Alcohol and Tobacco Tax and Trade Bureau

FY 2013

President’s Budget Submission
Table of Contents

Section 1 – Purpose ........................................................................................................................................ 3
   1A – Mission Statement ................................................................................................................................. 3
   1.1 – Appropriations Detail Table .................................................................................................................. 3
   1B – Mission Priorities and Context ............................................................................................................... 3

Section 2 – Budget Adjustments and Appropriation Language ................................................................. 10
   2.1 – Budget Adjustments Table ................................................................................................................... 10
   2A – Budget Increases and Decreases Description ....................................................................................... 10
   2.2 – Operating Levels Table ....................................................................................................................... 12
   2B – Appropriations Language and Explanation of Changes ....................................................................... 13
   2C – Legislative Proposals ........................................................................................................................... 13

Section 3 – Budget and Performance Report and Plan ............................................................................ 15
   3A – Collect the Revenue ............................................................................................................................. 15
   3.1.1 – Collect the Revenue Budget and Performance Report and Plan.................................................. 19
   3B – Protect the Public ............................................................................................................................... 19
   3.1.2 – Protect the Public Budget and Performance Report and Plan.................................................... 22

Section 4 – Supplemental Information ..................................................................................................... 23
   4A – Capital Investment Strategy ................................................................................................................ 23
Section 1 – Purpose

1A – Mission Statement
To collect the federal excise taxes on alcohol, tobacco, firearms, and ammunition, and assure compliance with federal tobacco permitting and alcohol permitting, labeling, and marketing requirements to protect consumers.

1.1 – Appropriations Detail Table
Dollars in Thousands

<table>
<thead>
<tr>
<th>Resources Available for Obligation</th>
<th>FY 2011 Enacted</th>
<th>FY 2012 Enacted</th>
<th>FY 2013 Request</th>
<th>% Change FY 2012 to FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FTE</td>
<td>AMOUNT</td>
<td>FTE</td>
<td>AMOUNT</td>
</tr>
<tr>
<td>New Appropriated Resources:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collect the Revenue</td>
<td>268</td>
<td>$50,399</td>
<td>248</td>
<td>$50,939</td>
</tr>
<tr>
<td>Protect the Public</td>
<td>267</td>
<td>$50,939</td>
<td>248</td>
<td>$48,939</td>
</tr>
<tr>
<td>Subtotal New Appropriated Resources</td>
<td>535</td>
<td>$100,798</td>
<td>496</td>
<td>$99,878</td>
</tr>
<tr>
<td>Other Resources:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursables</td>
<td>15</td>
<td>$3,958</td>
<td>15</td>
<td>$4,928</td>
</tr>
<tr>
<td>Unobligated Balances from PY</td>
<td>-</td>
<td>2,990</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Subtotal Other Resources</td>
<td>15</td>
<td>$6,948</td>
<td>15</td>
<td>$4,928</td>
</tr>
<tr>
<td>Total Resources Available for Obligation</td>
<td>550</td>
<td>$107,746</td>
<td>511</td>
<td>$104,806</td>
</tr>
</tbody>
</table>

1B – Mission Priorities and Context
TTB is responsible for the administration and enforcement of those 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 and 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 collect the revenue strategic goal is to assure that industry remits the proper federal tax on alcohol, tobacco, firearms, and ammunition products. This TTB goal supports the Treasury’s strategic goal to pursue comprehensive tax and fiscal reform, as well as the agency-wide priority goal to increase voluntary tax compliance. The TTB protect the public strategic goal is to ensure that alcohol and tobacco industry operators meet permit qualifications, and alcohol beverage products comply with federal production, labeling, and marketing requirements, and supports the Treasury strategic goal to enhance U.S. competitiveness and promote international financial stability and balanced global growth. Various activities under these two TTB strategic goals contribute to the Treasury’s priority goal of increasing paperless transactions with the public.

In Fiscal Year (FY) 2013, TTB will strategically 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 assuring fair and honest market activity. TTB will act to prevent compliance violations by enhancing the guidance offered to industry members on federal alcohol, tobacco, firearms, and ammunition laws and regulations. TTB will continue its efforts to verify compliant operations and proper tax payment through its audit program, and will employ sophisticated risk modeling to target high-risk entities for the most effective and efficient use of limited enforcement resources. Enforcing
the tax code also requires that TTB address tax evasion and the illicit trade in alcohol and tobacco products, which not only represents potentially billions of dollars in revenue loss but also undermines the lawful business activity of taxpaying industry members. Specifically, in FY 2013, TTB is establishing forensic audit and investigation teams that will detect and pursue fraudulent activity in the alcohol and tobacco trade. These teams will supplement its random and risk-based audits and further focus TTB’s limited resources on high risk areas for revenue loss.

TTB will also focus on improving its business results in two primary processing areas—permit and label applications—by enhancing the electronic filing capabilities for industry and evaluating proposals to streamline TTB’s processing work without compromising the controls in place to effectively accomplish its mission. Applications for permits continue to rise and TTB is implementing e-Gov solutions to avoid degradation to the level of service provided to entrepreneurs applying for a TTB permit. Delays in issuing permits may impede the nation’s economic recovery, as the new businesses permitted by TTB are predominantly small businesses that contribute to job opportunities locally and to America’s competitiveness in the global market. Technology enhancements alone will not entirely address the strain on TTB resources caused by the continued growth in alcohol beverage label applications. TTB is working with industry to assess opportunities to streamline this critical line of business to prevent costly delays in receiving TTB’s approval. Such delays may negatively impact businesses, which must have label approval prior to bottling or introducing their products into domestic commerce.

FY 2013 Priorities

- Collect roughly $24 billion in annual excise tax revenues due to the federal government;
- Complete audits and investigations of TTB taxpayers based upon risk and random selection to ensure lawful operations and tax reporting and payment compliance;
- Detect and address criminal diversion activity, including counterfeit alcohol and tobacco products, to protect the federal revenue stream, U.S. consumers, and fair market activity;
- Reduce the burden of compliance by expanding and promoting electronic filing options for industry members, including the online system that allows industry members to apply for an original permit to start a new alcohol or tobacco business;
- Conduct statistically valid marketplace sampling programs to determine industry-wide compliance with federal regulations for alcohol beverages, and tailor enforcement and education programs based on these findings to ensure products sold to U.S. consumers meet federal alcohol beverage production, labeling, and marketing requirements;
- Refine TTB product safety activities that focus on the integrity and safety of domestic and imported alcohol beverage products;
- Promote U.S. exports by facilitating industry compliance with foreign requirements and by working with foreign regulators to reduce barriers to trade; and
- Strengthen global tax administration structures through work with trading partners and emerging markets to prevent tax loss from illicit trade and improve tax collection outcomes.

