

Alcohol and Tobacco Tax and Trade Bureau

FY 2017
President's Budget

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Section 1 – Purpose

1A – Mission Statement

To collect the taxes on alcohol, tobacco, firearms, and ammunition; protect the consumer by ensuring the integrity of alcohol products; and prevent unfair and unlawful market activity for alcohol and tobacco products.

1.1 – Appropriations Detail Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau Appropriated Resources	FY 2015		FY 2016		FY 2017		FY 2016 to FY 2017			
	Enacted		Enacted		Request		\$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Collect the Revenue	242	52,721	242	52,785	242	53,560	0	775	0.00%	1.47%
Protect the Public	231	47,279	252	53,654	252	52,879	0	(775)	0.00%	-1.44%
Subtotal New Appropriated Resources	473	\$100,000	494	\$106,439	494	\$106,439	0	\$0	0.00%	0.00%
Other Resources:										
Reimbursables	10	7,022	10	6,992	10	6,912	0	(80)	0.00%	-1.14%
Transfer In/Out	0	0	0	0	35	5,000	35	5,000	NA	NA
Subtotal Other Resources	10	\$7,022	10	\$6,992	45	\$11,912	35	\$4,920	350.00%	70.37%
Total Budgetary Resources	483	\$107,022	504	\$113,431	539	\$118,351	35	\$4,920	6.94%	4.34%

Note: The FY 2017 Request proposes a transfer of funds in the amount of \$5 million from the Internal Revenue Service's program integrity cap adjustment to TTB for tax enforcement and compliance.

1B – Vision, Priorities and Context

TTB is responsible for the administration and enforcement of the sections of the Internal Revenue Code of 1986 (IRC) 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 for the protection of U.S. consumers. The TTB mission is carried out according to two principal strategic goals that, briefly stated, are: collect the revenue and protect the public. TTB's strategic goal to collect the revenue is to ensure that industry remits the proper Federal tax on alcohol, tobacco, firearms, and ammunition products. This TTB goal supports the Treasury's strategic goal to fairly and effectively reform and modernize Federal financial management, accounting, and tax systems and the strategic objective to pursue tax reform and improve the execution of the tax code. TTB's strategic goal to protect the public is to ensure that alcohol and tobacco industry operators meet Federal permit qualification requirements, and alcohol beverage products comply with Federal production, labeling, and marketing requirements. This TTB goal supports the Treasury's strategic goal to promote domestic economic growth and stability, and the strategic objective to facilitate commerce by providing trusted and secure U.S. currency, products, and services for use by the public. Various strategies and activities under these two TTB strategic goals contribute to the Treasury's strategic goal of creating a 21st-century approach to Government.

FY 2017 Priorities and Challenges

In Fiscal Year (FY) 2017, TTB will invest its resources in program activities that provide the greatest assurance that these industries are operating in compliance with tax and regulatory requirements, in the interest of collecting the excise taxes due and ensuring fair and lawful market activity.

Collect the Revenue

Increase Tax Collection Efficiencies and Voluntary Compliance

TTB is the third largest tax collection agency in the U.S. Government, after the IRS and U.S. Customs and Border Protection (CBP). In FY 2015, TTB collected \$22.3 billion in excise taxes and other revenues from nearly 11,700¹ taxpayers in the alcohol, tobacco, firearms, and ammunition industries. The return on investment for TTB's tax collection activities was 437:1 for FY 2015. As the most efficient means of tax administration, facilitating voluntary compliance remains a priority and, to this end, TTB will enhance its guidance related to Federal alcohol, tobacco, firearms, and ammunition laws and regulations, and explore diversifying its delivery methods to better reach the business community it regulates. Further, efforts to streamline regulations to reduce the compliance burden, enhance electronic filing systems, and improve internal processes should also contribute to continued positive returns on the investment in TTB. The bureau has developed and employed increasingly sophisticated risk modeling to complete targeted audits and revenue investigations into non-compliance. In FY 2015, these enforcement efforts resulted in a total of more than \$57 million in identified additional tax liabilities.

TTB collections are influenced by multiple factors:

- **Alcohol Tax Collections:** In FY 2015, TTB collected approximately \$8 billion in revenue from U.S. wineries, breweries, and distilleries, a nearly 1 percent increase over the prior year. Although economic forecasts predict continued modest growth in the U.S. alcohol industry as a whole, excise tax collections will likely remain relatively constant due to a number of variables, including increasing volumes in imports, for which CBP collects the tax; increasing volumes of exports, on which no tax is due; and declining sales by volume from the country's largest brewers, who account for over 90 percent of the beer sold in the U.S. The rapid expansion of small wineries, breweries, and distilleries will not entirely offset the declines in sales and tax payments by the large companies as small beer and wine producers are eligible for reduced tax rates or tax credits based on their production volume. This trend is expected to continue through FY 2017.
- **Tobacco Tax Collections:** In FY 2015, TTB collected \$13.6 billion in tobacco tax revenue, with collections remaining relatively constant compared to FY 2014. As forecasted, tobacco revenues have generally declined since FY 2010, the first full year of collections following the 2009 Federal tobacco tax rate increase. Higher prices on tobacco products have historically resulted in decreased consumption and increased illicit trade, which indicates that tobacco revenue will continue to decline. Further, recent analysis of tobacco collections has shown significant market shifts for tobacco products since 2009. The 2009 tax rate change introduced large Federal excise tax disparities among tobacco products, which created opportunities for tax avoidance and led manufacturers and price sensitive consumers to shift toward lower-taxed products. The growing popularity of electronic nicotine products, such as e-cigarettes, which are not subject to Federal excise tax unless they contain tobacco, could contribute to declining tobacco revenue in the future. TTB will continue to exercise its jurisdiction to support tax compliance and deter illicit trade.
- **Firearms and Ammunition Excise Tax (FAET) Collections:** FAET taxes are remitted to the Fish and Wildlife Restoration Fund for wildlife restoration, research, and hunter education

