

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2017	FY 2018	FY 2019	FY 2018 TO FY 2019	
	Enacted 1/	Annualized CR	Request	\$ Change	% Change
Collect the Revenue	\$53,560	\$53,127	\$57,741	\$4,614	8.68%
Protect the Public	\$57,879	\$57,555	\$56,686	(\$869)	-1.51%
Subtotal, TTB	\$111,439	\$110,682	\$114,427	\$3,745	3.38%
Offsetting Collections - Reimbursables 2/	\$5,854	\$6,912	\$6,912	\$0	0.00%
Transfers In/Out 3/	\$197	\$0	\$0	\$0	NA
Total Program Operating Level	\$117,490	\$117,594	\$121,339	\$3,745	3.18%
Direct FTE	478	507	492	(15)	-2.96%
Reimbursable FTE	10	10	10	0	0.00%
Total FTE	488	517	502	(15)	-2.90%

1/ FY 2017 FTEs and Other Resources (Offsetting Collections – Reimbursables and Transfers) are Actual. This column reflects levels appropriated in H.R. 255, the Consolidated Appropriations Act of 2017. For further details on the execution of these resources see the 2019 Budget *Appendix* chapter for the Department of the Treasury.

2/ Includes reimbursements from the TEOAF Mandatory Fund and CDFI, and offsetting collections from the Puerto Rico Cover-Over Program.

3/ Transfer from the TEOAF Strategic Support Fund.

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 provisions for excise taxes on alcohol, tobacco, firearms, and ammunition, and the Federal Alcohol Administration (FAA) 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. TTB supports Treasury Strategic Goal 1 (Boost U.S. Economic Growth) and Goal 5 (Achieve Operational Excellence).

In FY 2019, TTB will continue to focus 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 2019 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, as well as redirect resources to implement the Craft Beverage Modernization and Tax Reform provisions of P.L. 115-97. To improve tax enforcement outcomes, and promote a more efficient Federal Government, the Administration is proposing the consolidation of federal alcohol and tobacco tax enforcement authorities within the Department of the Treasury, including transferring jurisdiction for the Contraband Cigarette Trafficking Act from the Department of Justice's (DOJ) Bureau of Alcohol, Tobacco, Firearms, and Explosives to TTB. The FY 2019 request supports an initial investment of \$5 million in start-up costs for TTB to initiate the transfer, and begin to implement this enforcement program. The full program costs will be higher and will be addressed in future budgets.

Total resources required to support TTB activities for FY 2019 are \$121,339,000, including \$114,427,000 from direct appropriations, and \$6,912,000 from other offsetting collections and reimbursable programs.

TTB FY 2019 Budget Highlights

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
FY 2018 Annualized CR	507	\$110,682

Changes to Base:

Maintaining Current Levels (MCLs):	0	\$1,027
Pay Annualization	0	\$295
Non-Pay	0	\$732
Efficiency Savings:	0	(\$450)
Reduce Infrastructure Footprint and Support Services	0	(\$450)
Subtotal Changes to Base	0	\$577
Total FY 2019 Base	507	\$111,259

Program Changes:

Program Decreases:	(36)	(\$7,632)
Program Staff Attrition	(14)	(\$1,960)
Trade Practice Enforcement	(22)	(\$5,000)
Program Contract Reductions	0	(\$672)
Program Increases:	21	\$10,800
Consolidation of Federal Alcohol & Tobacco Tax Jurisdiction	14	\$5,000
IT Modernization/Permits System	5	\$4,600
IT Modernization/Cybersecurity	2	\$1,200
Total FY 2019 Request	492	\$114,427

FY 2019 Budget Adjustments

Adjustments to Request

Maintaining Current Level (MCLs)

Pay Annualization +\$295,000 / +0 FTE

Funds are requested for annualization of the January 2018 pay raise.

Non-Pay +\$732,000 / +0 FTE

Funds are requested for non-labor expenses such as travel, contracts, rent, supplies and equipment.

