

# Alcohol and Tobacco Tax and Trade Bureau

## Mission Statement

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.

## Program Summary by Appropriations Account

Dollars in Thousands

Appropriation	FY 2006 Enacted	FY 2007 President's Budget	FY 2007 CR-rate	FY 2008		
				Request	\$ from CR-rate	% from CR-rate
Salaries and Expenses	\$49,618	\$45,376	\$46,010	\$47,693	\$1,683	3.66%
Collect the Revenue	40,597	47,228	44,205	45,822	1,617	3.66%
Protect the Public						
<b>Total Appropriated Resources</b>	<b>\$90,215</b>	<b>\$92,604</b>	<b>\$90,215</b>	<b>\$93,515</b>	<b>\$3,300</b>	<b>3.66%</b>

The activity pattern for FY 2007 should be reversed, in that Collect the Revenue should be \$47,228 (51%) and Protect the Public \$45,376 (49%).

## FY 2008 Priorities

- Collect roughly \$15 billion in excise taxes;
- Process more than 6,700 original permit applications that allow for the commencement of new alcohol and tobacco businesses and 26,000 amended permits to accommodate changes to existing businesses;
- Process over 125,000 applications for certificates of label approval that allow industry members to introduce new alcohol beverage products into the marketplace;
- Collect excise taxes for the governments of Puerto Rico and the Virgin Islands under the “cover-over” imposed on rum and distilled spirits;
- Process approximately 3,000 claims filed by manufacturers of non-beverage alcohol products resulting in drawback of \$300 to \$400 million;
- Collect 98 percent of the federal excise tax receipts electronically;
- Complete approximately 80 to 100 audits of large taxpayers who pay approximately \$3 billion in annual federal excise taxes; and
- Conduct over 700 field investigations of alcohol and tobacco industry members including permit application investigations, responding to consumer complaints, investigating Federal Alcohol Administration Act (FAA) trade practice violations, and conducting alcohol beverage product integrity verifications.

## Table of Contents

<b>Section 1 – Purpose .....</b>	<b>2</b>
1A – Description of Bureau Vision and Priorities .....	2
1B – Program History and Future Outlook.....	3
<b>Section 2 – Budget Adjustments and Appropriation Language.....</b>	<b>7</b>
2.1 – Budget Adjustments Table.....	7
2A – Budget Increases and Decreases Description.....	7
2.2 – Operating Levels Table.....	9
2B – Appropriation Language .....	10
2C – Legislative Proposals.....	10
<b>Section 3 – Budget and Performance Plan .....</b>	<b>11</b>
3.1 – Appropriation Detail Table .....	11
3A – Collect the Revenue .....	11
3.2.1 – Collect the Revenue Budget and Performance Plan .....	12
3B – Protect the Public .....	12
3.2.2 – Protect the Public Budget and Performance Plan .....	13
<b>Section 4 – Supporting Materials .....</b>	<b>15</b>
4.1 – Human Resources Table .....	15
4A – Human Capital Strategy Description .....	15
4.2 – Summary of IT Resources Table .....	17
4B – Information Technology Strategy .....	18
4.3 – PART Evaluation Table.....	19

## **Section 1 – Purpose**

---

### **1A – Description of Bureau Vision and Priorities**

The Alcohol and Tobacco Tax and Trade Bureau (TTB) serves as the nation’s primary federal authority in the regulation of the alcohol and tobacco industries. TTB is responsible for the administration and enforcement of two major areas of federal law, 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.

In Fiscal Year (FY) 2008, 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.

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

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

The total resources required to support TTB activities for FY 2008 are \$95,215,000, including \$93,515,000 from direct appropriations and \$1,700,000 from reimbursable fees.

## **1B – Program History and Future Outlook**

***Program History*** - TTB has two primary activities that focus on collecting all the revenue rightfully due and providing the public with products that meet industry standards set by federal law.

***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.

The excise taxes collected by TTB come from approximately 7,500 businesses, and the taxes are 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 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 (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, 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. Alcohol and tobacco taxes collected by TTB are remitted to the Department of the Treasury General Fund. Firearms and ammunition excise taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

The investments in this activity resulted in the following performance highlights and accomplishments during FY 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 continued its multi-year effort to audit the largest taxpayers who are responsible for 98 percent of the annual \$14.8 billion federal excise tax collections. The cumulative audit results include an additional \$4.4 million in collections identifying \$8.1 million in tax, penalties, and interest potentially due as result of audit work completed in FY 2006.
- 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 subsequently imported into the United

States are “covered-over” (or paid into) the treasuries of Puerto Rico and the Virgin Islands.

