE	544	544		544	544	544	376	168
Object Classification:									
11.1 Full-Time Permanent Positions.....	36044	39,013	-	1852	38348	40865	40693	28108	12585
11.1 Other than Full-Time Permanent Positions.....	0	0	-	0	0	0	0	0	0
11.5 Other Personnel Compensation.....	408	0	-	0	0	0	718	496	222
11.8 Special Personal Services Payments.....	0	0	-	0	0	0	0	0	0
11.9 Personnel Compensation (Total).....	0	0	-	0	0	0	0	0	0
12.0 Personnel Benefits.....	10257	10,799	-	-258	10799	10541	10868	7506	3362
13.0 Benefits to Former Personnel.....	0	0	-	0	0	0	0	0	0
21.0 Travel.....	3886	4,282	-	-1000	4282	3282	4410	3046	1364
22.0 Transportation of Things.....	117	0	-	136	0	136	104	72	32
23.1 Rental Payments to GSA.....	5248	5,405	-	-630	5405	4775	4725	3264	1461
23.2 Rent Payments to Others.....	0	0	-	314	0	314	0	0	0
23.3 Communications, Utilities, & Misc.....	3786	4,570	-	473	4570	5043	4806	3320	1486
24.0 Printing and Reproduction.....	0	0	-	408	0	408	0	0	0
25.1 Advisory & Assistance Services.....	0	0	-	0	0	0	0	0	0
25.2 Other Services.....	20557	23,240	-	-568	22993	21761	23959	16549	7410
25.3 Purchase of Goods/Serv. from Govt. Accts.....	0	0	-	0	0	0	0	0	0
25.4 Operation & Maintenance of Facilities.....	0	0	-	0	0	0	0	0	0
25.5 Research & Development Contracts.....	0	0	-	0	0	0	0	0	0
25.6 Medical Care.....	0	0	-	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment.....	0	0	-	0	0	0	0	0	0
25.8 Subsistence & Support of Persons.....	0	0	-	0	0	0	0	0	0
26.0 Supplies and Materials.....	661	661	-	-40	661	621	682	471	211
31.0 Equipment.....	1222	2,656	-	-537	2656	2119	1639	1132	507
32.0 Lands and Structures.....	150	500	-	-150	501	350	0	0	0
33.0 Investments & Loans.....	0	0	-	0	0	0	0	0	0
41.0 Grants, Subsidies.....	0	0	-	0	0	0	0	0	0
42.0 Insurance Claims & Indemn.....	0	0	-	0	0	0	0	0	0
43.0 Interest and Dividends.....	0	0	-	0	0	0	0	0	0
44.0 Refunds.....	0	0	-	0	0	0	0	0	0
Total Budget Authority.....	\$82,336	\$91,126	-	\$0	\$90,215	\$90,215	\$92,604	\$63,964	\$28,640
Budget Activities:									
Protect the Public.....	\$37,051	50,119	\$0	\$5,413	\$40,597	\$44,205	\$47,228	\$18,588	\$28,640
Collect the Revenue.....	45,285	41,007	0	(5,413)	49,618	46,010	45,376	45,376	0
Total Budget Authority.....	\$82,336	\$91,126	\$0	\$0	\$90,215	\$90,215	\$92,604	\$63,964	\$28,640

Excludes \$1.7 million in Puerto Rico Reimbursable Funding *Cover Over*

4C – Appropriations Language

DEPARTMENT OF THE TREASURY

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

Federal Funds

SALARIES AND EXPENSES

For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, [\$91,126,000] \$63,964,000; 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. (*Department of Treasury Appropriations Act, 2006.*)

In addition, \$28,640,000 from the General Fund: Provided, That such amount shall be reduced by such sums as may be deposited to the Alcohol and Tobacco Regulatory Fund, so as to result in a final fiscal year [2006] 2007 appropriation from the General Fund under this paragraph estimated at \$0: Provided further, That amounts from the Alcohol and Tobacco Regulatory Fund may be transferred to this account, to be merged with and available for the same purposes as this account, to remain available until expended.

Treasury General Provisions:

Sec. 216. Section 122(g) (1) of Public Law 105-119 (5 U.S.C. 3104 note), is further amended by striking ["7 years"] "8 years" and inserting ["8 years"] "9 years".