¹ Of the approximately 20,000 TTB permittees whose business operations are subject to Federal excise taxes, approximately 11,700 (58 percent) have activity that requires them to file a tax return and pay excise tax in FY 2015.

programs. In the past decade, collections have increased from \$250 million in FY 2006 to \$638 million in FY 2015, an increase of \$388 million, or a 155 percent growth in tax revenue. Historically, increases in reported FAET revenue can be attributed to growth in sales due to external factors as well as TTB's enforcement presence, which increases collections and promotes voluntary compliance.

Address and Deter Alcohol and Tobacco Diversion

Enforcing the tax code also requires that TTB address and deter illicit activity present in the marketplace. Failure to address illicit trade not only deprives governments of revenue, but also gives non-compliant actors an unfair competitive advantage over their lawful counterparts. Since the inception of TTB's criminal enforcement program in FY 2011, TTB's agents have opened a total of 91 cases, with identified liabilities of over \$551 million in evaded alcohol, tobacco, firearms, and ammunition excise taxes. TTB has also realized an almost 100 percent acceptance rate for cases presented to U.S. Attorneys for investigation, demonstrating both the strength and magnitude of these cases. Enforcement experience also indicates that criminal activity is not limited to the tobacco trade, with non-taxpaid product removals, illegal imports, and fraudulent labeling just a few of the schemes used to evade taxes, defraud American consumers, and undermine the legitimate alcohol trade.

In FY 2017, TTB will continue to identify and address high-risk activity and players in the tobacco and alcohol trades and, with continued program funding, to effectively deploy criminal agents to deter and interdict illicit trade. TTB's enforcement program utilizes the services of criminal enforcement agents on a reimbursable basis from the Internal Revenue Service Criminal Investigation division. Alcohol and tobacco diversion remain long-term tax enforcement challenges given the high profits to be gained from illegal activity, the relative ease of diversion, and the substantial revenue loss that it represents. The FY 2017 request includes \$2 million in the base budget for criminal enforcement and proposes a transfer of \$5 million from the IRS's requested program integrity cap adjustment for increased TTB enforcement and compliance programs to narrow the alcohol and tobacco tax gap and reduce the deficit through increased revenue collections.

Protect the Public

Improve Permitting Process

Industry growth in the number of alcohol beverage producers, driven by a boom in small breweries, distilleries, and wineries, has contributed to delays in permit processing times. TTB is meeting this challenge through its priority project to improve its business qualification process, including through enhancements to its electronic filing and processing environment. TTB achieved a significant milestone in FY 2015 by deploying a new release of Permits Online in February 2015, which added new system help features to improve submission compliance and addressed a bottleneck in the permit processing workflow. Early data indicated reduced processing times for new permits following the release, decreasing from a high of 95 days in January to 68 days in July, though these gains were not enough for TTB to achieve its annual performance target of 75 days in FY 2015. At year end, only 47 percent of permit applications met the 75-day service standard.

In FY 2016, TTB plans to improve service delivery through additional workflow and system enhancements to streamline both the filing and processing of permit applications. TTB continues

to make steady progress in the development of a new version of Permits Online. The new design will enhance usability for industry members and improve the compliance rate of submissions, reducing resubmitted applications and the overall workload volume that are contributing to delays. The redesigned system will also facilitate the electronic filing of permit amendments, a high volume activity that remains largely paper-based, which should further decrease processing times. With these efforts, TTB will be positioned to achieve sustained performance improvements by the end of FY 2017.

Modernize the Alcohol Beverage Labeling Program

The increase in the number of new alcohol beverage producers also influences the timely processing of label and formula applications. New producers often require extensive assistance during the label approval process and frequently submit applications that require correction, both of which add to processing times. The performance challenges caused by explosive industry growth and product innovation during a period of constrained TTB resources has spurred the bureau's priority project to modernize the Federal alcohol beverage labeling program. Through updates to Federal labeling regulations, the removal of requirements for label and formula approvals for certain low-risk products, and the implementation of system enhancements, TTB expects to eliminate current barriers to compliant trade caused by processing delays while maintaining adequate regulatory controls to ensure revenue collection and consumer protection.