Recent Accomplishments

During FY 2011, TTB collected $24 billion in excise taxes and other revenues from 7,800 taxpayers in the alcohol, tobacco, firearms, and ammunition industries. The return on investment for the TTB Collect the Revenue program is 468:1. TTB completed 173 targeted audits and 190 revenue investigations of permitted businesses, which contributed to the identification of additional tax revenue of more than $29.4 million, and acts as a deterrent to fraud. In enforcing
its criminal jurisdiction, TTB initiated 21 criminal investigations involving diversion of alcohol and tobacco products with an estimated tax liability of more than $20 million. In support of the Nation’s continued economic growth, TTB processed nearly 6,000 original permits, most of which are for small businesses. A TTB permit is required before a business can operate in the alcohol and tobacco industries. In addition, TTB processed 145,300 Certificate of Label Approval (COLA) applications, of which 88 percent were filed electronically. 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 also completed more than 800 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.

Additionally, TTB works with industry, foreign and state governments, and other interested parties to protect the integrity of the alcohol beverage trade, ensuring that all businesses are operating in compliance with federal laws and regulations, and that U.S. industry can penetrate foreign markets. TTB made significant inroads in advancing these objectives in FY 2011, with key accomplishments including its completion of a nearly $2 million offer in compromise to settle a major trade practice investigation that was stifling fair competition within the alcohol beverage distribution system, its signing of several memoranda of understanding with important trade partners designed to enhance trade and improve regulatory and tax compliance of imported products, and its efforts to engage with emerging markets through the Asia Pacific Economic Cooperation (APEC) to expand trade opportunities for U.S. businesses.

**Challenges in FY 2013:**

**Alcohol and Tobacco Diversion**

TTB has jurisdiction over federal excise tax evasion in relation to alcohol and tobacco products. The diversion of these products outside of legitimate commercial channels without the payment of taxes due presents a serious threat to federal revenues, undermines fair trade activity, and provides a well-established source of funding for criminal enterprises. Diversion schemes vary widely and change in response to targeted enforcement efforts. Schemes include the illicit manufacture of product, diversion of “exported” and non-taxpaid product, and misclassification of imported product to evade tax. Another historic source of tobacco diversion is the illicit manufacture and sale of tobacco products on Native American reservations.

Accurately measuring the loss in federal tax receipts from alcohol and tobacco diversion is difficult because of the clandestine nature of the activity. In February 2010, the Department of the Treasury issued a report to Congress (“Report to Congress on Federal Tax Receipts Lost Due to Illicit Trade and Recommendations for Increased Enforcement”), which presented a study estimating the amount of federal tax receipts lost as a result of cigarette diversion. The study emphasized the substantial uncertainty surrounding the magnitude of the federal tax receipts lost due to cigarette diversion; however, in any case where the intrinsic value of a product is dwarfed by its tax value, there is incentive to evade the tax to gain an illegal profit. The recent tobacco tax rate increase, which tripled the tax on cigarettes, serves to enhance the potential for illegal gains. While there is not a similar study estimating revenue losses from alcohol diversion, recent TTB investigations indicate multiple schemes in the wholesaler and importer segments of the industry.
To address the illicit trade in these commodities, in FY 2010, TTB was provided $3 million in two-year funding to initiate a law enforcement program. TTB entered into an interagency agreement for the services of law enforcement agents on a reimbursable basis from the Internal Revenue Service Criminal Investigation (IRS CI) division. In FY 2012, an additional $2 million was appropriated to continue TTB’s enforcement efforts to address tobacco smuggling and other criminal diversion activities.

**Succession Planning**

Succession planning is high on the list of TTB’s strategic priorities. TTB could lose approximately 35 percent of its workforce by 2013 due to retirements and other attrition. TTB continues to use the personnel interventions identified in the Pay Demonstration Project to mitigate these losses and enable the bureau to improve its capacity to recruit, develop, and retain high-caliber employees. Continuation of this authority is essential to closing skill gaps in mission critical occupations and is requested for an additional year in the FY 2013 budget.

**Operating Environment**

**TTB Tax Collections and the Regulated Industries**

TTB is the third largest tax collection agency in the U.S. Government, after the IRS and U.S. Customs and Border Protection. Annual revenues from the alcohol, tobacco, firearms and ammunition industries approach $24 billion, with trends in the volume of permit applications submitted to TTB indicating continued expansion and robust business activity in these trades.

### Alcohol Tax Collections

The alcohol beverage industry in the United States pays $7.6 billion in federal excise taxes each year and also provides a source of tax revenue for state and local governments. A 2007 industry trade association report shows that the alcohol beverage industry contributes directly or indirectly to the U.S. economy by providing nearly 4 million jobs and roughly $400 billion in economic activity. Economic forecasts predict continued modest growth in the alcohol industry, and taxes collected on alcohol beverages are expected to continue to rise throughout the period of FY 2012 – FY 2013. TTB expects that the increase in new alcohol businesses will be most prominent in the number of wineries, craft breweries, and craft distilleries.
Tobacco Tax Collections
In FY 2011, TTB tobacco excise tax collections reached $15.5 billion as a result of the increased tax rate imposed by the Children’s Health Insurance Program Reauthorization Act of 2009 (CHIPRA). This legislation provided for a tax increase on all tobacco products (except large cigars), and cigarette papers and cigarette tubes, effective April 1, 2009. In forecasting tobacco revenues, federal collections are expected to decline after peaking in FY 2010. Higher prices on tobacco products have historically resulted in decreased consumption and increased illicit trade, which combined would indicate declining tax revenues in the out years.

Firearms and Ammunition Excise Tax Collections
Firearms and ammunition excise taxes (FAET) are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937. The U.S. Fish and Wildlife Service, which oversees the fund, apportions the money to state governments for wildlife restoration and research, and hunter education programs. Federal excise tax collections on firearms and ammunition have increased from $193 million in FY 2003 to $344 million in FY 2011, an increase of $151 million over the past eight years, or a 78 percent growth in federal FAET revenues. The increase in reported tax revenue can be attributed to industry growth, effective outreach and collection initiatives at the bureau, and the field presence of TTB’s auditors, which continues to promote voluntary taxpayer compliance.

