

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Budget Activity

(Dollars in thousands)

Appropriation	FY 2008	FY 2009	FY 2010		
	Enacted	Enacted	Request	\$ Change	% Change
Salaries and Expenses	\$93,515	\$99,065	\$105,000	\$5,935	6.0%
Collect the Revenue	\$47,693	\$50,523	\$52,500	\$1,977	3.9%
Protect the Public	\$45,822	\$48,542	\$52,500	\$3,958	8.2%
Subtotal, Alcohol and Tobacco Tax and Trade Bureau	\$93,515	\$99,065	\$105,000	\$5,935	6.0%
Offsetting Collections - Reimbursables	\$3,755	\$5,154	\$4,234	(\$920)	(17.9%)
Total Program Operating Level	\$97,270	\$104,219	\$109,234	\$5,015	4.6%

Note: The FY 2010 Budget Request includes \$80 million in offsetting collections from fee revenues. To the extent that these allocations differ from the Budget, the reader should refer to the figures presented in this document.

Explanation of Request

In FY 2010, the Alcohol Tobacco Tax and Trade bureau (TTB) will continue to focus its efforts on helping industry members comply with alcohol, tobacco, firearms and ammunition laws and regulations, in the interest of collecting all appropriate excise taxes and promoting a marketplace for alcohol beverages that complies fully with federal production, labeling, advertising, and marketing standards. The FY 2010 President's budget request enables TTB to continue its programs and activities necessary to meet the performance measures that support TTB's strategic goals of collecting revenue and protecting the public.

Total resources required to support TTB activities for FY 2010 are \$109,234,000, and 552 FTE, including \$25,000,000 from direct appropriations and \$84,234,000 in offsetting collections. The offsetting collections include \$80,000,000 from annual fee receipts, and \$4,234,000 from other 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 \$22 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 taxes imposed and collected at the producer and importers 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 importer of firearms and ammunition. About 200 of the largest taxpayers account for 98

percent of the annual excise tax collected. In FY 2008, 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 any illegal entities or individuals operating outside the excise tax system, developing a balanced field approach of audits and investigations that target 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 46,200 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 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 2010 Budget Highlights

(Dollars in thousands)

Appropriation	Amount
FY 2009 Enacted	99,065
Changes to Base:	
Base Realignment:	\$0
Base Realignment from Collect the Revenue	(990)
Base Realignment to Protect the Public	990
Maintaining Current Levels (MCLs):	
Across the Board Program Reduction	(1,556)
Pay Annualization	556
Pay Inflation Adjustment	1,014
Non-Pay Inflation Adjustment	421
Subtotal FY 2010 Changes to Base	\$435
Total FY 2010 Base	99,500
Program Changes:	
Program Increases:	\$5,500
Annual Licensing and Registration Fee Program	5,500
Subtotal FY 2010 Program Changes	\$5,500
Total FY 2010 President's Budget Request	105,000
Annual Fees	(80,000)
Total FY 2010 President's Budget Request (Net)	25,000

FY 2010 Budget Adjustments

FY 2009 Enacted

The FY 2009 enacted direct appropriation for TTB is \$99,065,000.

Base Realignment

Base Realignment from Collect the Revenue -\$990,000 / +0 FTE Realignment of funds from the Collect the Revenue budget activity

Base Realignment to Protect the Public +\$990,000 / +0 FTE Realignment from Collect the Revenue to Protect the Public.

Maintaining Current Levels (MCLs)

Adjustments Necessary to Maintain Current Levels +\$435,000 / +0 FTE Funds are requested for: Across the Board Reduction of \$1,556,000; FY 2010 cost of the January 2009 pay increase of \$556,000; proposed January 2010 pay raise of \$1,014,000; non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of \$421,000

Program Increases

Annual Licensing and Registration Fee Program +\$5,500,000 / +12 FTE

Funds are needed to implement the proposed legislation designed to establish a permanent program for FY 2010 and each fiscal year thereafter, requiring the payment of annual fees from alcohol industry members. The \$5.5 million in program costs are principally recurring costs, and will cover labor and other program operating costs. This program will conduct key business activities including the mailing and processing of returns, issuance of non compliance letters, maintaining a client registry, responding to customer inquiries, along with processing of collections and accounting for the revenues.