Efforts to remove label approval requirements to date had been successful in temporarily reducing the volume of submissions; however, these reductions were offset in FY 2015 by increased filings that reached nearly 154,000 applications, an 8 percent increase over the prior year and well above the historic high reached in FY 2012. Similar efforts in the formula area were implemented in FY 2014, with a published ruling resulting in a more than 30 percent reduction in malt beverage formula submissions. However, as increases in formula submissions from the spirits and wine industries have since offset these reductions, TTB plans to proceed with guidance and rulemaking beginning in FY 2016 and continuing through FY 2017 to further reduce formula submissions across the alcohol beverage commodities. Additionally, as non-compliant applications are essentially doubling processing workloads, TTB will issue rulemaking to consolidate and clarify Federal labeling regulations to improve understanding and compliance with these complex regulations. TTB also is using the findings of its FY 2015 analyses of the reasons that applications are returned to industry for correction to implement system-based compliance checks that will improve the compliance of label and formula applications. At the proposed funding level, TTB would defer planned updates to the label and formula application systems in FY 2017.

In addition to these intervention strategies, TTB will significantly reduce label and formula application turnaround times through the addition of label specialists, formula specialists, and chemists who directly impact service times through their review of applications and product samples. The combination of staffing, improved guidance, and enhanced systems are necessary to provide a long-term solution to current processing delays that may limit potential revenue and negatively impact businesses.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

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 Increase:	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

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$1,562,000 / +0 FTE
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 the annualization of the 2016 pay raise.

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

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, contracts, postage, supplies, and equipment.

Other Adjustments -\$1,562,000 / -0 FTE
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 Increase +\$5,000,000 / +35 FTE

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

The FY 2017 request 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. TTB's funding request is captured in the program integrity cap adjustment proposed in the IRS budget for both the IRS and TTB.

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, then remaining at a steady state through FY 2026. With this funding, TTB will target known points in the supply chain that are susceptible to diversion activity and prioritize forensic audits and investigations of high-risk entities and activity in the alcohol and tobacco industries. Because these new initiatives, as well as current enforcement activities, must be sustained over time in order to maximize their potential taxpayer returns, the total above-base adjustment funding is \$189 million over the 10-year period. Over this same time period, these additional investments will generate an estimated \$338 million in additional tax revenue. The net savings from these investments is \$149 million. In addition to the direct revenue impact from its enforcement efforts, an increased TTB enforcement presence also creates a deterrent effect in the marketplace that further contributes to tax compliance.

TTB Excise Tax Enforcement and Compliance Funding Summary
(in millions of dollars)

	2017	2018	2019	2020	2021	2017-2026
Cap Adjustment, Proposed BBEDCA (Discretionary Budget Authority)	5	10	14	18	23	189
Change from Prior Year		5	4	4	5	
Revenue	(3)	(8)	(16)	(25)	(35)	(338)
Change from Prior Year		(5)	(8)	(9)	(10)	
Net 10-Year Savings						(149)

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

This adjustment ensures that the program increase for TTB’s tax enforcement program is reflected only once in the 2017 request as part of the IRS’s program integrity cap adjustment proposal.

2.2 – Operating Levels Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FY 2015	FY 2016	FY 2017	FY 2017	FY 2017
Object Classification	Actual	Enacted	Request	Transfer from IRS	Total Discretionary Appropriation
11.1 - Full-time permanent	44,739	47,789	48,427	1,697	50,124
11.5 - Other personnel compensation	704	619	619	50	669
11.9 - Personnel Compensation (Total)	45,443	48,408	49,046	1,747	50,793
12.0 - Personnel benefits	14,015	14,244	14,403	373	14,776
13.0 - Benefits for former personnel	30	0	0	0	0
Total Personnel and Compensation Benefits	\$59,488	\$62,652	\$63,449	\$2,120	\$65,569
21.0 - Travel and transportation of persons	1,751	1,976	1,976	204	2,180
22.0 - Transportation of things	20	50	50	35	85
23.1 - Rental payments to GSA	4,193	4,400	4,400	0	4,400
23.3 - Communication, utilities, and misc charges	1,434	1,567	1,594	35	1,629
24.0 - Printing and reproduction	194	262	267	0	267
25.2 - Other services	21,417	25,390	24,352	950	25,302
25.3 - Other purchases of goods & serv frm Govt accounts	6,458	7,552	7,715	1,446	9,161
26.0 - Supplies and materials	395	490	499	35	534
31.0 – Equipment	3,077	2,100	2,137	175	2,312
Total Non-Personnel	38,939	43,787	42,990	2,880	45,870
Subtotal New Appropriated Resources	\$98,427	\$106,439	\$106,439	\$5,000	\$111,439
Budget Activities:					
Collect the Revenue	54,657	56,421	57,154	5,000	62,154
Protect the Public	49,902	57,010	56,197	0	56,197
Total Budgetary Resources	\$104,559	\$113,431	\$113,351	\$5,000	\$118,351
FTE	466	504	504	35	539

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY ALCOHOL AND TOBACCO TAX AND TRADE BUREAU <i>Federal Funds</i></p> <p style="text-align: center;">SALARIES AND EXPENSES</p> <p>For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, \$106,439,000; 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: Provided, That of the amount appropriated under this heading, [\$5,000,000 shall be for the costs of accelerating the processing of formula and label applications] <i>such sums as are necessary shall be available to fully support tax enforcement and compliance activities including tax compliance to address the Federal tax gap, as specified for purposes of Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.</i></p>	<p>While the Budget proposes to remove the \$5 million earmark for accelerating the processing of formula and label applications, \$3.4 million remains in the base for this program.</p>

2C – Legislative Proposals

TTB has no legislative proposals.

