

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Appropriations Account

(Dollars in thousands)

Appropriation	FY 2006	FY 2007		FY 2008		
	Enacted	President's Budget	CR-rate	President's Budget	\$ Change over CR-rate	% Change over CR-rate
Salaries and Expenses	\$90,215	\$92,604	\$90,215	\$93,515	\$3,300	3.7%
Collect the Revenue	49,618	45,376	46,010	47,693	1,683	3.7%
Protect the Public	40,597	47,228	44,205	45,822	1,617	3.7%
Subtotal, Alcohol and Tobacco Tax and Trade Bureau	\$90,215	\$92,604	\$90,215	\$93,515	\$3,300	3.7%
Offsetting Collections - Reimbursables	1,700	1,700	1,700	1,700	0	0.0%
Total Program Operating Level	\$91,915	\$94,304	\$91,915	\$95,215	\$3,300	3.6%

Explanation of Request

The Alcohol and Tobacco Tax and Trade Bureau (TTB) will continue to focus efforts on helping industry members comply with alcohol and tobacco laws and regulations, thus ensuring that all the appropriate excise taxes are collected and that consumers are provided with alcohol beverages that meet all federal production, labeling, advertising and marketing standards. The FY 2008 President's Budget request for TTB enables the continuation of efforts to meet the performance measures that support TTB's strategic goals to collect the revenue and protect the public.

Total resources required to support TTB activities for FY 2008 are \$95,215,000, including \$93,515,000 from direct appropriations and an estimate of \$1,700,000 in offsetting collections and reimbursable programs.

Purpose of Program

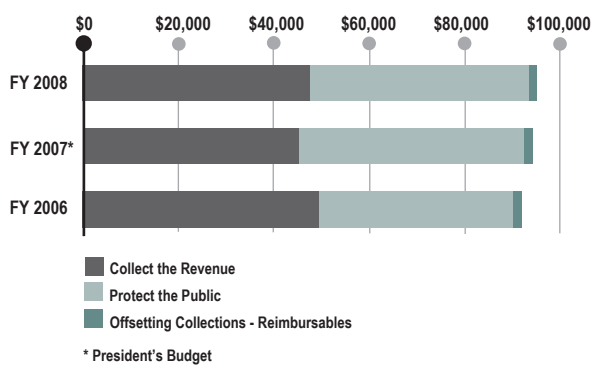
TTB serves as the nation's primary federal authority in the regulation of the alcohol and tobacco industries. TTB is responsible for the administration and enforcement of two major areas of federal law affecting those industries, namely: those sections of the Internal Revenue Code associated with the 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 7,500 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 taxpayers account for 98 percent of the annual excise tax collected. In FY 2006, the majority of taxes collected were from tobacco (50 percent) and alcohol

TTB Funding History

(Dollars in Thousands)



(48 percent), with the remainder from firearms and ammunition (2 percent).

Strategies used to collect all the revenue rightfully due include identifying any gaps in tax payment, identifying any 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 the 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 40,000 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 to maintain the appropriate level of oversight to ensure public safety. Education, partnerships, and open communication are paramount strategies in facilitating compliance with regulatory requirements.

TTB FY 2008 Budget Highlights

(Dollars in thousands)

Appropriation	Amount
FY 2006 Enacted	\$90,215
FY 2007 President's Budget	\$92,604
CR-rate Adjustment	(2,389)
FY 2007 CR-rate	\$90,215
Changes to base:	
Technical Adjustment to FY 2007 Base due to CR:	
Non-Pay Inflation Adjustment	404
Maintaining Current Levels (MCLs):	\$2,896
Non-Pay Inflation Adjustment	931
Pay Annualization	287
Pay Inflation Adjustment	1,678
Subtotal FY 2008 Changes to Base	\$3,300
FY 2008 Base	\$93,515
Program Changes:	
Program Decreases:	(\$441)
Field Operations / National Revenue Center	(441)
Program Reinvestment:	\$441
Field Operations / Tobacco Enforcement Division	441
Subtotal FY 2008 Program Changes	\$0
Total FY 2008 President's Budget	\$93,515

FY 2008 Budget Adjustments

FY 2007 President's Budget

The FY 2007 President's Budget request for TTB is \$92,604,000.