- TTB processed \$338 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.
- TTB laboratories analyzed 2,259 beverage alcohol samples for product integrity, pre-import analysis, and 5010-tax credit determination. TTB also analyzed 312 tobacco product samples for tax classification. TTB laboratories review formulations or analyze alcohol and tobacco products to ensure compliance with TTB tax and classification regulations.

***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.

The investments in this budget activity resulted in the following performance highlights and accomplishments during FY 2006:

- TTB processed 114,000 Certificate of Label Approval (COLAs) applications, 37 percent of which were filed electronically through COLAs Online. By FY 2008, TTB anticipates over 48 percent of all COLAs will be e-filed. 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 conducted 473 field investigations on the most high-risk applications to ensure objectives of the Anti-Terrorism Act of 2001 were met.
- TTB participated in negotiations between the United States and Mexico regarding cross-border trade in tequila, which resulted in an agreement that was signed 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 an agreement between the U.S. and the European Community regarding trade in wine, which was signed on March

- 10, 2006. This agreement covers wine-making practices and labeling, and will facilitate bilateral trade in wine valued at \$2.8 billion annually. The U.S. wine export figures for trade with the European Community in FY 2005 was \$323 million. Exports of U.S. wine for 2006 have already surpassed 2005 figures in terms of value, at \$405 million for the Jan-Oct 2006 timeframe. Similarly, 2006 bilateral trade totals are expected to exceed those of 2005 as both U.S. exports and EU imports are up (43 percent and 14.6 percent, respectively).
- TTB's international trade work also involved assistance in the labeling agreement with the World Wine Trade Group (WWTG). WWTG members include the U.S., Argentina, Australia, Canada, Chile, and New Zealand. The labeling agreement, which was initialed on September 20, 2006 and is scheduled to be signed in January 2007, will facilitate the export trade in wine from the U.S. to WWTG countries. The value of the 2005 U.S. wine export trade to WWTG countries (the latest data available) is as follows:
    - Canada - \$128 million
    - Argentina - \$.551 million
    - New Zealand - \$.369 million
    - Australia - \$4 million
    - Chile - \$.183 million
  - TTB conducted 832 field application investigations of industry members regarding consumer complaints, trade practice violations, and product and labeling integrity verifications.

***Specific Challenges in FY 2008*** – The alcohol beverage industry in the U.S. is over a \$150 billion industry which pays over \$7 billion in excise taxes each year. Economic forecasts predict continued modest growth in the alcohol industry. Total taxes collected on alcoholic beverages rose less than one percent for the period ended September 30, 2006, to \$7.1 billion from \$7 billion in the year prior. TTB envisions that in the next few years the increase in new alcohol businesses will be most prominent in the number of new alcohol fuel plants (ethanol), wineries, craft breweries, and craft distilleries.

TTB collected \$7.3 billion in taxes on tobacco products in FY 2006, approximately equal to collections in FY 2005. US Customs and Border Protection's collection of taxes on imported tobacco products declined, from \$429 million in FY 2005 to \$352 million in FY 2006. While part of this decline represents a decrease in consumption of roughly 0.7 percent, this decline is also attributable to a proliferation of the sale of illegal or smuggled cigarettes. There has also been a slight decline in the number of permitted tobacco importers in operation, from 685 tobacco importers in 2005 to 644 tobacco importers in 2006. However, TTB has recently identified over 150 companies and individuals that have been importing tobacco products without permits. Other trends identified include the decrease in the internet sales of cigarettes, but an increase in the online sales of pipe tobacco, roll your own tobacco, cigars and little cigars in the past year. There is also an increase in the use and sale of water pipe tobacco, or shisha tobacco that is either imported from the Middle East or domestically manufactured. This type of tobacco is taxable as pipe tobacco. Recent investigations and audits have also reflected potential criminal violations within TTB permitted industry members operations. Some examples

of these are: criminal recordkeeping violations and reimportation of previously exported tobacco products.