Section 3 – Budget and Performance Plan

3A – 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 tax code for alcohol, tobacco, firearms, and ammunition products, and supports the Treasury objective to pursue tax reform and improve the execution of the tax code. TTB collects approximately \$22 billion in Federal tax revenue annually from roughly 11,700 businesses, making TTB the third largest tax collection agency in the Federal Government. Members of the regulated industries that are subject to excise taxes are 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. TTB extends the reach of its enforcement resources through advanced analytics and risk-based audits and investigations. Further, as appropriate, TTB applies an interagency enforcement strategy through joint initiatives with local, state, Federal, and foreign Government counterpart agencies to maximize the deterrent impact of enforcement actions. To ensure 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 to ensure all products sold in the marketplace are properly taxpaid.

Other Resources (Offsetting Collections/Reimbursables)..... \$3,594,000

Other resources that fund this budget activity include reimbursement for the operating costs of the TTB Puerto Rico field office, which are offset against the roughly \$350 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and imported to the United States (cover-over payments); reimbursement by the Community Development Financial Institutions Fund (CDFI) for TTB’s IT services; and a nominal reimbursement from the Bureau of Alcohol, Tobacco, Firearms, and Explosives for laboratory services.

Other Resources (Transfer)..... \$5,000,000

The FY 2017 request also proposes a transfer of \$5 million from the proposed IRS program integrity cap adjustment to TTB for tax enforcement and compliance initiatives to narrow the tax gap in the tobacco and alcohol industries and reduce the deficit through increased revenue collections.

Description of Performance – Collect the Revenue:

In FY 2015, TTB met one of its two annual targets for the performance measures under the Collect the Revenue budget activity. Taken together, TTB’s measures of the Amount of Revenue Collected per Program Dollar and the Percent of Voluntary Compliance from Large Taxpayers in Filing Payments Timely demonstrate the effectiveness and efficiency with which TTB operates its revenue collection function. These measures also serve as key indicators for Treasury’s goals and objectives to fairly and effectively reform and modernize tax systems and the administration of the tax code. Achieving results for both measures will be supported by the strategic application of technology to streamline internal and external processes and an effective tax enforcement presence that leverages intelligence data from a variety of Government and commercial sources as well as interagency partnerships with counterpart enforcement agencies.

Improve Efficiency of Tax Collection

The Amount of Revenue Collected per Program Dollar measure uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2015, TTB achieved a return on investment of \$437 for every program dollar spent on collection activities, which exceeded its annual performance target of \$400. Effective enforcement combined with process improvements and streamlining efforts should contribute to continued positive returns on the investment in TTB, contributing to Treasury's goal of a modern and effective tax system.

In setting its FY 2017 performance target, TTB examined historical collections trends across each of its regulated commodities, as well as other predictors that influence consumer behaviors. Specifically, significant shifts in consumption patterns, product manufacturing, and trade will continue to impact Federal revenues in the years ahead. As illustrated by the below table, the 2009 changes to the Federal tax rates have resulted in increased tobacco tax collections by TTB, although the amount of the increase has generally decreased since FY 2010, the first full fiscal year following the tax rate increases. In accounting for these types of marketplace shifts, TTB established a targeted performance level of 400:1 for fiscal years 2016 – 2017.

Excise Tax and Other Collections by Fiscal Year

Dollars in Thousands

Fiscal Year	Alcohol	Tobacco	FAET	SOT	FST	Other	Total
2006	7,182,940	7,350,058	249,578	2,895	638	146	14,786,255
2007	7,232,138	7,194,081	287,835	2,808	-	32	14,716,894
2008	7,420,576	6,851,705	312,622	448	-	634	14,585,985
2009	7,424,292	11,548,504	452,693	272	1,192,375	970	20,619,106
2010	7,476,789	15,913,479	360,813	300	8,558	180	23,760,119
2011	7,594,330	15,515,073	344,262	268	5,220	2,257	23,461,410
2012	7,856,391	15,002,616	514,622	249	5,942	61	23,379,881
2013	7,851,953	14,321,017	762,836	280	1,521	38	22,937,645
2014	7,924,951	13,552,711	768,927	332	465	2	22,247,388
2015	7,997,467	13,620,497	638,518	288	2,444	7	22,259,221
Average	\$ 7,596,183	\$ 12,086,974	\$ 469,271	\$ 814	\$ 121,716	\$ 433	\$ 20,275,390

FAET - Firearms and Ammunition Excise Tax; SOT - Special Occupational Tax; FST - Floor Stock Tax

In FY 2017, to meet its performance target of \$400, TTB will continue to improve efficiencies and results in its tax enforcement program by improving its systems and processes related to tax verification. On the front end, TTB will continue to evaluate and develop options to increase automation in the detection, notification, assessment, and collection of excise taxes to preserve staff time for substantive tax analysis. In FY 2017, TTB also intends to continue its review of all operational reports and tax returns required of the businesses it regulates as part of its ongoing effort to streamline its information collections. This initiative has the dual purpose of ensuring that TTB has the information required for effective tax and regulatory enforcement and eliminating unnecessary reporting burdens for U.S. companies.