Efficiency Savings

Reduce Infrastructure Footprint and Support Services -\$450,000 / -0 FTE

In an ongoing effort to improve space utilization, TTB has identified additional opportunities to reduce leased space, resulting in additional savings of \$250,000. Also, TTB will reduce its operating costs by \$200,000 through savings in administrative overhead and decreased program support operations in line with anticipated program staff attrition.

Program Decreases

Program Staff Attrition

-\$1,960,000 / -14 FTE

TTB will implement a hiring freeze to achieve a workforce reduction of 14 FTE. This reduction, which equates to 3 percent of TTB's full-time positions, will be taken across multiple program areas.

Trade Practice Enforcement

-\$5,000,000 / -22 FTE

TTB will reduce its Trade Practice Enforcement program to the FY 2016 level. TTB enforcement addresses unlawful trade practices in the marketplace and ensures a level playing field for U.S. alcohol manufacturers and distributors. With two-year funding provided through FY 2018, TTB added staffing to increase its capacity for trade practice investigations from approximately 1 each year to up to 15 active cases annually. At the FY 2019 funding level, TTB will need to bring closure to its active trade practice investigations and reevaluate the program.

Program Contract Reductions

-\$672,000 / -0 FTE

TTB will reduce its contract services by reducing or re-scoping contracts for both its commercial vendors and government suppliers.

Program Increases
Consolidation of Federal Alcohol & Tobacco Tax Jurisdiction
+\$5,000,000 / +14 FTE

Start-up funding is requested to support the Administration's proposal to consolidate federal alcohol and tobacco tax jurisdiction within the Department of the Treasury and TTB. This initial investment will enable TTB to begin hiring the necessary additional enforcement personnel, including agents, auditors, and investigators, to conduct the complex, multi-state investigations associated with contraband cigarette smuggling. The 14 FTE will allow TTB to hire 28 positions including auditors, investigators, and other program staff for approximately the last six months of the fiscal year. Agents will be hired under an expansion of the existing interagency agreement with the IRS, with the FY 2019 start-up funding covering the services of 12 agents during the second half of the year. This initial investment would also enable TTB to initiate any needed rulemaking and guidance as well as support initial research into system requirements and data analytics to improve enforcement targeting. During this transition period, and at the proposed staffing level, TTB will also expand its outreach to state law enforcement partners and work closely with DOJ on the transfer and continuation of existing cases.

IT Modernization/Permits System
+\$4,600,000 / +5 FTE

Funding is requested to enable TTB to incrementally build and deploy a custom-developed online permitting system. A modernized system is a key component to improving program performance because it would allow TTB to optimize its online permit applications and processes to support the timely review and approval of applications. A custom system would also reduce burden on industry by enabling the eventual integration of all online interactions that industry has with TTB: permit applications, tax returns,

operational reports, label applications, and formula applications.

IT Modernization/Cybersecurity
+\$1,200,000 / +2 FTE

Funding is requested to cover the increased operations and maintenance costs of cybersecurity tools and for additional staff to remediate IT system vulnerabilities. This funding will ensure all TTB systems are modernized to detect and protect against current threats and ensure that TTB remains a Treasury leader operating at the forefront of security.

Explanation of Budget Activities

Collect the Revenue

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 engage 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 2017, collected excise taxes totaling \$13 billion for tobacco products, \$8 billion for alcohol beverage products, and \$762 million for firearms and ammunition. This budget activity supports Treasury's strategic goal of ensuring that industry remits the proper federal tax on these products.

Protect the Public

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 more than

92,700 businesses that hold a TTB permit or registration. This budget activity supports Treasury’s strategic objective 1.3 Trusted Currency and Services to ensure the delivery of trusted currency and services that enable citizens and businesses to participate in the economy 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.