Expansion of U.S. Exports
TTB program work to promote fair and open trade with U.S. trading partners supports the nation’s economic recovery. Overseas demand for the products TTB regulates continues to grow, with U.S. exports of all alcohol beverages totaling $2.3 billion in 2010. The majority of these exports are spirits and wine products. Examining just the wine sector, 81 percent of world wine consumption is outside of the U.S., indicating that these industries may contribute significantly to the U.S. trade policy goal to double all exports in 5 years, as stated in the President’s National Export Initiative.
TTB has noted an increase in the value of commodities it regulates, particularly in regard to wine products. In 2010, for example, global exports of U.S. wine totaled more than $1 billion, which represents a 23 percent increase from 2009. With the exception of the 2009 calendar year, exports of wine (by value) have increased each year since 2006. Distilled spirits exports reflect a similar trend, though at a more moderate level. Global exports of U.S. spirits totaled more than $1.15 billion, representing a 12 percent increase from 2009 to 2010. Malt beverage exports also indicate a positive trend, with a consistent increase in exports since 2006.
As the technical expert in these commodities, TTB seeks to promote U.S. exports by facilitating industry compliance with foreign requirements and by working with foreign regulators to address barriers that block market access for U.S. products. In FY 2011, TTB issued nearly 9,000 export certificates for beer, wine, and distilled spirits. Without these certificates, which are only issued by TTB, U.S. producers of alcohol beverages cannot sell their products in major markets abroad. TTB’s workload in processing export certificates increased 45 percent between FY 2007 and FY 2010, indicating market expansion, but also the need to work with trading partners to eliminate unnecessary or burdensome certification requirements. Through its international outreach, TTB has arranged for the elimination or reduction of certification requirements for wine exported to the European Union, Argentina, Australia, Canada, Chile, Georgia, New Zealand, and South Africa. Export certifications as a whole declined 8 percent between FY 2010 and FY 2011, principally due to a decline in the issuance of import documentation forms – also known as VI1s – required for wine exported to the EU.

As international trade in alcohol beverages increases, TTB must seek innovative and efficient ways to achieve its consumer protection and revenue collection mission. Specifically, TTB’s expansion of international agreements has fostered a global network of regulators in the alcohol and tobacco industries that ensure markets remain open and illegal activity in the global trade is addressed promptly. In FY 2011, TTB signed a memorandum of understanding (MOU) with the Central Inspectorate for Food Quality and Fraud Repression (ICQRF) of the Italian Ministry of Agriculture and Forestry, the primary regulator of wine production in Italy, to open new channels for international cooperation and communication. Italy is currently the largest source of imported wine in the U.S., and TTB pursued this MOU because of the many alcohol product integrity issues that concern imported Italian products. Recently such issues have included mislabeled Italian wine, reported counterfeits of Italian wine, and adulteration of imported Italian wine with unauthorized pesticides. TTB also signed an MOU with the Canada Border Services Agency (CBSA). TTB pursued this MOU because of the many alcohol and tobacco tax issues arising along the U.S.-Canada border. Diversion between the U.S. and Canada is a significant issue, and this MOU helps TTB and CBSA to collaborate on technical work to reducing smuggling and counterfeiting.

In supporting the Nation’s economic recovery, TTB works to open burgeoning markets to U.S producers. During FY 2011, TTB took a leadership role in coordinating a seminar on key issues relating to wine targeting representatives from the Asia-Pacific Economic Cooperation (APEC) forum member countries. Eighteen of the 21 APEC nations sent representatives to the September meeting in San Francisco, California. The APEC wine regulators’ seminar helped to further a global vision for facilitating trade and enhance the prospect for U.S. competitiveness by educating the regulators in emerging markets on wine production and standards. Emerging markets commonly issue unnecessarily restrictive technical trade barriers; educating their regulators about the U.S. system will help prevent those countries from issuing technical barriers that impede U.S. exports.

**Import Product Safety and Integrity**

The integrity of U.S. products is critical in global commerce, and product safety incidents can have crippling effects on trade. In FY 2011, TTB acted to further its unique regulatory role in assuring that alcohol beverage products in the marketplace meet federal standards and do not
mislead consumers. In support of this objective, TTB expanded its Alcohol Beverage Sampling Program (ABSP) to include the analysis of all three beverage alcohol commodities—wine, malt beverages, and distilled spirits—each year. The program also was modified to include an investigative component, so that ABSP compliance results will also indicate the veracity of claims made on wine labels, including grape varietal and appellation of origin, which can only be verified through on-premise review of manufacturing records. Through this program, TTB generates statistically reliable information that can be used to estimate the percentage of alcohol beverage products in the market that are fully and accurately labeled. TTB then uses this information to target enforcement efforts as well as to make improvements to industry guidance. Approximately 650 products were inspected and tested in FY 2011 to ascertain the marketplace compliance rates. Results of the ABSP indicate a statistically significant decrease in overall compliance for wine from FY 2010 to FY 2011, a statistically significant increase in overall compliance for distilled spirits from its FY 2008 baseline year to FY 2011, and no significant change in malt beverages from its FY 2009 baseline year to FY 2011. Based on these results, TTB will hone its sampling method to determine more detailed information about non-compliance issues, and will feed the program findings into its FY 2012 risk model to target enforcement resources.

Integrity in Domestic Commerce

A rigorous trade practice enforcement program helps maintain a level playing field for all those who trade in alcohol beverages. In FY 2011, TTB concluded its investigation into the Las Vegas property of a national casino chain in which large alcohol beverage suppliers had given millions of dollars in unlawful inducements to the casino in order to receive premium retail shelf space for their products. These so-called “slotting fee” violations have a particularly deleterious impact on small businesses, which cannot afford to operate in an environment where one has to pay in order to receive shelf space at a retail establishment. The investigation found that these illegal payments by large suppliers resulted in the exclusion of competing products at the casino’s Las Vegas properties, which caused reductions in sales to many of the suppliers’ competitors (some by as much as 75 percent). TTB accepted offers in compromise totaling nearly $2 million from six companies alleged to have violated the tied house “slotting fee” provisions of the Federal Alcohol Administration Act. This is the largest set of offers in compromise ever accepted by TTB for trade practice violations.
Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

<table>
<thead>
<tr>
<th>Alcohol and Tobacco Tax and Trade Bureau</th>
<th>FTE</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2012 Enacted</td>
<td>496</td>
<td>$99,878</td>
</tr>
</tbody>
</table>

Changes to Base:
- Maintaining Current Levels (MCLs): - $987
- Maintaining Current Levels: - $987
- Non-Recurring Costs:
  - FY 2012 Funding for Special Agents: - ($2,000)
  - Efficiency Savings:
    - (6) ($1,079)
    - Permits Online Efficiencies: (6) ($550)
    - Data Center Consolidation: - ($529)
  - Repeal Bond Requirement (Quarterly Filing): - ($1,000)

Subtotal FY 2013 Changes to Base: (6) ($2,092)

Total FY 2013 Base: 490 $97,786

Program Changes:
- Program Decreases:
  - Repeal Bond Requirement (Quarterly Filing): - ($1,000)

Total FY 2013 Request: 482 $96,786

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .................................................... +$987,000 / +0 FTE

Maintaining Current Levels +$987,000 / +0 FTE
Funds are requested for inflation adjustments (1.7 percent) in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employees Retirement System participation. Funds are also requested for the proposed 2013 pay raise (0.5 percent).

