

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Budget Activity

(Dollars in thousands)

Appropriation	FY 2007	FY 2008	FY 2009		
	Enacted	Enacted	President's Budget	Increase/Decrease	Percent Change
Salaries and Expenses	\$90,618	\$93,515	\$96,900	\$3,385	3.6%
Collect the Revenue	46,215	47,693	49,420	1,727	3.6%
Protect the Public	44,403	45,822	47,480	1,658	3.6%
Subtotal, Alcohol and Tobacco Tax and Trade Bureau	\$90,618	\$93,515	\$96,900	\$3,385	3.6%
Offsetting Collections - Reimbursables	3,024	3,755	2,868	(887)	(23.6%)
Total Program Operating Level	\$93,642	\$97,270	\$99,768	\$2,498	2.6%

Explanation of Request

The Alcohol and Tobacco Tax and Trade Bureau (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 consumers are provided with alcohol beverages that meet federal production, labeling, advertising and marketing standards. The FY 2009 President's Budget request enables the continuation of efforts to meet the performance measures that support TTB's strategic goal to collect the revenue and protect the public.

Total resources required to support TTB activities for FY 2009 are \$99,768,000 including \$96,900,000 from direct appropriations and an estimate of \$2,868,000 in offsetting collections and reimbursable programs.

Purpose of Program

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

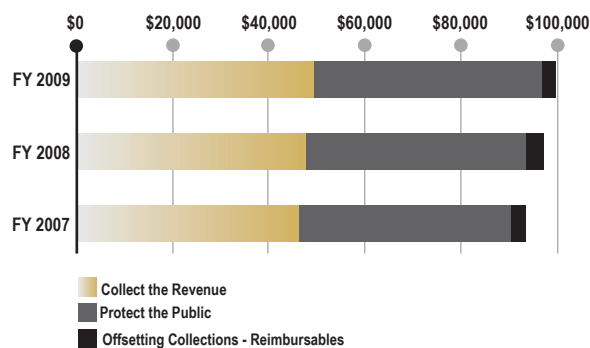
Collect the Revenue

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. 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 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 paper and tubes for tobacco products, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. About 200 of the largest

TTB Funding History

(Dollars in Thousands)



taxpayers account for 99 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 are: identifying any gaps in tax payment, identifying illegal entities or 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 all of industry that encourages voluntary compliance.

Protect the Public

TTB works to ensure 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, 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 maintains the appropriate level of oversight to ensure public safety. Education, partnerships, and open communication are paramount strategies in facilitating compliance with regulatory requirements.

TTB FY 2009 Budget Highlights

(Dollars in thousands)

Appropriation	Amount
FY 2008 Enacted	\$93,515
Changes to base:	
Base Realignment:	(\$1,149)
Base Realignment from Collect the Revenue	(935)
Base Realignment to Protect the Public	935
Increased Reimbursable Payments from PR Gov't	(1,149)
Maintaining Current Levels (MCLs):	\$2,229
Non-Pay Inflation Adjustment	752
Pay Annualization	402
Pay Inflation Adjustment	1,075
Subtotal FY 2009 Changes to Base	\$1,080
Total FY 2009 Base	\$94,595
Program Changes:	
Program Decreases:	(\$685)
Efficiency Savings	(685)
Program Increases:	\$2,990
IT Infrastructure (Hardware Refresh)	2,990
Subtotal FY 2009 Program Changes	\$2,305
Total FY 2009 President's Budget Request	\$96,900

FY 2009 Budget Adjustments

FY 2008 Enacted

The FY 2008 enacted direct appropriation for TTB is \$93,515,000.

Base Realignment

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 of 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)

Adjustments Necessary to Maintain Current Levels +\$2,229,000 / +0 FTE Funds are requested for: FY 2009 cost of the January 2008 pay increase of \$402,000; proposed January 2009 pay raise of \$1,075,000; and non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of \$752,000.

Program Decreases

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

IT Infrastructure (Hardware Refresh) +\$2,990,000 / +0 FTE Funds are needed 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 Application for and Certification/Exemption of Label/Bottle Approval.

Explanation of Budget Activities

Salaries and Expenses

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. This program includes projects designed to allow taxpayers to report and pay excise taxes electronically.

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.

Legislative Proposals

Extend Pay Demonstration Program for one additional year. TTB proposes to continue the Pay Demonstration Program by amending the general provision language to extend the program for one additional year.

TTB Performance by Budget Activity

Budget Activity	Performance Measure	FY 2005	FY 2006	FY 2007		FY 2008	FY 2009
		Actual	Actual	Actual	Target Met?	Target	Target
Collect the Revenue	Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)(%) (Oe)	70	75.95	75	✓	75	75
Collect the Revenue	Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue) (Revenue %) (Oe)	86.3	87.2	86.37	✓	87	87
Collect the Revenue	Percentage of total tax receipts collected electronically (%) (E)	98	98	98	✓	98	98
Protect the Public	Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days (%) (E)	81	86	85.09	✓	80	80

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

Description of Performance

The bureau continues to collect nearly \$15 billion in federal excise taxes in a highly efficient manner, and continues to help industry members comply with alcohol and tobacco laws and regulations. TTB met nine of its ten performance measures, indicating that the bureau is meeting its performance goals and showing continued improvements in performance scores. The only performance measure not met was the “Percentage of COLA applications processed within 9 calendar days of receipt.” This measure was difficult to achieve because the complexity and volume of this type of workload, which is driven by 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 remain constant. The bureau plans to monitor its performance, and will continue to capture performance information on program operations to both measure and improve the effectiveness of its operations.

The investments in the Collect the Revenue 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 from 8,500 excise taxpayers holding permits.
- 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.
- Processed \$459 million in cover-over payments to Puerto Rico and \$8 million to the Virgin Islands. Federal excise taxes collected on rum produced in Puerto Rico and the Virgin Islands and subsequently imported 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 investments in Protect the Public activity have resulted in the following performance highlights and accomplishments during FY 2007:

- Processed 125,117 COLAs applications of which 63,811 applications were e-filed for a total of 51 percent through COLAs Online. 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 and approved 22,116 amended permits and 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.
- 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 United States, Argentina, Australia, Canada, Chile, and New Zealand. The labeling agreement was signed in January 23, 2007, and will facilitate the export trade in wine from the United States to WWTG countries.
- The Scientific Services Division received its accreditation from the International Organization for Standardization.