

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Budget Activity

Dollars in thousands

Budget Activity	FY 2015	FY 2016	FY 2017	FY 2016 TO FY 2017	
	Enacted	Enacted	Request	\$ Change	% Change
Collect the Revenue	\$52,721	\$52,785	\$53,560	\$775	1.47%
Protect the Public	\$47,279	\$53,654	\$52,879	(\$775)	-1.44%
Subtotal, Alcohol and Tobacco Tax and Trade Bureau	\$100,000	\$106,439	\$106,439	\$0	0.00%
Offsetting Collections - Reimbursables	\$7,022	\$6,992	\$6,912	(\$80)	-1.14%
Appropriations Transferred from IRS Program Integrity Cap Adjustment	\$0	\$0	\$5,000	\$5,000	NA
Total Program Operating Level	\$107,022	\$113,431	\$118,351	\$4,920	4.34%
Direct FTE	473	494	494	0	0.00%
Reimbursable FTE	10	10	10	0	0.00%
Appropriations Transferred from IRS Program Integrity Cap Adjustment FTE	0	0	35	35	NA
Total FTE	483	504	539	35	6.94%

Summary

The Alcohol and Tobacco Tax and Trade Bureau (TTB) serves as the Nation's primary Federal authority in the taxation and regulation of the alcohol and tobacco industries. TTB is responsible for the administration and enforcement 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 the alcohol beverage industry to protect U.S. consumers and ensure a fair and competitive marketplace for U.S. businesses.

In FY 2017, TTB will continue to focus its efforts on enforcing compliance 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 2017 President's Budget request enables TTB to continue the programs and activities necessary to meet its strategic goals of collecting revenue and protecting the public.

Total resources required to support TTB activities for FY 2017 are \$118,351,000, including \$106,439,000 from direct appropriations, \$6,912,000 from other offsetting collections and reimbursable programs, and \$5,000,000 in appropriations transferred from other accounts.

TTB FY 2017 Budget Highlights

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
FY 2016 Enacted	494	\$106,439
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$1,562
Pay-Raise	-	\$598
Pay Annualization	-	\$199
Non-Pay	-	\$765
Other Adjustments:	-	(\$1,562)
IT Investments in Application Systems	-	(\$1,562)
Subtotal Changes to Base	-	\$0
Total FY 2017 Base	494	\$106,439
Program Changes:		
Program Increases:	35	\$5,000
Alcohol and Tobacco Enforcement Program	35	\$5,000
Total FY 2017 Operating Level	529	\$111,439
Program Integrity Cap Adjustment Included in IRS Budget Request	-	(\$5,000)
Total FY 2017 Net Appropriation Request	529	\$106,439

FY 2017 Budget Adjustments

Adjustments to Request

Maintaining Current Level (MCLs)

Pay-Raise +\$598,000 / +0 FTE

Funds are requested for the proposed January 2017 pay-raise.

Pay Annualization +\$199,000 / +0 FTE

Funds are requested for annualization of the January 2016 pay-raise.

Non-Pay +\$765,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor costs such as travel, contracts, rent, supplies, and equipment.

Other Adjustments

IT Investments in Application Systems

-\$1,562,000 / -0 FTE

TTB will defer additional IT enhancements for its labeling program modernization effort while continuing to retain the additional label specialists, formula specialists, and chemists hired to improve processing times of labels and formulas.

Program Increases

Alcohol and Tobacco Enforcement Program +\$5,000,000 / +35 FTE

The FY 2017 President's Budget includes a proposal to amend section 251 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, to provide a program integrity cap adjustment of \$5 million for TTB's tax enforcement and compliance program to narrow the tax gap in the tobacco and alcohol industries and reduce the deficit through increased revenue collections. This specific funding request is included under the IRS budget, which includes the tax enforcement and compliance program integrity cap adjustment for both the IRS and TTB. Under the TTB budget, this item is being reported as "Appropriations Transferred from IRS Program Integrity Cap Adjustment."

The proposed cap adjustment for TTB tax enforcement and compliance activities includes \$5 million in new revenue-producing tax compliance initiatives in FY 2017 and \$5 million in additional new initiatives each fiscal year from 2018 through 2021. TTB will target known points in the supply chain that are susceptible to diversion activity and prioritize forensic audits and investigations of high-risk activity and entities in the alcohol and tobacco trade. Because these enforcement initiatives must be sustained over time to maximize their potential taxpayer returns, the total above-base cap adjustment including inflation is \$189 million over the 10-year period. Over this same time period, these investments will generate an estimated \$338 million in additional tax revenue over the 10-year period. The net savings from these investments is \$149 million.

Program Integrity Cap Adjustment Included in IRS Budget Request -\$5,000,000 / -0 FTE

This adjustment ensures that the program increase for TTB's Alcohol and Tobacco Enforcement Program is reflected only once in the FY 2017 President's Budget as part of the IRS's program integrity cap adjustment.