On the back end, TTB will continue to develop and build risk models based on multiple data sources to identify high-risk activity or taxpayers for audit and investigation. Continuous refinements to these models and sound intelligence enable TTB to efficiently deploy its limited enforcement resources. A primary focus for TTB tax enforcement continues to be exported alcohol and tobacco products. Exports pose a significant revenue threat because alcohol and

tobacco products intended for export may be placed in a customs bonded warehouse, foreign trade zone, or tobacco export warehouse without payment of tax if they are destined for export and not for sale in the U.S. market. Some tax evasion schemes involve diversion of these products into domestic commerce to evade Federal excise taxes. According to TTB data, non-taxpaid removals of alcohol and tobacco products from bonded premises for export present an annual excise tax exposure of about \$380 million and \$1 billion, respectively. In FY 2015, in partnership with CBP and Immigration and Customs Enforcement, TTB expanded its intelligence and investigative techniques to make significant inroads into identifying tax evasion schemes that involve the diversion of non-taxpaid products intended for export. TTB's enforcement efforts related to tobacco export warehouses, which operate under permits issued by TTB, have identified \$41 million in additional tax liabilities as well as criminal referrals.

This measure would be positively influenced if the proposed program integrity cap adjustment requested in FY 2017 is approved. As TTB's intelligence capabilities and risk modeling have become more sophisticated, the bureau needs additional enforcement resources to act on the leads that these tools generate. The requested cap adjustment would enable TTB to continue its current enforcement activities, while expanding enforcement initiatives to include other points in the supply chain that are at risk for diversion activity. TTB anticipates a positive long-term return on investment at the FY 2017 request level; however, the anticipated increases in additional tax collections from the planned expanded enforcement initiatives will not occur until year three, after new personnel reach full performance levels.

Increase Voluntary Compliance from Taxpayers

Fostering voluntary compliance among taxpayers is a primary tax administration strategy for TTB and supports the Treasury objective to improve the execution of the tax code. The Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely is a key performance metric that shows the rate of compliance by large taxpayers (i.e., those that pay more than \$50,000 in annual taxes) in voluntarily filing their tax payments on or before the scheduled due date. In FY 2015, TTB achieved a compliance rate of 88 percent from its large taxpayers, which fell below the performance target of 92 percent. The declining compliance rate in recent years is due to improvements in TTB's tax reconciliation and enforcement functions related to identifying late, missing, and erroneous tax returns and payments. These efforts often result in the late filing of tax returns that otherwise would have remained unfiled. The additional late-filed returns have the effect of reducing the reported voluntary compliance rate. TTB anticipates that taxpayers targeted by enforcement efforts will begin filing timely returns in future years, and that, over time, reported voluntary compliance rates will increase.

By FY 2017, TTB expects to meet its established performance target of a 94 percent voluntary compliance rate for its large taxpayers through complementary strategies that focus on enhancing electronic filing options to enable taxpayers to file complete, accurate, and timely tax returns and payments; improving online guidance, particularly for the large number of newly permitted industry members; and maintaining an enforcement presence to encourage voluntary compliance. Moving forward on all three fronts will ensure that TTB strikes the appropriate balance between supporting new businesses in establishing compliant operations while ensuring adequate coverage of the high-risk activity that undermines lawful business activity.

Beginning now and continuing in FY 2017, TTB will also intensify its efforts to increase the electronic filing rate of its taxpayers. TTB taxpayers may electronically file required tax returns, reports, and payments through the Pay.gov system, with 26 percent of excise tax returns and 43 percent of operational reports submitted electronically through Pay.gov in FY 2015. TTB intends to address a potential hindrance to using Pay.gov by allowing industry members to make tax payments with credit/debit cards. This enhancement would address a timing issue that requires those who file electronically to remit tax payments early. TTB is partnering with the Bureau of the Fiscal Service in this effort, which will require both system changes and rulemaking to implement.

The FY 2017 request will also support online enhancements to improve guidance, transparency, and collaboration between TTB and industry. Given the increase in new industry members, TTB completed an online “Business Central” resource to ensure that these taxpayers understand and are able to adhere to complex Federal tax and regulatory requirements. Continued expansion and improvement of this guidance will help to ensure that new businesses start and maintain compliant operations, supporting TTB’s achievement of its performance target.

As an identifiable enforcement presence is a well-established driver of compliance rates, TTB also expects to achieve higher rates of voluntary compliance at the FY 2017 request level through the continuation and expansion of TTB’s criminal enforcement program. The FY 2017 request includes a \$5 million transfer from the IRS program integrity cap adjustment to expand TTB tax enforcement and compliance initiatives through additional auditors, investigators, special agents, and data scientists, which together comprise a complete tax enforcement program.