TTB continually strives to make improvements to its processes, systems, and availability of information in order to enhance its ability to service TTB's industry members. In terms of revenue collection in FY 2008, TTB plans to conduct 80 to 100 excise tax audits, and to promote voluntary compliance in the payment of federal excise taxes by maintaining a strong field presence. The audits are accomplished using a staff of approximately 80 professional auditors located throughout the United States. In April 2006, the Tax Audit Division (TAD) developed a Strategic Audit Plan for its fiscal years 2007 through 2009, and will go forward with focusing TTB's resources on taxpayers paying more than 90 percent of the tax, as well as on taxpayers who meet other indicators (risk model rankings, referrals, and targeted risk areas).

TTB expects continued growth in the number of beverage alcohol samples analyzed by TTB laboratories. In addition, TTB anticipates a significantly larger increase in tobacco samples submitted to the laboratories because of the new standards of identity for classifying cigarettes and little cigars. In FY 2008, the TTB labs will work towards developing methods to support tax collection activities in the tobacco program.

Effective January 1, 2006, taxpayers under this category may pay their taxes and submit their returns on a quarterly basis, as provided under the Internal Revenue Code. The statutory provision authorizing the filing of quarterly rather than semi-monthly returns for certain qualified taxpayers has not resulted in a robust quarterly filing program because the statutorily prescribed bonding requirements create a financial disincentive for taxpayers to avail themselves of the quarterly filing option. In particular, in the case of brewers and distillers, the statutory bonding requirement is tied to the tax liability in a given return period. Since the use of a quarterly filing would trigger a higher tax liability for that period, the bonding requirement increases, causing additional bonding costs to the taxpayer that are not counterbalanced by the savings recognized by the extended return period.

***Preparing for the Future in FY 2008*** - Succession planning is high on the list of TTB strategic priorities, especially regarding TTB's investigative forces. TTB expects to lose 40 percent of its workforce between 2006 and 2010 due to retirements and other attrition. To mitigate these losses, TTB continues to use the personnel interventions identified in the Pay Demonstration project to enable the Bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB uses tailored approaches designed, developed, and implemented specifically for the Bureau's continuing and evolving needs in order to meet mission requirements and remain competitive for highly skilled talent.

Continuation of the Pay Demonstration authority is a key component in TTB's ability to close skill gaps in mission critical occupations. In FY 2006, TTB contracted for a study to provide an independent evaluation of this program, and the results will be examined in 2007. The FY 2008 budget seeks authority be granted for continuation of this program by one year.

## Section 2 – Budget Adjustments and Appropriation Language

### 2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: TTB Salaries and Expenses	FTE	Amount
<b>FY 2006 Appropriation (P.L. 109-115)</b>	544	\$91,126
Rescission (P.L. 109-148)	0	(\$911)
<b>FY 2006 Enacted</b>	544	\$90,215
<b>FY 2007 President's Budget</b>	544	\$92,604
CR-rate Adjustment		(2,389)
<b>FY 2007 CR-rate</b>	544	\$90,215
<b>Changes to Base:</b>		
<b>Technical Adjustment to FY 2007 Base due to CR:</b>		
Non-Pay Inflation Adjustment		404
<b>Maintaining Current Levels (MCLs):</b>		
Non-Pay Inflation Adjustment		931
Pay Annualization		287
Pay Inflation Adjustment		1,678
<b>Total FY 2008 Base</b>	544	\$93,515
<b>Program Decreases:</b>		
Field Operations / National Revenue Center		(441)
<b>Program Reinvestment:</b>		
Field Operations / Tobacco Enforcement Division		441
<b>Subtotal FY 2008 Program Changes</b>	<b>0</b>	<b>0</b>
<b>Total FY 2008 Request</b>	544	\$93,515

### 2A – Budget Increases and Decreases Description

**Adjustments** .....-\$2,389,000 / +0 FTE

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** .....+\$404,000 / +0 FTE

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

**Maintaining Current Levels (MCLs)** .....+\$2,896,000 / +0 FTE

Non-Pay Inflation Adjustment +\$931,000 / +0 FTE Funds are requested for non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments.

Pay Annualization +\$287,000 / +0 FTE Funds are requested for the FY 2008 cost of the January 2007 pay increase.

Pay Inflation Adjustment +\$1,678,000 / +0 FTE Funds are requested for the proposed January 2008 pay raise.

**Program Decreases** .....-\$441,000 / +0 FTE

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 .....+\$441,000 / +0 FTE**

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.