Non-Recurring Costs ................................................................. -$2,000,000 / +0 FTE

FY 2012 Funding for Special Agents -2,000,000 / +0 FTE
Congress provided TTB with funding in FY 2012 for the costs of special law enforcement agents to target tobacco smuggling and other criminal diversion activities which TTB is executing by reimbursing IRS for the use of its special agents. In FY 2013 the Administration proposes to achieve this purpose by providing the IRS with authority to use its appropriation to work these cases at the discretion of the Commissioner of Internal Revenue and in coordination with TTB.

Efficiency Savings ................................................................. -$1,079,000 / -6 FTE

Permits Online Efficiencies -$550,000 / -6 FTE
Savings realized from staffing reduction enabled by efficiencies gained from the Permits Online electronic filing system.

Data Center Consolidation -$529,000 / +0 FTE
Savings realized from the move of all IT equipment and TTB core business applications from the Quest data centers in Sterling, Virginia and Denver, Colorado to TTB facilities.
Program Decreases .......................................................... -$1,000,000 / -8 FTE

Repeal Bond Requirement (Quarterly Filing) - $1,000,000 / -8 FTE

TTB proposes a statutory change to mandate quarterly excise tax filing and payment (rather than semi-monthly) for those beverage alcohol industry members (breweries, distilled spirits plants, wineries and bonded wine cellars) who reasonably expect to be liable for not more than $50,000 per year in alcohol excise taxes (and who were liable for not more than $50,000 in such taxes in the preceding calendar year), and to repeal the bond requirement for such taxpayers. Complementary regulatory changes will mandate quarterly operational report filing by those industry members required to file excise tax returns quarterly. Additionally, since 1990, TTB has administratively allowed eligible wineries who paid excise taxes in an amount less than $1,000 during the previous calendar year to file and pay taxes annually. The proposal will create parity among alcohol taxpayers by allowing all distilled spirits, wine, and beer taxpayers who reasonably expect to be liable for not more than $1,000 in taxes per calendar year to file and pay taxes annually rather than on a quarterly basis.

The legislative change will have the following impacts:

- Repealing the bond requirement will reduce the financial burden on small businesses;
- Deferring tax payments from semi-monthly to quarterly will reduce the number of tax filings, and therefore the regulatory burden on, small businesses;
- Reducing the number of tax filings and operational reports will reduce TTB workload; and
- Collecting tax payments quarterly rather than on a semi-monthly basis will result in a nominal loss of investment income to the U.S. Treasury.

The following is a summary of industry members who would fall under this new requirement:

<table>
<thead>
<tr>
<th>Industry Members With Bonds</th>
<th>Tax Liability Not More Than $50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonded Wine Cellar</td>
<td>79</td>
</tr>
<tr>
<td>Bonded Winery</td>
<td>4,504</td>
</tr>
<tr>
<td>Brewery</td>
<td>1,757</td>
</tr>
<tr>
<td>Distilled Spirits Plants</td>
<td>363</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,703</strong></td>
</tr>
</tbody>
</table>

If this proposal were adopted, TTB estimates that approximately 90,000 business transactions, which include operational reports and tax returns, could be eliminated from the document processing cycle.

TTB believes that the cost savings associated with this proposal substantially counterbalance the relatively small revenue risk that it presents, since the bond requirement is generally substantially smaller than the potential liability exposure involved and TTB has only rarely collected on the bonds.

The loss of investment income to the U.S. Treasury would be minimal, approximately $200,000 each year, since almost 90 percent of all taxpayers that fall within this threshold actually pay less than $20,000 in annual taxes.
## 2.2 – Operating Levels Table

Dollars in Thousands

<table>
<thead>
<tr>
<th>Alcohol and Tobacco Tax and Trade Bureau</th>
<th>FY 2011 Actual</th>
<th>FY 2012 President’s Budget</th>
<th>FY 2012 Proposed</th>
<th>FY 2012 Proposed Reprogrammings</th>
<th>FY 2013 Operating Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE</td>
<td>482</td>
<td>502</td>
<td>496</td>
<td>0</td>
<td>496</td>
</tr>
</tbody>
</table>

### Object Classification

- **11.1 - Full-time permanent**
  - 44,454
  - 45,389
  - 45,389
  - 0
  - 45,389
  - 44,514

- **11.5 - Other personnel compensation**
  - 796
  - 785
  - 785
  - 0
  - 785
  - 758

- **11.9 Personnel Compensation (Total)**
  - $45,250
  - $46,174
  - $46,174
  - $0
  - $46,174
  - $45,272

- **12 - Personnel benefits**
  - 12,419
  - 11,582
  - 11,582
  - 0
  - 11,582
  - 11,439

- **21 - Travel and transportation of persons**
  - 2,571
  - 2,990
  - 2,990
  - 0
  - 2,990
  - 3,061

- **22 - Transportation of things**
  - 39
  - 96
  - 96
  - 0
  - 96
  - 97

- **23.1 - Rental payments to GSA**
  - 4,538
  - 4,763
  - 4,763
  - 0
  - 4,763
  - 4,844

- **23.3 - Communication, utilities, and misc charges**
  - 2,452
  - 5,178
  - 5,178
  - 0
  - 5,178
  - 4,755

- **24 - Printing and reproduction**
  - 322
  - 393
  - 393
  - 0
  - 393
  - 393

- **25.2 - Other services**
  - 20,999
  - 16,548
  - 16,548
  - 0
  - 16,548
  - 16,665

- **25.3 - Other purchases of goods and services from Govt. accounts**
  - 5,791
  - 6,420
  - 8,420
  - 0
  - 8,420
  - 6,420

- **26 - Supplies and materials**
  - 463
  - 636
  - 636
  - 0
  - 636
  - 652

- **31 - Equipment**
  - 5,362
  - 3,071
  - 3,071
  - 0
  - 3,071
  - 3,161

- **42 - Insurance claims and indemnities**
  - 129
  - 27
  - 27
  - 0
  - 27
  - 27

### Total Budget Authority

<table>
<thead>
<tr>
<th></th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>FY 2012</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$100,335</td>
<td>$97,878</td>
<td>$99,878</td>
<td>$0</td>
</tr>
</tbody>
</table>

### Budget Activities:

- **Collect the Revenue**
  - 50,166
  - 48,939
  - 50,939
  - 0
  - 50,939
  - 47,893

- **Protect the Public**
  - 50,168
  - 48,939
  - 48,939
  - 0
  - 48,939
  - 48,893

### Total Budget Authority

<table>
<thead>
<tr>
<th></th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>FY 2012</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$100,335</td>
<td>$97,878</td>
<td>$99,878</td>
<td>$0</td>
</tr>
</tbody>
</table>
2B – Appropriations Language and Explanation of Changes

<table>
<thead>
<tr>
<th>Appropriations Language</th>
<th>Explanation of Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEPARTMENT OF THE TREASURY</td>
<td></td>
</tr>
<tr>
<td>ALCOHOL AND TOBACCO TAX AND TRADE BUREAU</td>
<td></td>
</tr>
<tr>
<td>Federal Funds</td>
<td></td>
</tr>
<tr>
<td>SALARIES AND EXPENSES</td>
<td></td>
</tr>
<tr>
<td>For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, [99,878,000] $96,786,000; 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, $2,000,000 shall be for the costs of special law enforcement agents to target tobacco smuggling and other criminal diversion activities]. (Department of the Treasury Appropriations Act, 2012.)</td>
<td></td>
</tr>
</tbody>
</table>

2C – Legislative Proposals

Extend Pay Demonstration Project

TTB proposes to continue the Pay Demonstration Project (Pay Demo) by amending the General Provision language to extend the project for one additional year. This project was established to enhance Treasury’s ability to effectively recruit and retain highly qualified employees. Pay Demo has been extended every year since it was first established in FY 1999, and has been a successful intervention tool in the recruitment and retention of critical staff positions.