Explanation of Budget Activities

Collect the Revenue (\$53,560,000 from direct appropriations, \$3,594,000 from reimbursable resources, and a transfer of \$5,000,000)

This budget activity includes all tax processing, verification, enforcement, and outreach efforts related to administering the Federal excise tax on alcohol, tobacco, firearms, and ammunition products. TTB regulates and collects taxes from distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette papers and tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. In ensuring a level playing field for all those engaged in the trade of these strictly regulated commodities, TTB also takes

appropriate enforcement action to detect and address diversion activity and ensure all products sold in the marketplace are properly taxpaid. In FY 2015, excise tax collections reached \$13.6 billion for tobacco products, nearly \$8 billion for alcohol beverage products, and \$638 million for firearms and ammunition. This budget activity supports Treasury's strategic objective to improve the execution of the tax code and TTB's strategic goal of ensuring that industry remits the proper Federal tax on these products.

Protect the Public (\$52,879,000 from direct appropriations, \$3,318,000 from reimbursable resources)

This budget activity funds the programs that ensure the integrity of the products and

industry members in the marketplace by promoting compliance with Federal alcohol and tobacco laws and regulations by the approximately 76,000 businesses that hold a TTB permit or registration. This budget activity supports Treasury's strategic objective to facilitate commerce through trusted and secure U.S. currency, products, and services and TTB's strategic goal of ensuring that alcohol and tobacco industry operators meet permit qualifications, and alcohol beverage products comply with Federal production, labeling, and marketing requirements.

Legislative Proposals

TTB has no legislative proposals.

TTB Performance by Budget Activity

Budget Activity	Performance Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Target	FY 2017 Target
Collect the Revenue	Amount of Revenue Collected Per Program Dollar	457.0	457.0	437.0	400.0	400.0
Collect the Revenue	Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely (In Terms of Revenue)	92.0	90.0	88.0	92.0	94.0
Protect the Public	Percent of Electronically Filed Permit Applications	70.0	79.0	84.0	87.0	89.0
Protect the Public	Percentage of Permit Applications Processed with Service Standards	50.0	58.0	47.0	85.0	85.0
Protect the Public	Customer Satisfaction Rate with TTB Permitting Process	N/A	B	76.0	80.0	80.0
Protect the Public	Percent of Electronically Filed Label and Formula Applications	90.0	93.0	94.0	95.0	95.0
Protect the Public	Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards	49.0	67.0	75.0	85.0	85.0

Key: DISC - Discontinued and B - Baseline

Description of Performance

The bureau continues to collect the Federal excise taxes due on its regulated commodities in a highly efficient manner, and continues to enforce compliance with alcohol and tobacco laws and regulations. During FY 2015, TTB met three out of seven of its targeted

performance goals, and made substantial progress in its initiatives intended to improve performance in all other performance metrics. The bureau plans to continue to monitor its performance, and will use performance information to improve the effectiveness of its programs.

The investments in the Collect the Revenue activity resulted in the following performance highlights and accomplishments during FY 2015:

- TTB collected \$22.3 billion in excise taxes and other revenues from nearly 11,700 taxpayers in the alcohol, tobacco, firearms, and ammunition industries. The return on investment for the Collect the Revenue program was \$437 for every \$1 expended on collection activities.
- In four years of operating, TTB's Criminal Enforcement program has opened a total of 91 criminal cases, with identified liabilities of over \$551 million in estimated alcohol, tobacco, firearms, and ammunition excise taxes and approximately \$124 million in criminal seizures. Further, TTB has maintained a 100 percent conviction rate on cases fully resolved through the legal system.
- TTB completed approximately 400 audits, examinations, and revenue investigations, which contributed to the identification of additional tax revenue of more than \$57 million.
- TTB processed \$350 million in cover-over payments to Puerto Rico and the U.S. 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 U.S. Virgin Islands.
- TTB processed \$307 million in drawback claims. Under current law, persons who use nonbeverage 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 investments in the Protect the Public activity resulted in the following performance highlights and accomplishments during FY 2015:

- TTB issued nearly 136,000 Certificate of Label Approvals (COLAs) to ensure compliance with the FAA Act provisions that prevent consumer deception. TTB also achieved a 94 percent electronic filing rate for alcohol beverage label and formula applications. Federal law prohibits the import or domestic bottling of an alcohol beverage without an approved COLA, making this TTB service integral to U.S. business operations.
- TTB issued over 5,450 Federal permits, primarily to new alcohol beverage producers, importers, and wholesalers. A TTB permit or registration is required before a business can lawfully operate in the alcohol and tobacco industries. TTB ensures a fair and lawful marketplace and protects consumers by screening permit applicants to ensure only qualified persons engage in operations in the alcohol and tobacco industries.
- TTB completed more than 580 field investigations of industry members in the areas of permit qualification, consumer complaints, trade practice violations, and product integrity verifications, all of which serve the bureau's dual mission of revenue collection and consumer protection.