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: TTB Salaries & Expenses	FY 2006 Enacted	FY 2007 President's Budget	Proposed Reprogrammings	CR-rate Adjustment	FY 2007 CR- Rate	FY 2007 Proposed Operating Level	FY 2008 Requested Level
FTE	544	544	-	-	544	544	544
<b>Object Classification:</b>							
11.1 Full-Time Permanent Positions.....	\$40,865	\$40,693	\$0	\$1,608	\$42,301	\$42,301	\$43,640
11.1 Other than Full-Time Permanent Positions.....	0	0	\$0	0	\$0	\$0	0
11.5 Other Personnel Compensation.....	0	718	\$0	(20)	\$698	\$698	778
11.8 Special Personal Services Payments.....	0	0	\$0	0	\$0	\$0	0
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$40,865</b>	<b>\$41,411</b>	<b>\$0</b>	<b>\$1,588</b>	<b>\$42,999</b>	<b>\$42,999</b>	<b>\$44,418</b>
12.0 Personnel Benefits.....	10,541	10,868	\$0	111	\$10,979	\$10,979	11,525
13.0 Benefits to Former Personnel.....	0	0	\$0	0	\$0	\$0	0
21.0 Travel.....	3,282	4,410	\$0	(1,145)	\$3,265	\$3,265	3,363
22.0 Transportation of Things.....	136	104	\$0	(6)	\$98	\$98	101
23.1 Rental Payments to GSA.....	4,775	4,725	\$0	218	\$4,943	\$4,943	4,981
23.2 Rent Payments to Others.....	314	0	\$0	0	\$0	\$0	0
23.3 Communications, Utilities, & Misc.....	5,043	4,806	\$0	(19)	\$4,787	\$4,787	4,931
24.0 Printing and Reproduction.....	408	0	\$0	367	\$367	\$367	378
25.1 Advisory & Assistance Services.....	0	0	\$0	0	\$0	\$0	0
25.2 Other Services.....	21,761	23,959	\$0	(3,206)	\$20,753	\$20,753	21,734
25.3 Purchase of Goods/Serv. from Govt. Accts.....	0	0	\$0	0	\$0	\$0	0
25.4 Operation & Maintenance of Facilities.....	0	0	\$0	0	\$0	\$0	0
25.5 Research & Development Contracts.....	0	0	\$0	0	\$0	\$0	0
25.6 Medical Care.....	0	0	\$0	0	\$0	\$0	0
25.7 Operation & Maintenance of Equipment.....	0	0	\$0	0	\$0	\$0	0
25.8 Subsistence & Support of Persons.....	0	0	\$0	0	\$0	\$0	0
26.0 Supplies and Materials.....	621	682	\$0	(32)	\$650	\$650	670
31.0 Equipment.....	2,119	1,639	\$0	(265)	\$1,374	\$1,374	1,415
32.0 Lands and Structures.....	350	0	\$0	0	\$0	\$0	0
33.0 Investments & Loans.....	0	0	\$0	0	\$0	\$0	0
41.0 Grants, Subsidies.....	0	0	\$0	0	\$0	\$0	0
42.0 Insurance Claims & Indemn.....	0	0	\$0	0	\$0	\$0	0
43.0 Interest and Dividends.....	0	0	\$0	0	\$0	\$0	0
44.0 Refunds.....	0	0	\$0	0	\$0	\$0	0
<b>Total Budget Authority.....</b>	<b>\$90,215</b>	<b>\$92,604</b>	<b>\$0</b>	<b>(\$2,389)</b>	<b>\$90,215</b>	<b>\$90,215</b>	<b>\$93,515</b>
<b>Budget Activities:</b>							
Protect the Public	\$40,597	\$47,228	(1,852)	(\$1,171)	44,205	44,205	\$45,822
Collect the Revenue	49,618	45,376	1,852	(1,218)	46,010	46,010	47,693
<b>Total Budget Authority.....</b>	<b>\$90,215</b>	<b>\$92,604</b>	<b>\$0</b>	<b>(\$2,389)</b>	<b>\$90,215</b>	<b>\$90,215</b>	<b>\$93,515</b>