- The continuation of the Pay Demo authority has proven to be an effective recruitment strategy that enables the bureau to timely fill its positions with the right people, with the right skills, minimizing loss and skill gaps caused by an aging workforce and employee turnover;
- The Pay Demo authority fosters a results-oriented organizational culture since the employees’ compensation is based upon the level of performance, therefore, improving the bureau’s overall performance; and
- The Pay Demo authority has resulted in a more diverse workforce, with increased representation of various groups (e.g., women, persons with disabilities, veterans, and persons from different age groups) across occupations and band/grade groupings under the authority.

The following is the proposed legislative language for extending Pay Demo and additional year under the Treasury Administrative Provisions:

“Section 122(g)(1) of Public Law 105–119 (5 U.S.C. 3104 note), is further amended by striking “14 years” and inserting “15 years”.”
**Repeal Bond Requirement**

The proposal, which is presented as part of the Administration’s overall tax agenda, would require any distilled spirits, wines, and beer taxpayer who reasonably expects to be liable for not more than $50,000 per year in alcohol excise taxes (and who was liable for not more than $50,000 in such taxes in the preceding calendar year) to file and pay such taxes quarterly, rather than semi-monthly. The proposal would also create an exemption from the bond requirement in the Internal Revenue Code of 1986 (IRC) for these small taxpayers. The proposal includes conforming changes to the other sections of the IRC describing bond requirements.

Additionally, the proposal would allow any distilled spirits, wine, or beer taxpayer with a reasonably expected alcohol excise tax liability of not more than $1,000 per year to file and pay such taxes annually rather than on a quarterly basis. The proposal will create parity among alcohol taxpayers by allowing eligible distilled spirits and beer taxpayers to file annually as well.

The proposal would be effective 90 days after the date of enactment.

**Internal Revenue Service/Enforcement (Special Agent Support)**

Congress vested in TTB exclusive authority to enforce the criminal provisions of the IRC related to alcohol and tobacco excise taxes. In FY 2010 and FY 2012 Congress provided TTB with resources to work criminal cases, which TTB has accomplished by reimbursing IRS for the use of their special agents. In FY 2013 the Administration proposes to achieve this purpose by providing the IRS with authority to use its appropriation to work these cases at the discretion of the Commissioner and in coordination with TTB.

*Section XXX, The Internal Revenue Service may conduct criminal enforcement investigations and prosecutions of excise tax violations of 26 U.S.C. Section 4181-4182 and Chapters 51 and 52, at the discretion of the Commissioner of Internal Revenue and in coordination with the Alcohol and Tobacco Tax and Trade Bureau.*
Section 3 – Budget and Performance Report and Plan

3A – Collect the Revenue
($47,893,000 from direct appropriations, and $2,464,000 from reimbursable resources):
This budget activity includes all tax processing, verification, enforcement, and outreach efforts related to administering the federal excise tax for the alcohol, tobacco, firearms, and ammunition industries. TTB collects nearly $24 billion in federal tax revenue annually from roughly 7,800 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. This budget activity supports the TTB strategic goal to assure that industry remits the proper federal tax on alcohol, tobacco, firearms, and ammunition products. The goal owner for this budget activity is the TTB Assistant Administrator for Field Operations.

Description of Performance:
In FY 2011, TTB met all of its targets for the performance measures under the Collect the Revenue budget activity, demonstrating the effectiveness and efficiency with which TTB operates its revenue collection mission.

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 2011, TTB reported a return on investment of $468 for every dollar spent on collection activities. Due to ongoing and successful compliance audit and investigation efforts, TTB exceeded the performance target for FY 2011 by 17 percent. Each year, TTB collects approximately $24 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries. In determining its performance targets for this measure, TTB examines historical collections trends across each of its regulated commodities, as well as other predictors that influence consumer behaviors. The following displays the historical collections at TTB from FY 2001 to 2011 by revenue type:
Excise Tax and Other Collections by Fiscal Year

Dollars in Thousands

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Alcohol</th>
<th>Tobacco</th>
<th>FAET</th>
<th>SOT</th>
<th>FST</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$6,674,425</td>
<td>$7,119,726</td>
<td>$175,959</td>
<td>$103,610</td>
<td>$528</td>
<td>$168</td>
<td>$14,074,416</td>
</tr>
<tr>
<td>2002</td>
<td>$6,889,401</td>
<td>$7,763,652</td>
<td>$205,027</td>
<td>$101,893</td>
<td>$115,609</td>
<td>$159</td>
<td>$15,075,741</td>
</tr>
<tr>
<td>2003</td>
<td>$6,910,631</td>
<td>$7,380,807</td>
<td>$193,414</td>
<td>$103,781</td>
<td>$1,628</td>
<td>-</td>
<td>$14,590,261</td>
</tr>
<tr>
<td>2004</td>
<td>$6,995,366</td>
<td>$7,433,852</td>
<td>$216,006</td>
<td>$100,562</td>
<td>-</td>
<td>$359</td>
<td>$14,746,145</td>
</tr>
<tr>
<td>2005</td>
<td>$7,074,076</td>
<td>$7,409,608</td>
<td>$225,818</td>
<td>$10,190</td>
<td>$9</td>
<td>$141</td>
<td>$14,719,842</td>
</tr>
<tr>
<td>2006</td>
<td>$7,182,940</td>
<td>$7,350,058</td>
<td>$249,578</td>
<td>$2,895</td>
<td>$638</td>
<td>$146</td>
<td>$14,786,255</td>
</tr>
<tr>
<td>2007</td>
<td>$7,232,138</td>
<td>$7,194,081</td>
<td>$287,835</td>
<td>$2,808</td>
<td>-</td>
<td>$32</td>
<td>$14,716,894</td>
</tr>
<tr>
<td>2008</td>
<td>$7,420,576</td>
<td>$6,851,705</td>
<td>$312,622</td>
<td>$448</td>
<td>-</td>
<td>$634</td>
<td>$14,585,985</td>
</tr>
<tr>
<td>2009</td>
<td>$7,424,292</td>
<td>$11,548,504</td>
<td>$452,693</td>
<td>$272</td>
<td>$1,192,375</td>
<td>$970</td>
<td>$20,619,106</td>
</tr>
<tr>
<td>2010</td>
<td>$7,476,789</td>
<td>$15,913,479</td>
<td>$360,813</td>
<td>$300</td>
<td>$8,558</td>
<td>$180</td>
<td>$23,760,119</td>
</tr>
<tr>
<td>2011</td>
<td>$7,594,330</td>
<td>$15,515,073</td>
<td>$344,262</td>
<td>$268</td>
<td>$5,220</td>
<td>$2,257</td>
<td>$23,461,410</td>
</tr>
<tr>
<td>Average</td>
<td>$7,170,451</td>
<td>$9,225,504</td>
<td>$274,912</td>
<td>$38,821</td>
<td>$120,415</td>
<td>$459</td>
<td>$16,830,561</td>
</tr>
</tbody>
</table>