JUSTIFICATION OF LANGUAGE CHANGES (EXHIBIT 1c)

The Homeland Security Act of 2002 authorized the new Alcohol and Tobacco Tax and Trade Bureau. The Act provided for the continuation of the personnel management demonstration project, which is contained in the Treasury Department's General Provision language. The Homeland Security Act of 2002 also provided for the establishment of the Bureau of Alcohol, Tobacco, Firearms, and Explosives under the Department of Justice.

[The Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY 1999 authorized by the Secretary of the Treasury to establish a Department of the Treasury demonstration project for designated critical occupations. This project was established to enhance Treasury's ability to effectively recruit and retain highly qualified employees.]

Legislative Proposals on Pay Demo Program:

The FY 2006 President's Budget includes a general provision to extend the Pay Demonstration Program an additional year. The Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY 1999 authorized by the Secretary of the Treasury to establish a Department of the Treasury demonstration project for designated critical occupations. This project was established to enhance Treasury's ability to effectively recruit and retain highly qualified employees. It seeks to do so by implementing changes in personnel management practices for designated occupations. For FY 2007, TTB proposes to continue the Pay Demonstration Program by amending the general provision language to extend the program an additional year.

The legislative authorization history to date on the Pay Demonstration Project:

- The Pay Demonstration Project was originally enacted for the Department of the Treasury and the Department of Justice for a three-year period in the Departments of Commerce, Justice, State, the Judiciary, and Related Agencies Appropriates, 1998, Public Law 105-119 (November 26, 1997). See section 122(g), 111 Stat. 2470, relating to the Department of the Treasury.
- The Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Public Law 105-277 (October 21, 1998) continued the enactment of the project for three years from the date of the enactment. See section 102, 112 Stat. 2681-585.
- The Treasury and General Government Appropriations Act, 2002, Public Law 107-67 (November 21, 2001) extended the project by substituting four years for three years. See section 120, 115 Stat. 525.
- The Homeland Security Act of 2002, Public Law 107-296 (November 25, 2002), transferred the Pay Demonstration project to the Attorney General for the continued use by ATF and the Secretary of the Treasury for continued use by TTB. See section 1115, 116 Stat. 2274.
- The Omnibus Consolidated Appropriations Act, 2003, Public Law 108-7 (February 20, 2003) extended the project by substituting five years for four years. See section 119. Prior to the enactment of this appropriation for FY 2003, the project continued in place at ATF/TTB under numerous continuing resolutions.
- The Omnibus Consolidated Appropriations Act, 2004, Public Law 108-199 (January 23, 2004) extended the project by substituting six years for five years. See section 216, 118 Stat. 320.
- The Omnibus Consolidated Appropriations Act, 2005, Public Law 108-477 (December 4, 2004) extended the project by substituting seven years for six years.
- The Department of Transportation, Treasury, Housing and Urban Development, Judiciary, District of Columbia, and Independence Agencies, Public Law 109-115 (November 30, 2005) extended the project by substituting eight years for seven years.

Legislative Proposal on User Fees

The Budget proposes to establish user fees to cover the costs of TTB's regulatory functions under its "Protect the Public" line-of-business. The new user fees include administrative fees for "drawbacks" from Manufacturers of Non Beverage Products (MNBP), filing fees for Certificate of Label Approvals (COLAs) for distilled spirits, wine and beer, American Viticultural Areas (AVA), proposed formulas, and new permit applications. This change would generate estimated user fee collections of \$28,640,000 annually. Authorizing legislation will be proposed that amends the Internal Revenue Code (Title Internal Revenue Code of 1986, 26 U.S.C.) and the Federal Alcohol Administration Act (27 U.S.C.), and system and operational changes would be needed to implement this proposal. The President's Budget proposes authorizing legislation to collect mandatory receipts. Language in the appropriations bill will allow these receipts to be spent on the discretionary program for FY 2007.

Inclusions

The new user fees include administrative fees to cover the cost of processing claims for drawback of tax, processing applications for Certificate of Label Approvals (COLAs) for distilled spirits, wine and beer, applications for new American Viticultural Areas (AVA), submissions of proposed formulas, and applications for new permits. The industry would pay for the benefits it receives from TTB's regulatory efforts. These efforts protect the public against misleading labels and adulterated alcohol products, and prevent dishonest persons from entering the alcohol and tobacco trade, while promoting fair competition among industry members.

❖ Manufacturers of Non Beverage Products (MNBP)

- Under current law, manufacturers of non-beverage products may be eligible to claim a drawback of tax for the use of tax paid distilled spirits in its products (26 U.S.C. 5134). The net payment of \$1 per proof gallon is intended to cover administrative costs in processing the claims. The proposal includes an increase in the net payment from \$1 to \$2 per proof gallon. This fee has not been increased in over fifty years.