**2B – Appropriation Language**

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY ALCOHOL AND TOBACCO TAX AND TRADE BUREAU</p> <p style="text-align: center;">Federal Funds</p> <p><b><u>SALARIES AND EXPENSES:</u></b></p> <p><i>For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, \$93,515,000 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.</i></p> <p><b><u>Treasury General Provisions:</u></b> <i>Sec 216. Section 122(g) (1) of Public Law 105-119 as amended (5 U.S.C. 3104 note), is further amended by striking “8 years” and inserting “10 years”.</i></p>	<p>TTB proposes to continue the Pay Demonstration Program (Pay Demo) by amending the administrative provision language to extend the program one additional year. 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. Pay Demo has been extended every year since it was first established in FY 1999. In FY 2006, TTB contracted for a study to provide an independent evaluation of this program. The results of the study will be examined in 2007.</p>

**2C – 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.

## Section 3 – Budget and Performance Plan

### 3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006		FY 2006		FY 2007		FY 2007		FY 2008		% Change FY 2007	
	Enacted		Obligations		President's Budget		CR Rate		Request		to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Salaries & Expenses												
Collect the Revenue	299	49,618	267	45,938	277	45,376	277	\$46,010	277	47,693	0.00%	3.66%
Protect the Public	245	40,597	257	44,136	267	47,228	267	44,205	267	45,822	0.00%	3.66%
<b>Subtotal New Appropriated Resources</b>	<b>544</b>	<b>\$90,215</b>	<b>524</b>	<b>\$90,074</b>	<b>544</b>	<b>\$92,604</b>	<b>544</b>	<b>\$90,215</b>	<b>544</b>	<b>\$93,515</b>	<b>0.00%</b>	<b>3.66%</b>
Other Resources:												
Offsetting Collections - Reimbursable (Puerto Rico)	15	\$1,700	10	\$1,700	15	\$1,700	15	\$1,700	15	\$1,700	0.00%	0.00%
<b>Subtotal Other Resources</b>	<b>15</b>	<b>\$1,700</b>	<b>10</b>	<b>\$1,700</b>	<b>15</b>	<b>\$1,700</b>	<b>15</b>	<b>\$1,700</b>	<b>15</b>	<b>\$1,700</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Total Resources Available for Obligation</b>	<b>559</b>	<b>\$91,915</b>	<b>534</b>	<b>\$91,774</b>	<b>559</b>	<b>\$94,304</b>	<b>559</b>	<b>\$91,915</b>	<b>559</b>	<b>\$95,215</b>	<b>0.00%</b>	<b>3.59%</b>

**3A – 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. TTB will employ a number of strategies to ensure that the revenue that is rightfully due is collected. The Tax Audit Division (TAD) will focus its audit resources on taxpayers paying more than 90 percent of the tax, as well as on taxpayers who meet other risk indicators. The Office of Field Operations will continue to provide industry outreach to facilitate voluntary compliance, investigate allegations or indications of tax fraud, verify destruction of large quantities of taxable commodities, and conduct compliance investigations of non-taxpaying permittees who have substantial potential for tax liability.

Reducing taxpayer burden and improving service remain priorities at TTB. The ultimate goal is to allow permittees and taxpayers to file all payments, returns, and applications online with the National Revenue Center. The FY 2008 budget request enables the continuation of efforts to 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.

*Offsetting Collections – Non Federal Sources (Puerto Rico).....\$867,000*

The reimbursable funds are to cover the costs associated with the functioning and support of the Puerto Rico office, and are paid from the “cover-over” (return) which is offset from the roughly \$359 million in cover over taxes collected in the United States on products originating in Puerto Rico. TTB conducts annual audits / investigations of industry members regarding the collection of revenue, application processing and product integrity. Revenue inspections are used to conduct tax examinations on major producers of alcohol and tobacco.

### 3.2.1 – Collect the Revenue Budget and Performance Plan

Dollars in Thousands

Collect the Revenue Budget Activity		Includes Strategic Objective F4A			
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	\$56,801	\$45,285	\$49,618	\$45,376	\$47,693
Other Resources	1,700	935	935	867	867
<b>Total Operating Level</b>	<b>\$58,501</b>	<b>\$46,220</b>	<b>\$50,553</b>	<b>\$46,243</b>	<b>\$48,560</b>
Human Resources					
Appropriated FTE	363	299	299	277	277
Other FTE	15	8	8	8	8
<b>Total FTE (direct and reimbursable)</b>	<b>378</b>	<b>307</b>	<b>307</b>	<b>285</b>	<b>285</b>

