

## Alcohol and Tobacco Tax and Trade Bureau

### Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2016	FY 2017	FY 2018	FY 2017 TO FY 2018	
	Enacted	Annualized CR	Request	\$ Change	% Change
Collect the Revenue	\$52,785	\$53,458	\$49,425	(\$4,034)	-7.55%
Protect the Public	\$53,654	\$52,779	\$49,233	(\$3,545)	-6.72%
<b>Subtotal, TTB</b>	<b>\$106,439</b>	<b>\$106,237</b>	<b>\$98,658</b>	<b>(\$7,579)</b>	<b>-7.13%</b>
Offsetting Collections - Reimbursables	\$6,992	\$6,972	\$6,972	(\$0)	-00.00%
<b>Total Program Operating Level</b>	<b>\$113,431</b>	<b>\$113,209</b>	<b>\$105,630</b>	<b>(\$7,579)</b>	<b>-6.69%</b>
Direct FTE	470	494	456	(38)	-7.69%
Reimbursable FTE	10	10	10	0	0.00%
<b>Total FTE</b>	<b>480</b>	<b>504</b>	<b>466</b>	<b>(38)</b>	<b>-7.54%</b>

### 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 (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.

In FY 2018, 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 2018 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 2018 are \$105,630,000, including \$98,658,000 from direct appropriations, and \$6,972,000 from other offsetting collections and reimbursable programs.

### TTB FY 2018 Budget Highlights

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
<b>FY 2017 Annualized CR</b>	<b>494</b>	<b>\$106,237</b>
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$2,102
Pay-Raise	-	\$909
Pay Annualization	-	\$333
Non-Pay	-	\$860
Efficiency Savings:	-	(\$570)
Reduce Infrastructure Footprint	-	(\$250)
Reduce Support Services	-	(\$320)
Subtotal Changes to Base	-	\$1,532
<b>Total FY 2018 Base</b>	<b>494</b>	<b>\$107,769</b>
Program Changes:		
Program Decreases:	(38)	(\$9,111)
Program Staff Attrition and Incentives	(38)	(\$4,150)
IT Development and Modernization	-	(\$2,500)
Program Contract Reductions	-	(\$2,461)
<b>Total FY 2018 Request</b>	<b>456</b>	<b>\$98,658</b>

## **FY 2018 Budget Adjustments**

### ***Adjustments to Request Maintaining Current Level (MCLs)***

#### ***Pay-Raise +\$909,000 / +0 FTE***

Funds are requested for the proposed January 2018 pay-raise.

#### ***Pay Annualization +\$333,000 / +0 FTE***

Funds are requested for annualization of the January 2017 pay-raise.

#### ***Non-Pay +\$860,000 / +0 FTE***

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

### ***Efficiency Savings***

#### ***Reduce Infrastructure Footprint -\$250,000 / -0 FTE***

TTB has implemented an aggressive telework program that has enabled the bureau to close half of its field offices, with the remaining field offices being vital to TTB's mission. TTB has also reconfigured and reduced the amount of office space needed to operate its headquarters in Washington, D.C., and the National Revenue Center in Cincinnati. In an ongoing effort to improve space utilization, TTB has identified additional opportunities to reduce leased space, resulting in additional savings of \$250,000.

#### ***Reduce Support Services -\$320,000 / -0 FTE***

TTB will reduce its operating costs through savings in administrative overhead and decreased program support operations in line with anticipated program staff attrition.

### ***Program Decreases***

#### ***Program Staff Attrition and Incentives -\$4,150,000 / -38 FTE***

TTB will implement a hiring freeze to achieve a workforce reduction of 38 FTE. This reduction, 8 percent of TTB's full-time positions, will be taken across multiple program areas. TTB will continuously evaluate the capacity of its workforce to

absorb the workload associated with those positions lost through attrition and, as necessary, adjust its service standards to coincide with staffing levels. This reduction also reduces performance incentives recognizing special acts and high-performing employees in order to minimize staffing losses.

### ***IT Development and Modernization***

#### ***-\$2,500,000 / -0 FTE***

TTB will cut IT development and modernization investments in its core business systems and focus on the essential maintenance of existing systems.

#### ***Program Contract Reductions -\$2,461,000 / -0 FTE***

TTB will reduce its contract services by reducing or re-scoping contracts for both its commercial vendors and government suppliers. TTB will prioritize the criminal case pipeline to ensure effective case management and resolution.

### **Explanation of Budget Activities**

#### ***Collect the Revenue (\$49,425,000 from direct appropriations, \$3,835,000 from reimbursable resources)***

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 2016, TTB collected excise taxes totaling \$13 billion for tobacco products,

\$8 billion for alcohol beverage products, and \$750 million for firearms and ammunition.

**Protect the Public (\$49,233,000 from direct appropriations, \$3,137,000 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 82,000 businesses that hold a

TTB permit or registration. This budget activity supports 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 Highlights**

Budget Activity	Performance Measures	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2014 – FY 2016
		Actual	Actual	Actual	Target	Target	Trend
Collect the Revenue	Activity of Revenue Collected Per Program Dollar	457.0	437.0	414.0*	400.0	400.0	
Collect the Revenue	Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely and Accurately (In Terms of Revenue)	90.0	88.0	87.0	90.0	90.0	
Protect the Public	Percent of Electronically Filed Permit Applications (Note 1)	80.0	81.0	81.0	82.0	85.0	
Protect the Public	Percentage of Permit Applications Processed within Service Standards	58.0	47.0	32.0	85.0	85.0	
Protect the Public	Customer Satisfaction Rate with TTB Permitting Process	B	76.0	71.0	80.0	80.0	
Protect the Public	Percent of Electronically Filed Label and Formula Applications	93.0	94.0	97.0*	95.0	95.0	
Protect the Public	Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards	67.0	75.0	75.0	85.0	85.0	

Key: DISC - Discontinued, B - Baseline

\*Exceeded FY16 target

Note1: Reported results revised for FY14–FY15 due to an error identified in the source data for paper-filed original permit applications.

**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 2016, TTB met two 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 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 2016:

- TTB collected \$22 billion in excise taxes and other revenues from nearly 13,000 taxpayers in the alcohol, tobacco, firearms, and ammunitions industries. The return on investment for the Collect the Revenue program was \$414 for every \$1 expended on collection activities, exceeding the 2016 target of \$400.
- Since 2011, TTB's criminal enforcement program has opened a total of 105 cases, with identified liabilities of over \$591 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 \$85 million.
- TTB processed \$425 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 \$356 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 2016:

- TTB processed more than 161,000 Certificate of Label Approvals (COLAs) to ensure compliance with the FAA Act provisions that prevent consumer deception. TTB also achieved a 97 percent electronic filing rate for alcohol beverage label and formula applications above the target of 95 percent. 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 6,250 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 430 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.