Adjustments to Request

Special Receipts (Annual Fees) - \$80,000,000 / -410 FTE Special Receipts (Annual Fees)

Explanation of Budget Activities

Salaries and Expenses

Collect the Revenue (\$12,500,000 from direct appropriations, \$40,000,000 from special fund receipts (annual fees), and \$2,117,000 from reimbursable programs)

The FY 2010 President's Budget request is \$12,500,000² from direct appropriations, \$40,000,000 from offsetting collections (annual fees) and \$2,117,000 from reimbursable programs, for a total operating level of \$54,617,000. 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

² The allocation of appropriated resources presented in the President's Budget has been updated in this document. To the extent that these allocations differ from the Budget, the reader should refer to the figures presented in this document.

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

Protect the Public (\$12,500,000 from direct appropriations, \$40,000,000 from special fund receipts (annual fees), and \$2,117,000 from reimbursable programs)

The FY 2010 President's Budget request is \$12,500,000 from direct appropriations, \$40,000,000 from offsetting collections (annual fees) and \$2,117,000 from reimbursable programs, for a total operating level of \$54,617,000. 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.

Annual Licensing and Registration Fee Program: Legislation will be proposed to allow TTB to establish a permanent program for FY 2010 and for future fiscal years requiring the payment of annual fees from its industry members. In the first year, the annual estimated offsetting fee collections will be less, but it is anticipated that the annual collections from this program will reach \$105 million each year thereafter. In general, these fees will support the Bureau's core mission

and the funds will be used to continue to provide benefits to retailers, wholesalers, breweries, wineries, distilleries, and industrial alcohol businesses. In particular, TTB's efforts help ensure that alcohol products are not contaminated, misbranded, illegally marketed, and prevent dishonest persons from entering into the alcohol distribution system.

This promotes fair competition among all industry members. Regulation of these industries also protects the public against adulterated alcohol products, and misleading labels and advertisements.

TTB Performance by Budget Activity

Budget Activity	Performance Measure	FY 2006	FY 2007	FY 2008		FY 2009	FY 2010
		Actual	Actual	Actual	Target Met?	Target	Target
Collect the Revenue	Amount of revenue collected per program dollar (E)	N/A	N/A	313	Yes	300	260
Collect the Revenue	Percentage of Voluntary Compliance from large tax payers in filing tax payments timely and accurately (in terms of revenue) (Oe)	N/A	N/A	94	Yes	92	92
Protect the Public	Percent of electronically filed Certificate of Label Approval applications (%) (E)	38	51	62	Yes	53	54
Protect the Public	National Revenue Center (NRC) customer satisfaction results (Oe)	N/A	N/A	90	Yes	85	85
Protect the Public	Average number of days to process an original permit application at the National Revenue Center (E)	N/A	N/A	64	Yes	72	78
Protect the Public	Percentage of importers identified by TTB as illegally operating without a Federal permit (%)	N/A	N/A	22	N/A	20	19

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

Description of Performance

The Bureau continues to collect the federal excise taxes in a highly efficient manner, and continues to help industry members comply with alcohol and tobacco laws and regulations. During FY 2008, TTB met all of its performance goals, while showing continued improvements in performance scores. The Bureau plans to continue to monitor its performance, and will continue to capture performance information on program operations to both measure and improve the effectiveness of its operation.

The investments in the Collect the Revenue Activity resulted in the following

performance highlights and accomplishments during FY 2008:

- Collected \$14.6 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. The number of Pay.gov registrants is over 3,600.
- Processed \$373 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 that are subsequently imported into the United States are “covered-over” (or paid into) the treasuries of Puerto Rico and the Virgin Islands.

- Processed \$283 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 2008:

- Processed 133,427 Certificate of Label Approval (COLAs) applications through the bureau’s COLAs Online system for electronic filing of label applications.

The number of electronic filed applications increased from the prior year from fifty one percent to sixty two percent. The Federal Alcohol Administration Act requires importers and bottlers of alcoholic beverages to obtain a COLA prior to introduction of the product into commerce.

- Issued 4,600 original permits and approved 21,400 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 more than 900 field application investigations of industry members regarding applications, consumer complaints, tax fraud, trade practice violations, and product and labeling integrity verifications.