FAET - Firearms and Ammunition Excise Tax  
SOT - Special Occupational Tax  
FST - Floor Stock Tax  
Other - Suspense Account  

Note: Tobacco revenue increased in 2009 as a result of the passage of the Children’s Health Insurance Program Reauthorization Act (CHIPRA) legislation, which increased the tax rate on tobacco products. Also, legislation was enacted in July 2005 that repealed the SOT for all alcohol taxpayers. The SOT for tobacco permitees remains intact.

In just three years, the return on investment for the Collect the Revenue program increased by 50 percent, principally because of the higher federal excise tax rate imposed on tobacco products under the February 2009 CHIPRA legislation. This legislation tripled the federal tax rate on certain tobacco products and, as a result, TTB’s return on investment reached an historic high in FY 2010 of 478:1. However, shifts in consumption patterns, product manufacturing, and trade will impact federal revenues in the years ahead. In accounting for these types of marketplace shifts, TTB used Congressional Budget Office revenue projections for tobacco excise tax collections to determine its targeted performance levels for fiscal years 2011 – 2013.

The performance target of $400 for FY 2013 reflects TTB’s analysis of collections data, and will be met through continued efficiencies gained in TTB’s costs to operate its Collect the Revenue activities. Specifically, savings achieved in the processing of surety bonds and tax filings through the legislative initiative included in the FY 2013 budget submission should improve the efficiency quotient for this measure. Under TTB’s budget request, TTB proposes to repeal the bond requirement for businesses owing $50,000 or less annually and mandate the quarterly filing of tax returns. Currently, the cost of the bond requirement deters these taxpayers from filing tax returns and payments on a quarterly basis, and its elimination will reduce this filing and financial burden on industry, increase quarterly filings, and, thus, result in efficiencies for TTB.

Increase Voluntary Tax Compliance

Fostering voluntary compliance among excise taxpayers is another primary tax administration strategy for TTB and supports the priority goal of the Department of the Treasury. A key performance metric shows that 95 percent of large taxpayers (i.e., those that pay more than $50,000 in annual taxes) voluntarily file their tax payments on or before the scheduled due date. During an economic downturn, this compliance rate from business is especially notable, and is a function of the service and outreach TTB provides to its industry members and its effective enforcement presence.
Improved Access to TTB Services
Through targeted investments in technology, TTB aims to improve voluntary compliance by working toward allowing TTB permittees and taxpayers to file all payments, returns, and applications online with the National Revenue Center. In FY 2011, TTB expanded the e-filing program to allow all excise taxpayers to file and pay taxes and file monthly operational reports electronically through the Pay.gov system. The total number of Pay.gov registrants increased over the prior year by 12 percent in FY 2011, bringing the total to nearly 7,200.

Tax Enforcement Audits and Investigations
An identifiable enforcement presence is a well-established driver of compliance rates. In FY 2011, to meet its performance target of 92 percent for voluntary compliance, TTB used increasingly sophisticated risk models and audit targeting techniques to complete field work for 173 targeted audits and 190 revenue investigations. These audits and investigations resulted in the identification of $29.4 million in additional tax, penalties, and interest from industry members. Further, in a continuation of efforts to enforce the CHIPRA legislation enacted in 2009, TTB continued its Floor Stocks Tax (FST) examination program by conducting 175 FST examinations of tobacco manufacturers, importers, wholesalers, and retailers, which this year identified $5.6 million of potential tax, penalties, and interest. In just over two years, TTB auditors and investigators have completed 465 FST examinations, identifying $16.3 million and collecting $8.5 million of potential tax, penalties and interest to date.

Additionally, in FY 2011, TTB developed an automated system to identify FST non-filers at a national level, using minimal TTB resources. This involves a special operating procedure for targeting, referring, assessing, and collecting FST revenue from non-filers. In using this database solution, to date, TTB has identified an additional $25 million of estimated FST due. The actual revenue risk is likely higher, as TTB continues to collect tobacco data from a variety of sources and to complete its database of all FST non-filers. Since enacted in 2009, total FST collections are over $1.2 billion.

TTB also uses an interagency approach in applying these enforcement strategies that involves cooperation with local, state, federal, and foreign government counterpart agencies to maximize the deterrent impact of enforcement actions. In FY 2011, TTB continued to participate in the Fraud Investigative Strike Team (FIST), an interagency collaborative effort led by Immigration and Customs Enforcement (ICE) to address smuggling and fraud associated with activity along U.S. borders, primarily at Customs Bonded Warehouses (CBWs) and Foreign Trade Zones (FTZs), which are known points for diversion activity. During FY 2011, TTB participated in seven FIST operations at major ports and along the southwestern border, which identified leads and referrals for TTB audit and investigation. These operations also identified vulnerabilities in the movement of TTB regulated commodities from TTB to Customs bond, which created diversion opportunities. Accordingly, TTB amended its audit testing at large taxpayers and traced shipments destined for export to ensure product properly enters Customs bond.

Criminal Enforcement
Further, in its efforts to maintain tax compliance within the industries it regulates and the collection of all revenue due on alcohol and tobacco products, the bureau worked to address the illicit activity in the marketplace. TTB has criminal enforcement authority under the IRC, which
includes penalties for illicit tobacco product manufacturing and evasion of excise tax. Until FY 2010, however, TTB did not have the resources for special agents to effectuate this authority. Instead, TTB had to rely on the availability and interest of other federal and state law enforcement agencies, agencies with separate and distinct missions, to either initiate joint investigations that would include violations of IRC provisions enforced by TTB or accept a criminal investigation referral.