Collect the Revenue Budget Activity		Includes Strategic Objective F4A				
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Cumulative percentage of excise tax revenue audited over 3 years (%) (Ot)	Target		65%	90%	12%	74%
	Actual		82%	93%		
	Met		Yes	Yes		
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)(%) (Oe)	Target		70%	74%	74%	76%
	Actual		70%	75.95%		
	Met		Yes	Yes		
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue) (%) (Oe)	Target	82	84	86	86	87
	Actual	81.2	86.3	87.2		
	Met	No	Yes	Yes		
Percentage of total tax receipts collected electronically (%) (E)	Target	98%	98%	98%	98%	98%
	Actual	97.3%	98%	98%		
	Met	No	Yes	Yes		
Resources as a percentage of revenue (%) (E)	Target		0.4%	0.34%	0.34%	0.34%
	Actual		0.37%	0.31%		
	Met		Yes	Yes		
Unit cost to process an excise tax return based on new legislation (\$) (E)	Target			Baseline	\$76	\$76
	Actual			\$76		
	Met			Yes		

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

#### *Description of Performance:*

TTB met five of its five performance measures under the Collect the Revenue strategy. A sixth measure was a baseline measure. TTB collected \$14.78 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries.

**3B – 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. TTB works with industry, other federal and state governments, and other interested parties to

make it easier to comply with regulatory requirements, while maintaining the appropriate level of oversight to ensure public safety. Innovation, partnerships, and open communication are paramount to achieving this strategic goal.

*Offsetting Collections – Non Federal Sources (Puerto Rico).....\$833,000*

The reimbursable funds are to cover the costs associated with the functioning and support of the Puerto Rico office, and are paid from the “cover-over” (return) which is offset from the roughly \$359 million in cover over taxes collected in the United States on products originating in Puerto Rico. TTB conducts annual audits / investigations of industry members regarding the collection of revenue, application processing and product integrity. Revenue inspections are used to conduct tax examinations on major producers of alcohol and tobacco.

### 3.2.2 – Protect the Public Budget and Performance Plan

Dollars in Thousands

Protect the Public Budget Activity Resource Level	Includes Strategic Objective E2A				
	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	\$22,727	\$37,051	\$40,597	\$47,228	\$45,822
Other Resources	0	765	765	833	833
<b>Total Operating Level</b>	<b>\$22,727</b>	<b>\$37,816</b>	<b>\$41,362</b>	<b>\$48,061</b>	<b>\$46,655</b>
Human Resources					
Appropriated FTE	181	245	245	267	267
Other FTE	0	7	7	7	7
<b>Total FTE (direct and reimbursable)</b>	<b>181</b>	<b>252</b>	<b>252</b>	<b>274</b>	<b>274</b>

Protect the Public Budget Activity Measure		Includes Strategic Objective E2A				
		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Compliance Level of New Industry Members	Target				Baseline	TBD
	Actual					
	Met					
Percent of electronically filed Certificate of Label Approval applications (%) (E)	Target	7%	16%	27%	47%	48%
	Actual	10%	25%	38%		
	Met	Yes	Yes	Yes		
Percentage of COLA approval applications processed within 9 calendar days of receipt (%) (E) (This measure will become inactive beginning in FY 2008.)	Target	60%	30%	55%	45%	0%
	Actual	23%	50%	44%		
	Met	No	Yes	No		
Percentage of current industry members that were found to have links to criminal or terrorist organizations or were otherwise a prohibited person	Target				Baseline	TBD
	Actual					
	Met					
Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days (%) (E)	Target		67%	80%	80%	82%
	Actual		81%	86%		
	Met		Yes	Yes		
The unit cost to process a Certificate of Label Approval	Target				Baseline	TBD
	Actual					
	Met					

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

*Description of Performance:*

TTB met two of its three performance measures under the Protect the Public Strategy. The one 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. In FY 2008, the “Percentage of COLA approval applications processed within 9 calendar days of receipt” measure will be inactivated and replaced with a new efficiency measure “The unit cost of producing a Certificate of Label Approval.”

TTB proposes to add three new measures under Protect the Public: “The unit cost to process a wine COLA”; “Compliance level of new industry members”; and “Current industry members linked to terrorist organizations.”