3.1.1 – Collect the Revenue Budget and Performance Plan

Resource Level	FY 2010 Actuals	FY 2011 Actuals	FY 2012 Actuals	FY 2013 Actuals	FY 2014 Actuals	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources	\$53,000	\$50,399	\$50,939	\$48,927	\$51,721	\$52,721	\$52,785	\$53,560
Reimbursable Resources	\$2,117	\$1,979	\$2,464	\$3,277	\$3,506	\$3,651	\$3,636	\$3,594
Appropriations Transferred from IRS Program Integrity Cap Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,000
Transfer from TEOAF-Super Surplus Fund	\$0	\$0	\$0	\$0	\$468	\$0	\$0	\$0
Budget Activity Total	\$55,117	\$52,378	\$53,403	\$52,204	\$55,695	\$56,372	\$56,421	\$62,154

Measure	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
Amount of Revenue Collected Per Program Dollar	478.0	468.0	449.0	457.0	457.0	437.0	400.0	400.0	400.0
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely and Accurately (In Terms of Revenue)	94.0	95.0	92.0	92.0	90.0	88.0	92.0	92.0	94.0

3B – Protect the Public

(\$52,879,000 from direct appropriations, and \$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; promote compliance with Federal laws and regulations by the approximately 76,000 businesses that TTB regulates; facilitate fair and lawful domestic and international trade in the alcohol and tobacco commodities; and provide full and accurate alcohol beverage product information to the public as a means to prevent consumer deception. These activities support Treasury’s goal of domestic economic growth and stability and the objective to facilitate commerce by providing trusted and secure U.S. currency, products, and services for use by the public.

Other Resources (Offsetting Collections/Reimbursables)..... \$3,318,000

Other resources that support this budget activity include reimbursement for the operating costs of the TTB Puerto Rico field office, which are offset against the roughly \$350 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and imported into the United States (cover-over payments); reimbursement by the Community Development Financial Institutions Fund (CDFI) for TTB’s IT services; and a nominal reimbursement from the Bureau of Alcohol, Tobacco, Firearms, and Explosives for laboratory services.

Description of Performance – Protect the Public:

In FY 2015, TTB met two of its five annual targets for the performance measures under the Protect the Public budget activity. TTB reports on its success in meeting the Department’s objective to facilitate lawful commerce and TTB’s goal to ensure consumer protection through five principal performance measures, revised in FY 2015 to increase their utility as management tools and reflect a renewed focus on customer experience in receiving required services from TTB. The new measures will help TTB to monitor the degree to which it is meeting the service standards it establishes for permit, label, and formula applications, the impact that electronic filing initiatives are having on improved service delivery, and the level of satisfaction that prospective industry members have with TTB’s permitting process. TTB’s strategies to achieve its performance targets for these measures include a combination of streamlining internal procedures, implementing enhancements to online filing systems, and publishing clear guidance to industry members.

Improve Efficiency and Effectiveness of Permitting Process

TTB protects consumers by screening permit applicants to ensure only qualified persons engage in the alcohol, tobacco, firearms, and ammunition industries. For this purpose, in FY 2015, TTB processed approximately 7,300 original and 19,500 amended permits, performing investigations into high-risk applicants to meet TTB’s business integrity objective. TTB monitors its timeliness in processing permit applications through its measure of the Percentage of Permit Applications Processed within Service Standards. This measure indicates how many customers are receiving service levels that fall within the communicated standards, rather than reporting an average processing time that may not represent the typical customer experience. As businesses rely on accurate information related to TTB service delivery in their operational planning, this measure provides important data related to a key outcome for TTB and its stakeholders. For this measure, TTB establishes an annual service standard based on anticipated workload volume and resources. In FY 2015, TTB met its 75-day service standard for 47 percent of original permit applications.

The increased volume in the most complex application types, in addition to backlogs at the approval stage due to resource constraints, caused processing times to increase. TTB intends to make substantial progress toward its FY 2017 performance target of 85 percent for timely processed permit applications through a combination of industry outreach to promote electronic filing, streamlining its internal procedures, and ongoing system enhancements.

According to its measure of the Percent of Electronically Filed Permit Applications, which tracks the e-filing rate for new business applications, TTB has made substantial progress in a short time, with 84 percent of permit applications received via Permits Online. To meet its FY 2017 target of 89 percent, TTB will continue to promote use of Permits Online by all permit applicants, including through online guidance and training. Even as e-filing rates increase, however, TTB has not achieved a commensurate reduction in processing times for permits due, in part, to the high volume of applications. In recent years, the number of new permit applications has increased in line with rapid industry growth, making it difficult to maintain service levels. Between 2011 and 2015, the number of original permit applications received has increased 25 percent, primarily due to growth in the small alcohol beverage producer and alcohol wholesaler segments.