TTB entered into an interagency agreement in FY 2011 to reimburse the Internal Revenue Service (IRS) for agent services to enforce the criminal provisions of TTB’s jurisdiction. In FY 2011, a Special Agent in Charge and five special agents were assigned full-time to TTB. In its eight months of actively opening new investigations, this program resulted in the initiation of 21 cases with a total estimated federal excise tax liability of over $20 million, and combined seizures and forfeitures totaling approximately $1.7 million. Of the 21 cases, 11 related to illicit tobacco trade (52 percent) and 10 relate to the illegal alcohol trade (48 percent), demonstrating that criminal activity is present across the industries TTB regulates. Nineteen (90 percent) were accepted by an Assistant U.S. Attorney (AUSA) for prosecution, and TTB closed two cases. Three of the 19 cases referred to an AUSA have been closed, one of which involved the misclassification of imported distilled spirits to evade federal excise tax and resulted in a plea agreement of more than $100,000. The two-year earmark that provided for the reimbursement of the IRS for its agent services expired at the close of FY 2011. In FY 2012, an additional $2 million was appropriated to continue TTB’s efforts to combat tobacco smuggling and other criminal diversion activities.

The FY 2013 requested funding level enables the continuation of efforts to achieve the target of 94 percent established for the voluntary compliance performance measure. Strategies that TTB will employ to meet this target focus on developing a balanced field approach of audits and investigations that targets non-compliant industry members, establishing an identifiable presence within the industry that encourages voluntary compliance, and identifying any gaps in tax payment from illegal entities and individuals operating outside of the lawful distribution system for alcohol and tobacco products.
3.1.1 – Collect the Revenue Budget and Performance Report and Plan

Dollars in Thousands

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Level</td>
<td>Enacted</td>
<td>Enacted</td>
<td>Enacted</td>
<td>Enacted</td>
<td>Enacted</td>
<td>Enacted</td>
<td>Enacted</td>
<td>Request</td>
</tr>
<tr>
<td>Appropriated Resources</td>
<td>$49,618</td>
<td>$46,215</td>
<td>$46,693</td>
<td>$50,524</td>
<td>$53,000</td>
<td>$50,399</td>
<td>$50,939</td>
<td>$47,893</td>
</tr>
<tr>
<td>Reimbursable Resources</td>
<td>$813</td>
<td>$1,350</td>
<td>$1,733</td>
<td>$1,898</td>
<td>$2,117</td>
<td>$1,979</td>
<td>$2,464</td>
<td>$2,464</td>
</tr>
<tr>
<td><strong>Total Resources</strong></td>
<td>$50,431</td>
<td>$47,565</td>
<td>$49,426</td>
<td>$52,422</td>
<td>$55,117</td>
<td>$52,378</td>
<td>$53,403</td>
<td>$50,357</td>
</tr>
</tbody>
</table>

| Budget Activity Total             | $50,431 | $47,565 | $49,426 | $52,422 | $55,117 | $52,378 | $53,403 | $50,357 |

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of Revenue Collected Per Program Dollar</td>
<td>N/A</td>
<td>N/A</td>
<td>313.0</td>
<td>427.0</td>
<td>478.0</td>
<td>468.0</td>
<td>410.0</td>
<td>400.0</td>
</tr>
<tr>
<td>Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely and Accurately (In Terms of Revenue)</td>
<td>N/A</td>
<td>N/A</td>
<td>94.0</td>
<td>94.0</td>
<td>94.0</td>
<td>95.0</td>
<td>94.0</td>
<td>94.0</td>
</tr>
</tbody>
</table>

Key: DISC - Discontinued and B - Baseline

3B – Protect the Public

($48,893,000 from direct appropriations, and $2,464,000 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 56,000 businesses that TTB regulates, facilitate fair and lawful commercial 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. This budget activity supports the TTB strategic goal to ensure that alcohol and tobacco industry operators meet permit qualifications, and alcohol beverage products comply with federal production, labeling, and marketing requirements. The goal owner for this budget activity is the TTB Assistant Administrator for Headquarters Operations.

Description of Performance:

In FY 2011, TTB met three of its targets for the performance measures under the Protect the Public budget activity. TTB tracks its success in meeting its trade and consumer protection goals through four principal performance measures that indicate how timely the bureau is in issuing permits to qualified alcohol and tobacco businesses, how satisfied businesses are with TTB’s permitting process, how effective TTB is in deterring illicit importation of tobacco products by non-permitted entities, and the efficiency of the bureau’s alcohol beverage label application processing activity. Taken together, these measures reflect the priorities of a service-oriented organization, which applies technology to the greatest extent in order to perform its consumer protection role and in order to assure that commerce is fair, lawful, and open.
**Increase Efficiency in Permitting Qualified Businesses:** TTB protects consumers by screening permit applicants to ensure only qualified persons engage in operations in the alcohol, tobacco, firearms, and ammunition industries. For this purpose, in FY 2011, TTB processed nearly 6,000 original and 19,700 amended permits, and performed approximately 250 investigations into high-risk applicants to meet TTB’s business integrity objective. TTB also monitors its timeliness in processing permit applications through its measure of average processing times for original permit applications. Undue delays in providing businesses a permit to commence operations impacts small business growth and federal revenues, as taxable commodities cannot be lawfully produced without a TTB permit. TTB targeted a 72-day turnaround time for original permit applications in FY 2011; however, the bureau averaged 74 days to process these applications.

TTB launched Permits Online in FY 2011 to expedite permit processing times and increase the number of paperless transactions with the community TTB services. Permits Online provides a secure, web-based solution that allows members of the alcohol and tobacco industries to electronically submit applications for permits to operate. Applicants who plan to produce finished distilled spirits, wines, malt beverages, and tobacco products, and persons wishing to operate businesses such as alcohol wholesalers, alcohol importers, tobacco importers, specially denatured spirits users and dealers, tax-free alcohol users, alcohol fuel plants, tobacco processors, and tobacco export warehouses, must submit original and amended permit applications. TTB’s National Revenue Center (NRC) currently processes original application packets for 23 types of permits/registrations.

Over the past several years, however, the volume of paper applications has increased making it difficult to maintain current service levels. On average, TTB has experienced a 6 percent annual increase in original permits applications. Recognizing this trend, and the loss of processing resources, TTB purchased a commercial off-the-shelf software package to serve as the core of the electronic system to automate the submission process for all permit applications. TTB is deploying the system in stages, with the initial release implemented in FY 2011, and subsequent releases scheduled through FY 2012. The initial release, which came online in February 2011, included the highest volume permit application filers—alcohol importers, alcohol wholesalers, and wineries. A second release of the system in May 2011 enabled electronic filing by specially denatured alcohol users and dealers and tax-free alcohol users. Processing times in the second and third quarters of the year suffered as staff was redirected for these initial system releases, but showed improvement in the fourth quarter as applicants and employees gained experience using the system. Also, with these initial releases, TTB focused its resources on processing e-filed permit applications in an effort to incentivize businesses to file their application in Permits Online. During this period, the backlog of paper applications grew, and increased the average processing time.