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

[http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part\\_IV\\_Appendices.pdf](http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf)

## Section 4 – Supporting Materials

---

### 4.1 – Human Resources Table

Changes in Full Time Equivalents

Direct FTE	FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year	514	524	544
<b>Increases:</b>			
Recruitment of Auditors and Investigators	10	20	
<b>Subtotal, Increases</b>	<b>10</b>	<b>20</b>	<b>0</b>
<b>Decreases:</b>			
<b>Subtotal, Decreases</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Year-end Actual/Estimated FTEs</b>	<b>524</b>	<b>544</b>	<b>544</b>
	1/		
<b>Net Change from prior year SOY to budget year EOY</b>			<b>0</b>

1/ Reason: TTB was established in January 2003 as a result of the Homeland Security Act of 2002. At the end of FY 2006 TTB had 537 staff on board, an equivalent direct FTE level of 524. TTB is authorized to fill 544 direct FTEs.

### 4A – Human Capital Strategy Description

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

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

To accomplish and fulfill both TTB's and the Department of the Treasury's strategic plans, TTB has taken several steps in order to not only maintain its current professional workforce but also improve 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 Pay Demonstration program (PAY DEMO) will continue to be used by the bureau to develop and retain high caliber employees. TTB expects to lose 40 percent of its workforce between 2007 and 2010 due to retirements and other attrition. To accommodate these losses from the baseline, TTB continues to use personnel interventions identified in the PAY DEMO project to enable the bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB uses tailored approaches designed, developed, and implemented specifically for the bureau's continuing and evolving needs in order to meet mission requirements and remain competitive with private industry and other federal agencies for highly skilled talent. TTB has roughly 120 participants in the PAY DEMO that function in mission critical occupations such as chemists, industry analysts, auditors, and information technology specialists.

### ***HR Highlights***

- 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 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 telework 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 stakeholders.
- 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 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.
- TTB finalized its human capital strategic plan which is aligned with TTB's mission. TTB documented strategies for improving skill and competency gaps, improving demographics, workforce management and performance measurement efforts, and succession management planning. The plan has been posted to the TTB intra-web and is accessible to all employees.

## 4.2 – Summary of IT Resources Table

Dollars in Millions

<b>Information Technology Investments</b>											
<b>(in \$ Millions)</b>											
<b>Major IT Investments</b>	<b>Budget Activity</b>	<b>Identify program that system is aligned to</b>	<b>FY 2005</b>		<b>FY 2006</b>		<b>% Change from FY05 Obligations to FY06</b>	<b>FY 2007 President's Budget</b>	<b>% Change from FY06 to FY07</b>	<b>FY 2008 Request</b>	<b>% Change from FY07 to FY08</b>
			<b>Operating Plan</b>	<b>Obligations</b>	<b>Operating Plan</b>						
<b>Total</b>			-	-	-	-	-	-	0.0%	-	100.0%
<b>Non-Major IT Investments</b>											
FET/IRIS	Collect Revenue/Protect Public	All	-	-	1.7	100.0%	-	-100.0%	-	0.0%	
<b>Total</b>			-	-	1.7	100.0%	-	-100.0%	-	0.0%	
<b>Infrastructure Investments</b>											
TTB Infrastructure base	Collect Revenue/Protect Public	All	14.8	14.8	18.0	21.6%	17.2	-4.44%	17.2	0.00%	
Salaries & Benefits (5 FTEs)	Collect Revenue/Protect Public	All	0.65	0.65	0.80	23.1%	0.81	1.20%	0.82	1.20%	
<b>Total</b>			15.5	15.5	18.8	21.3%	18.0	-4.2%	18.0	0.1%	
<b>Total IT Investments - Prosight Numbers</b>			15.5	15.5	20.5	32.3%	18.0	-12.1%	18.0	0.1%	

#### **4B – Information Technology Strategy**

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

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

TTB's investment review board ensures compliance with guidance and legislation. 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 – PART Evaluation Table

Table 4.3

### PART Evaluation

**PART Name:** Collect the Revenue

**Year PARTed:** FY 2004

**Rating:** Effective

**Score:** 93%

#### OMB Major Findings/Recommendations

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 cost and net benefits of regulation.

#### Bureau Actions Planned or Underway

1. TTB is in the process of completing the baselines for its annual performance measures in FY 2006.
2. TTB currently uses the BPD ARC accounting system, which allows for the allocation and tracking of distribution of the funds. This system had not been in service for a full year's data when the PART study was in process.
3. TTB is in the process of completing a major business reengineering study on its Protect the Public Mission. However, the work that has been performed on this study will impact how TTB performs cost benefit studies in the future. The impact should be noticeable in the coming year.

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

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