❖ COLA User Fee

- *Application Fees for COLAs/Certificates of Exemption:* Under 27 U.S.C. 205(e), producers, bottlers and wholesalers of alcohol beverage products must first obtain a COLA before bottling such alcohol beverage products. Those who will sell the alcohol beverage products intrastate must apply for a Certificate of Label Exemption. These requirements also apply to importers; a COLA must be obtained as a condition for removal of the alcohol beverage product from Customs custody. TTB must review each

label submitted to determine compliance with its labeling regulations. The COLA user fee would cover the costs of reviewing and processing such COLA applications. A key feature of the proposal is to encourage businesses to file their applications electronically, so a two-tier (electronic vs. paper) fee structure would be introduced as an incentive for businesses to file their applications on an electronic basis rather than the traditional paper submission.

❖ **Petition for American Viticultural Areas (AVA) User Fee**

- *Applications for new American Viticultural Areas (AVAs):* A Viticultural area is a delimited place or region with boundaries that are recognized for use on labels of wine (27 C.F.R. 4.25(e)). Petitions may be made to TTB for recognition of new AVAs. TTB must review the petition and submit it for formal rulemaking.

❖ **Formula Reviews User Fees**

- *Review of Formulas:* TTB regulations require industry members to submit various formulas and statements of process for certain alcohol beverage products (27 C.F.R. 5.25, et seq). In its review, TTB may also conduct lab analyses of such products. Such work is necessary for TTB to determine the proper labeling classifications of the products, and to determine whether a proposed manufacturing process results in a change of character, composition, class or type of product.

❖ **Lab Analysis for Sulfur Dioxide Waiver and/or Methanol in Grappa**

- *Lab Analysis:* A user fee is proposed on work related to Lab analysis and issuance of a report for waiver of sulfur dioxide and/or methanol in grappa warning statement on the label.(Grappa may be generically defined as a spirit--dry and high in alcohol).

❖ **Permits Original Application User Fee**

- *Applications for New Permits:* Under 27 U.S.C. 203(a), a person may not engage in the business of manufacturing or importing, bottling or warehousing alcohol beverage products without a permit. TTB must review and investigate the qualifications of the applicant, including the applicant's potential criminal background and whether he or she is likely to operate in conformity with Federal law.

Fee Requirement:

The fee to be charged under the program required shall not in any event be less than the amount under the following table:

Category	Minimum Fee
Permit applications	\$ 500
Certificate of label approval applications – electronic filing	\$ 50
Certificate of label approval applications – paper filing	\$ 100
American viticultural area petitions	\$3,000
Formula review (with no laboratory analysis)	\$ 200
Formula review (with laboratory analysis)	\$ 600
Laboratory analysis (other than for formula review)	\$ 150

Exclusions

Certain services and activities covered under the “Protect the Public” mission do not lend themselves to the user fee initiative. As a result, the following activities are not intended to be subject to user fees:

- ❖ **Enforcement of Regulatory Provisions.** Enforcement of TTB’s laws and regulations is designed primarily to protect the public. Investigators conduct product integrity inspections and other fieldwork that provides an assurance to the general public that the product they purchase is what it is represented to be.

- ❖ **Market Compliance (including import/export activities).** TTB has excluded certain services provided under Advertising, Labeling and Formulation Division (ALFD), the International Trade Division (ITD), and the Trade Investigations Division on the basis that the underlying activities are directed more to protecting the public than benefiting any industry member. TTB has excluded those efforts of ALFD with regards to responding to consumer complaints. Activities that ALFD conducts with regard to case processing on product integrity inspections; the Alcohol Sampling Program; and the Alcohol Advertising Program have been excluded. In addition, activities covered under ITD that facilitate trade of alcohol beverages in the international area have also been excluded, because imposing user fees discourages free trade with other countries.

- ❖ **Lab Analysis Regarding Contaminants.** Lab analysis of beverage alcohol products to examine for contaminants provides benefits to the general public and provides no specific benefit to the user.

- ❖ **Permit Renewal Fees for Existing Permittees or for Amended Applications.** User fees on permits would not apply to existing permittees or amended applications. There are roughly 4,000 existing permittees that pay nearly \$15 billion in excise taxes per year. Implementing user fees on existing members who pay excise taxes is contradictory to OMB Circular A-25. Amended applications occur when permittees change addresses, board members, etc.