With full system functionality for Permits Online slated for deployment in FY 2012, and considering the requisite transition and training period for industry members, TTB does not anticipate achieving reductions to turnaround time until the latter quarters of FY 2013. The FY 2012 and FY 2013 President’s Budgets include staff reductions (9 FTE in total) as a result of the efficiencies gained by the introduction of this technology. These reductions in staffing will produce budget savings, but will reduce improvements in processing times, which TTB projects to average 75 days at the close of FY 2013. Sustained performance during a period of declining
staff and increasing workloads will demonstrate TTB’s effectiveness, and the success of the new e-filing system, without which processing times would exceed 90 days. TTB intends to meet this performance target by continuing to promote use of the Permits Online system by all permit applicants, and by updating the risk model and processes used by the NRC to conduct permit applicant interviews.

**Improved Customer Satisfaction Results:** TTB also measures its performance in its permit processing function through surveying the businesses that apply for a TTB permit. The NRC customer survey solicits feedback on the level of service provided to applicants for an original or amended permit, and those industry members who file a claim to recover taxes paid on nonbeverage alcohol or overpayments of tax. TTB exceeded its target of a sustained score of 85 percent on customer satisfaction for permit application and claims processing, and achieved a composite score of 90 percent in FY 2011. Planned service enhancements, including the scheduled enhancements to the online filing solution for original and amended permit applications in FY 2012, will contribute to the bureau continuing to meet its targeted performance level. The FY 2013 target for performance of 85 percent will be met through efforts to increase applicant adoption rates for the Permits Online system, as well as other improvements to business processes and TTB call centers that directly impact the business community that TTB services.

**Sustained Permit Compliance by Regulated Importers:** Maintaining lawful operations in the trade of alcohol and tobacco commodities is a principal TTB objective. TTB continues its enforcement of federal permit requirements, targeting entities identified as importing cigarettes and other tobacco products without a TTB permit. By monitoring the U.S. Customs and Border Protection’s International Trade Data System, and comparing import data against the permittees on file with TTB, the bureau is able to identify and take action against those entities engaging in unlawful operations. In FY 2011, through this data comparison, TTB determined that 14 percent of entities reporting importations of tobacco products had done so without a permit. TTB improved upon its prior year result of 15 percent for this measure and, through its vigilant oversight, produced a result 5 percent below its target of 19 percent. In all, of the 47 importers operating without a federal permit, TTB identified only 13 entities importing commercial quantities of tobacco products (10,000 KG or more). TTB’s issuance of cease and desist letters, and appropriate follow up activities, ensured that the responsible parties ended operations or obtained a permit.

TTB intends to meet its FY 2013 performance target of 14 percent for this measure by placing special emphasis on enforcing the Prevent All Cigarette Trafficking (PACT) Act, a law enacted in 2010 to prevent tobacco smuggling and to ensure the collection of all tobacco taxes. Under the PACT Act, shipments of tobacco products via the U.S. Postal Service (USPS) are prohibited. The vast majority of the illegal imports are individuals purchasing tobacco products in small quantities for personal consumption through online tobacco outlets via the U.S. Postal Service (USPS) and FedEx. TTB continues to coordinate with the USPS and other shippers to provide enforcement assistance. TTB also will focus on monitoring the importation of processed tobacco, which is subject to new regulation and oversight under CHIPRA, to ensure the fidelity of the importers. Processed tobacco is the subject of intense TTB enforcement scrutiny, as it is a non-taxpaid tobacco product that may be diverted for illegal manufacturing of cigarettes.
Efficiency in Alcohol Beverage Label Processing: TTB protects U.S. consumers by assuring that the alcohol beverage products offered at retail outlets are properly labeled and comply with federal production standards. In FY 2011, TTB met this objective and facilitated U.S. commerce through the approval of approximately 117,100 of the 145,300 COLA applications received; the remaining 28,200 (19 percent) were rejected, returned for correction, withdrawn, or expired. In furtherance of the Department-wide priority goal of increasing paperless transactions, the bureau reported increases in the percent of electronically filed COLA applications, which in FY 2011 reached 88 percent of all applications. The ongoing rise in electronic filing is due to system improvements that track with customer feedback and which simplify the filing process for industry members. TTB has set a target of 88 percent for FY 2013 and, to meet this performance goal, will use targeted outreach to reach the segments of the industry that have not migrated to the online filing environment.

3.1.2 – Protect the Public Budget and Performance Report and Plan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriated Resources</td>
<td>$40,597</td>
<td>$44,403</td>
<td>$45,822</td>
<td>$48,541</td>
<td>$50,000</td>
<td>$50,399</td>
<td>$48,939</td>
<td>$48,893</td>
</tr>
<tr>
<td>Reimbursable Resources</td>
<td>$813</td>
<td>$1,349</td>
<td>$1,733</td>
<td>$1,898</td>
<td>$2,117</td>
<td>$1,979</td>
<td>$2,464</td>
<td>$2,464</td>
</tr>
<tr>
<td>Total Resources</td>
<td>$41,410</td>
<td>$45,752</td>
<td>$47,555</td>
<td>$50,439</td>
<td>$52,117</td>
<td>$52,378</td>
<td>$51,403</td>
<td>$51,357</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Number of Days to Process an Original Permit Application at the National Revenue Center</td>
<td>N/A</td>
<td>N/A</td>
<td>64.0</td>
<td>64.0</td>
<td>65.0</td>
<td>74.0</td>
<td>75.0</td>
<td>75.0</td>
</tr>
<tr>
<td>National Revenue Center (NRC) Customer Satisfaction Survey Results (%)</td>
<td>N/A</td>
<td>N/A</td>
<td>90.0</td>
<td>89.0</td>
<td>89.0</td>
<td>90.0</td>
<td>85.0</td>
<td>85.0</td>
</tr>
<tr>
<td>Percent of Electronically Filed Certificate of Label Approval Applications</td>
<td>38.0</td>
<td>51.0</td>
<td>62.0</td>
<td>74.0</td>
<td>79.0</td>
<td>88.0</td>
<td>88.0</td>
<td>88.0</td>
</tr>
<tr>
<td>Percentage of Importers Identified by TTB as Illegally Operating without a Federal Permit (%)</td>
<td>N/A</td>
<td>N/A</td>
<td>22.0</td>
<td>15.0</td>
<td>15.0</td>
<td>14.0</td>
<td>14.0</td>
<td>14.0</td>
</tr>
</tbody>
</table>

Key: DISC - Discontinued and B - Baseline

Detailed information about each performance measure, including definition, verification and validation is available.
Section 4 – Supplemental Information

4A – Capital Investment Strategy

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 the 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 is available.