Adjustments

CR-rate Adjustment - \$2,389,000 / +0 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Technical Adjustment to FY 2007 Base due to CR

Non-Pay Inflation Adjustment +\$404,000 / +0 FTE Adjustment to restore FY 2007 base due to CR.

Maintaining Current Levels (MCLs)

Adjustments Necessary to Maintain Current Levels +\$2,896,000 / +0 FTE Funds are requested for: FY 2008 cost of the January 2007 pay increase of \$287,000; proposed January 2008 pay raise of \$1,678,000; and non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of \$931,000.

Program Decreases

Field Operations / National Revenue Center - \$441,000 / +0 FTE TTB realigned its staff resources from the National Revenue Center to create the Tobacco Enforcement Division.

Program Reinvestment

Field Operations / Tobacco Enforcement Division +\$441,000 / +0 FTE TTB realigned its staff resources to create the Tobacco Enforcement Division to monitor domestic tobacco trade and act as the bureau's tobacco coordinator. This action will improve identification of potential targets for investigation, and TTB will be able to ensure that only qualified applicants enter the tobacco trade, ensure compliance with the tax laws, and to facilitate voluntary compliance.

Explanation of Budget Activities

Salaries and Expenses

Collect the Revenue (\$47,693,000 from direct appropriations and \$867,000 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 (\$45,822,000 from direct appropriations and \$833,000 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, 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 one additional year. TTB proposes to continue the Pay Demonstration Program by amending the general provision language to extend the program one additional year.

Description of Performance

TTB met all of its performance measures under the Collect the Revenue strategy. Investments in the Collect the Revenue Activity resulted in several accomplishments during FY 2006:

- TTB collected \$14.8 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries from 7,500 excise taxpayers holding permits.
- 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 system. TTB has registered over 1,600 taxpayers to use Pay.Gov. In FY 2006, 98 percent of TTB’s tax receipts were collected electronically.
- Voluntary compliance – 76 percent of taxpayers filed payments on or before the scheduled due date.
- TTB processed \$359 million in cover-over payments to Puerto Rico and \$6 million to the Virgin Islands. Federal excise taxes collected on rum produced in Puerto Rico and the Virgin Islands and imported into the United States are “covered-over” (or paid into) the treasuries of Puerto Rico and the Virgin Islands.

TTB met two of its three performance measures under the Protect the Public strategy. The only measure not met is the percentage of Certificates of Label Approval applications processed within nine calendar days following receipt. This measure is difficult to achieve because the Certificate of Label Approval workloads are expected to continue to rise while staff will remain at a constant level.

TTB Performance by Budget Activity

Budget Activity	Performance Measure	FY 2004	FY 2005	FY 2006		FY 2007	FY 2008
		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)	N/A	70	75.95	✓	78	76
	Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue) (%) (Oe)	81.2	86.3	87.2	✓	88	87
	Percentage of total tax receipts collected electronically (%) (E)	97.3	98	98	✓	98	98
Protect the Public	Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days (%) (E)	N/A	81	86	✓	82	82

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

Investments in the Protect the Public Activity resulted in several accomplishments during FY 2006:

- TTB processed 114,000 Certificate of Label Approval (COLAs) applications, 37 percent of which were e-filed 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.
- TTB issued 5,400 original and 21,000 amended permits. 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.
- TTB participated in negotiations between the United States and Mexico regarding cross-border trade in tequila, which resulted in a signed agreement on January 17, 2006. This agreement protects approximately \$560 million per year of tequila imports in terms of gross revenues to major members of the distilled spirits industry.
- TTB played a significant role in negotiating a March 2006 agreement between the U.S. and the European community regarding trade in wine. The signed agreement covers wine-making practices and labeling, and will facilitate bilateral trade in wine valued at \$2.8 billion annually.