To realize improvements to service delivery, TTB is engaged in a priority project to facilitate electronic filing for all industry members. In FY 2015, as part of this multi-year endeavor, TTB focused on both system improvements to Permits Online as well as the internal processes in its business qualification program. Combined, these efforts should reduce processing times while continuing to ensure that TTB issues permits to only qualified applicants. In FY 2015, TTB began to update the system's business rules and customer support features to help prospective industry members submit complete and accurate information on their original permit application; these updates will continue through FY 2017. Based on a recent analysis, TTB has found that as few as 23 percent of applicants filing for a permit correctly complete the application without TTB assistance. By receiving correct and complete applications on the first filing attempt, TTB can reduce the time required to return applications for correction and review corrected submissions, thus reducing the time from application submission to permit issuance.

Further, system enhancements that began in FY 2015 will improve the ease of amendment filing for existing Permits Online users and enable approximately 60,000 TTB permittees who originally filed a paper permit application to file amendments to their permit through Permits Online. As TTB receives approximately 20,000 permit amendments annually, this project will result in efficiencies for both TTB and the businesses it serves through increasing the rate of electronic filing by industry and improving processing times.

In addition to the workflow improvements associated with the above system changes, TTB will continue to update its procedures used to screen permit applicants, adding new financial data sources to its risk models and improving the risk criteria used to vet applicants for suitability to hold a Federal permit in the alcohol and tobacco industries. Increased focus on risk modeling and statistical sampling will help to ensure that TTB is permitting only qualified applicants, while also managing workloads and improving service delivery. With these changes, TTB anticipates achieving sustained reductions to its permit application turnaround time and more consistent service by the fourth quarter of FY 2017.

Increase Customer Satisfaction with TTB Service Delivery

TTB also measures its performance in its permitting function by surveying the businesses that apply for a TTB permit. TTB monitors the Customer Satisfaction Rate with TTB's Permitting Process by using an e-mail survey to assess how satisfied businesses are when applying for a permit through Permits Online. Satisfaction rates in FY 2015 were slightly below the annual target of 80 percent, with 76 percent of applicants filing for an original permit satisfied with the application process, including the level of service received and timeliness of TTB's response. The system enhancements rolled out in FY 2015 should result in improved satisfaction rates. In addition to enhanced help features, these upgrades also addressed bottlenecks in the permit approval process, which should decrease processing times and increase satisfaction rates. In FY 2017, to achieve its performance target of 80 percent, TTB will continue to implement system enhancements and process improvements to improve the customer experience with the system and improve the online guidance available to permit applicants. TTB will also seek to improve the level of service provided to customers seeking live assistance with the permit application process via TTB's call center.

Improve Efficiency and Effectiveness of Alcohol Beverage Label Processing

TTB protects U.S. consumers by ensuring that the alcohol beverage products sold at retail outlets are properly labeled and comply with Federal production standards. In FY 2015, TTB received nearly 154,000 label applications and more than 14,000 formula applications. The rapid expansion of the alcohol beverage industry combined with market trends toward formulated products have contributed to the high volume of label and formula applications. Recent policy changes intended to reduce applications without compromising TTB's consumer protection role successfully reduced the volume of original label and formula submissions in the short-term; however, industry trends have resulted in increased submissions that have offset these reductions. Low compliance rates for original submissions are also essentially doubling TTB's processing workload, as applications returned to industry for correction require additional review.

These workload challenges have prevented TTB from making sustained progress in improving service delivery in this area. Lengthy processing times continue to disrupt the business operations of U.S. beer, wine, and spirits producers and importers, posing a potential barrier to commerce. Given the importance of timely TTB approvals and the negative impact that delays have on U.S. businesses, TTB is monitoring its ability to provide timely and consistent service through its measure of the Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards. TTB combines label and formula applications in this measure given the interdependent nature of these approvals. In FY 2015, approximately 75 percent of label and formula applications met the service standards of 30 days for a label approval and 45 days for a formula approval. The result was that new businesses waited three months on average from the time they filed for a formula approval to being able to bottle and distribute a new product. This timeline increases to over 100 days for products that also require laboratory analysis prior to approval. In FY 2015, TTB made progress in meeting its service standard for label approvals, with 80 percent of label approvals meeting the 30-day service standard; however, performance in timely processing formula approvals remains a challenge, with TTB meeting the 45-day service standard just 15 percent of the time.

At the enacted FY 2016 and proposed FY 2017 funding levels, TTB will invest in staffing and technology enhancements to achieve dramatic improvement in service standards for label and formula review times. Through this combination, TTB expects to reduce total review times from over 100 days to 30 days or less (including those submissions that require lab analyses) for 85 percent of applications. At this funding level, TTB will increase its staff of label specialists, formula specialists, and chemists, all of whom directly impact service times through their review of applications and product samples. TTB is also implementing system improvements to both COLAs (Certificate of Label Approval) Online and Formulas Online to address the high volume of label and formula submissions, including increased system-based compliance checks to reduce reprocessing work related to errors on initial applications. Certain planned enhancements to TTB's application systems would be deferred at the FY 2017 funding level. Once new hires reach full productivity and system updates currently in development take effect in the fourth quarter of FY 2017, TTB expects to achieve its performance target of processing label and formula applications within 30 days for 85 percent of applications.