Bureau of Alcohol, Tobacco, Firearms and Explosives to the Department of the Treasury and TTB. Under the proposal, TTB would be responsible for the administration and enforcement of the Jenkins Act of 1949 (as amended by the Prevent All Cigarette Trafficking Act of 2009), 15 U.S.C. Chapter 10A, the Contraband Cigarette Trafficking Act of 1978, 18 U.S.C. Chapter 114, and the criminal statutes involving Liquor Trafficking, 18 U.S.C. Chapter 59. Specific statutory language will be developed in consultation with the Secretary of the Treasury and with the Attorney General both to effect the transfer and to facilitate federal enforcement against tobacco smuggling.

Legislative Proposals

Consolidation of Federal Alcohol & Tobacco Tax Jurisdiction

The Administration proposes to transfer primary jurisdiction over federal tobacco and alcohol anti-smuggling laws from DOJ and the

TTB Performance Highlights

		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Budget Activity	Performance Measures	Actual	Actual	Actual	Target	Target
Collect the Revenue	Amount of Revenue Collected Per Program Dollar	437.0	414.0	406.0	350.0	350.0
Collect the Revenue	Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely (In Terms of Revenue)	88.0	87.0	85.0	90.0	90.0
Protect the Public	Percent of Electronically Filed Permit Applications	81.0	81.0	85.0	87.0	90.0
Protect the Public	Percentage of Permit Applications Processed within Service Standards	47.0	32.0	48.0	85.0	85.0
Protect the Public	Initial Error Rate for Permit Applications	67.0	57.0	60.0	25.0	25.0
Protect the Public	Customer Satisfaction Rate with TTB Permitting Process	76.0	71.0	80.0	80.0	80.0
Protect the Public	Percent of Electronically Filed Label and Formula Applications	94.0	97.0	98.0	95.0	95.0
Protect the Public	Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards 1/	80.0	80.0	62.0	85.0	85.0
Protect the Public	Initial Error Rate for Label and Formula Applications	42.0	44.0	43.0	25.0	25.0

1/ TTB established new service standards of 10 days for both labels and formulas in FY 2017 following an infusion of dedicated resources in the FY16/17 enacted budgets. The standards were 30-days for labels and 45-days for formulas in fiscal years 2013 - 2016. Though annual results are below target, TTB met its target in September 2017, as projected. In FY18 and FY19, TTB expects to revise its service standard from 10 days to 15 days for both labels and formulas based on anticipated staff erosion and spikes in submissions driven by imported products. All data has been revised to reflect a methodology update to exclude label applications deemed abandoned by the applicant (i.e., no action after 30 days).

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 2017, TTB met four out of nine of its targeted performance goals, and made substantial progress in its initiatives intended to improve performance in all other performance metrics. The bureau will continue to monitor its annual business plan and 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 2017:

- TTB collected \$22 billion in excise taxes and other revenues from more than 14,000 taxpayers in the alcohol, tobacco, firearms, and ammunitions industries. The return on investment for the Collect the Revenue program was \$406 for every \$1 expended on collection activities.
- Since TTB commenced its criminal enforcement program in 2011, TTB has opened a total of 150 cases that have resulted in more than \$600 million in identified tax liabilities (a 4:1 return on investment) and criminal convictions, which are an essential component of tax enforcement. 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 \$91 million.
- TTB processed \$370 million in cover-over payments to Puerto Rico and the U.S. Virgin Islands (USVI). Federal excise taxes collected on rum produced in Puerto Rico and USVI that are subsequently

imported into the United States are “covered-over,” or paid into the treasuries of Puerto Rico and the USVI. After December 31, 2017, and before January 1, 2020, the cover-over payment associated with any particular proof gallon of rum, may exceed the taxes collected on such proof gallon, depending on the applicable distilled spirits rate.

- TTB processed \$350 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 2017:

- TTB processed more than 272,000 Certificate of Label Approvals (COLAs) to ensure compliance with the FAA Act provisions that prevent consumer deception. TTB also achieved a 98 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 approximately 8,100 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 nearly 550 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.