To meet the performance target, TTB will also continue to focus on revising and updating its policies and improving industry guidance to facilitate the compliance of initial applications and reduce overall submission volume. TTB intends to proceed with its labeling modernization project, which will update and streamline the labeling regulations to reflect current TTB policy and modern industry practices. TTB will also pursue revisions to the formula requirements for spirits and wine products to achieve reductions similar to those already realized for malt beverage formulas, which may require rulemaking to fully implement.

Further, TTB will continue to employ its strategy to increase electronic filing to manage workloads and reduce processing times. These efforts include improving online guidance as well as enhancing the help features in TTB's online systems. In FY 2015, TTB achieved a combined electronic filing rate of 94 percent, as tracked by its measure of Percent of Electronically Filed Label and Formula Applications. The planned guidance and system improvement efforts will help TTB achieve its electronic filing target of 95 percent in fiscal years 2016 and 2017.

3.1.2 – Protect the Public Budget and Performance Plan

Dollars in Thousands

Protect the Public Budget Activity

Resource Level	FY 2010 Actuals	FY 2011 Actuals	FY 2012 Actuals	FY 2013 Actuals	FY 2014 Actuals	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources	\$50,000	\$50,399	\$48,939	\$45,727	\$47,279	\$47,279	\$53,654	\$52,879
Reimbursable Resources	\$2,117	\$1,979	\$2,464	\$2,670	\$3,236	\$3,371	\$3,356	\$3,318
Transfer from TEOAF-Super Surplus Fund	\$0	\$0	\$0	\$0	\$432	\$0	\$0	\$0
Budget Activity Total	\$52,117	\$52,378	\$51,403	\$48,397	\$50,947	\$50,650	\$57,010	\$56,197

Measure	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
Percent of Electronically Filed Permit Applications	N/A	N/A	62.0	70.0	79.0	84.0	82.0	87.0	89.0
Percent of Permit Applications Processed within Service Standards	N/A	N/A	61.0	50.0	58.0	47.0	85.0	85.0	85.0
Customer Satisfaction Rate with TTB Permitting Process	N/A	N/A	N/A	N/A	B	76.0	80.0	80.0	80.0
Percent of Electronically Filed Label and Formula Applications	N/A	84.0	88.0	90.0	93.0	94.0	94.0	95.0	95.0
Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards	N/A	N/A	83.0	49.0	67.0	75.0	85.0	85.0	85.0

Key: DISC - Discontinued and B – Baseline

Section 4 – Supplemental Information

4A – Summary of Capital Investments

Information Technology

TTB's Strategic Plan establishes the vision and objectives for the bureau in the business context. TTB's Information Technology (IT) Strategic Plan is a five-year plan based on its business strategy, which includes the bureau's mission, vision, goals, and objectives from the IT perspective. This plan charts the course the bureau will follow in the coming years to develop and implement IT solutions that are aimed at streamlining the collection of data, leveraging web technologies, and making the Internet the method of choice for the reporting and exchanging of information. By aligning business and technical strategy, TTB is able to leverage technology to enable the bureau to meet its objectives in the most efficient and cost-effective manner while identifying ways to minimize system redundancy.

TTB has no major IT investments based on the OMB and the Department of Treasury criteria. Several non-major investments, however, directly support the mission, strategy, and day-to-day operations of the bureau. These include:

TTB Tax System: This investment consists of several component applications that ensure fair and proper collection of revenue from the industry members for alcohol, tobacco, firearms, and ammunition excise taxes and to ensure compliance with the excise tax regulations.

TTB Regulatory System: This investment includes applications that streamline the beverage and nonbeverage alcohol formula approval process and COLA issuance for tax and regulatory compliance.

TTB General Support Services: This investment provides TTB users with the infrastructure applications necessary to conduct daily business.

TTB Enterprise Architecture: This investment supports strategic management of IT operations (e.g., business process redesign efforts not part of an individual investment, enterprise architecture development, capital planning and investment control processes, procurement management, and IT policy development and implementation) and costs for Chief Information Officer functions.

In addition to leveraging IT to support the mission, strategy, and day-to-day operations of the bureau, TTB supports and maintains strategy alignment with OMB and Treasury through enterprise-wide IT initiatives. These include: Cyber Security; IT Infrastructure; Electronic Identity and Access Management (HSPD-12); Enterprise-wide Contracts and Services; and Program Metrics and Milestones.

Scientific Equipment for Laboratories

This investment will enable chemists to provide accurate and reproducible scientific data and laboratory results to support regulatory compliance, tax enforcement, tax classification, rulemaking, and investigations for both the alcohol and tobacco commodities. Laboratory

instruments require periodic replacement, as they have finite lifecycles due to use and as scientific advances continue to evolve. Technologies applied at these laboratories eventually become obsolete and the instruments are not serviceable as vendors stop carrying parts and software. Periodic replacement of the existing technologies is essential for TTB laboratories to remain state-of-the-art and effective to support the bureau's mission, strategy, and day-to-day operations.

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed and downloaded at <http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>

This website also contains a digital copy of this document.