Description of document: **Reports produced for Congress by the Alcohol and Tobacco Tax and Trade Bureau (TTB) 2006-2009, not posted on TTB internet website**

Requested date: 14-November-2009

Released date: 28-January-2010

Posted date: 19-March-2010

Source of document: TTB FOIA Requester Service Center
1310 G Street, NW – Suite 200-East
Washington, DC 20220
Phone: (202) 453-2063 or (202) 453-2265
Fax: (202) 453-2511

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

Refer to: 10–016
4040000:hbb

JAN 28 2010

This is in response to your request dated November 14, 2009, under the Freedom of Information Act (FOIA). You asked that we provide to you a copy of each report produced for Congress by the Alcohol and Tobacco Tax and Trade Bureau (TTB), during the past three (3) years that we currently do not have posted on our internet website.

We located and enclose 74 pages that are relevant to your request. Please note that we are charging no fee for processing your request.

Sincerely,

Gerald Isenberg

Gerald M. Isenberg
Acting Director, Regulations and Rulings Division

Enclosure

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

NOV 21 2006

The Honorable Christopher Bond
Chairman, Subcommittee on Transportation, Treasury,
the Judiciary, Housing and Urban Development,
and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2006, and September 30, 2006, TTB expended approximately 16 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2006, and September 30, 2006, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

Between April 1, 2006, and September 30, 2006, TTB completed 10 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $436,552 in additional excise tax revenue due the federal government.

Between April 1, 2006, and September 30, 2006, TTB completed 31 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 13 tobacco investigations.

Between April 1, 2006, and September 30, 2006, TTB collected $3.998 billion in tobacco-related taxes, received 136 importer applications, and approved 81 importer permits.

TTB continues to increase its focus on tobacco enforcement issues through the Tobacco Enforcement Division, which was established in July 2005. For example, TTB created counterfeit detection kits for each field office to use in determining whether packs of cigarettes are counterfeit and developed software that analyzes importations of tobacco products made through Customs without a TTB permit. In one month alone, TTB identified 200 illegal importations of tobacco products using this software. TTB will be issuing cease and desist letters to those involved.

TTB also continues to be actively involved in cooperative law enforcement efforts with other Federal, State and international agencies involved in tobacco, including ATF, Customs and Border Protection, Canada Revenue and the RCMP.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

NOV 21 2006

The Honorable John W. Olver
Ranking Member, Subcommittee on Transportation, Treasury,
and Housing and Urban Development, the Judiciary,
District of Columbia, and Independent Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Olver:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

The Honorable John W. Olver

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2006, and September 30, 2006, TTB expended approximately 16 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2006, and September 30, 2006, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable John W. Olver

Between April 1, 2006, and September 30, 2006, TTB completed 10 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $436,552 in additional excise tax revenue due the federal government.

Between April 1, 2006, and September 30, 2006, TTB completed 31 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 13 tobacco investigations.

Between April 1, 2006, and September 30, 2006, TTB collected $3.998 billion in tobacco-related taxes, received 136 importer applications, and approved 81 importer permits.

TTB continues to increase its focus on tobacco enforcement issues through the Tobacco Enforcement Division, which was established in July 2005. For example, TTB created counterfeit detection kits for each field office to use in determining whether packs of cigarettes are counterfeit and developed software that analyzes importations of tobacco products made through Customs without a TTB permit. In one month alone, TTB identified 200 illegal importations of tobacco products using this software. TTB will be issuing cease and desist letters to those involved.

TTB also continues to be actively involved in cooperative law enforcement efforts with other Federal, State and international agencies involved in tobacco, including ATF, Customs and Border Protection, Canada Revenue and the RCMP.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

NOV 21 2006

The Honorable Joe Knollenberg
Chairman, Subcommittee on Transportation, Treasury,
and Housing and Urban Development, the Judiciary,
District of Columbia, and Independent Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2006, and September 30, 2006, TTB expended approximately 16 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2006, and September 30, 2006, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Joe Knollenberg

Between April 1, 2006, and September 30, 2006, TTB completed 10 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $436,552 in additional excise tax revenue due the federal government.

Between April 1, 2006, and September 30, 2006, TTB completed 31 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 13 tobacco investigations.

Between April 1, 2006, and September 30, 2006, TTB collected $3.998 billion in tobacco-related taxes, received 136 importer applications, and approved 81 importer permits.

TTB continues to increase its focus on tobacco enforcement issues through the Tobacco Enforcement Division, which was established in July 2005. For example, TTB created counterfeit detection kits for each field office to use in determining whether packs of cigarettes are counterfeit and developed software that analyzes importations of tobacco products made through Customs without a TTB permit. In one month alone, TTB identified 200 illegal importations of tobacco products using this software. TTB will be issuing cease and desist letters to those involved.

TTB also continues to be actively involved in cooperative law enforcement efforts with other Federal, State and international agencies involved in tobacco, including ATF, Customs and Border Protection, Canada Revenue and the RCMP.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

NOV 21 2006

The Honorable Patty Murray
Ranking Member, Subcommittee on Transportation, Treasury,
the Judiciary, Housing and Urban Development,
and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Senator Murray:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2006, and September 30, 2006, TTB expended approximately 16 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2006, and September 30, 2006, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Patty Murray

Between April 1, 2006, and September 30, 2006, TTB completed 10 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $436,552 in additional excise tax revenue due the federal government.

Between April 1, 2006, and September 30, 2006, TTB completed 31 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 13 tobacco investigations.

Between April 1, 2006, and September 30, 2006, TTB collected $3.998 billion in tobacco-related taxes, received 136 importer applications, and approved 81 importer permits.

TTB continues to increase its focus on tobacco enforcement issues through the Tobacco Enforcement Division, which was established in July 2005. For example, TTB created counterfeit detection kits for each field office to use in determining whether packs of cigarettes are counterfeit and developed software that analyzes importations of tobacco products made through Customs without a TTB permit. In one month alone, TTB identified 200 illegal importations of tobacco products using this software. TTB will be issuing cease and desist letters to those involved.

TTB also continues to be actively involved in cooperative law enforcement efforts with other Federal, State and international agencies involved in tobacco, including ATF, Customs and Border Protection, Canada Revenue and the RCMP.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

March 12, 2007

Ms. Marianne Clifford Upton
Clerk
Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
184 Dirksen Building
Washington, D.C. 20510

Subject: Recurring IT Refresh Costs

Dear Ms. Upton:

I enjoyed the opportunity to brief you and Bob Knisely on the FY 2008 President's Budget submission for our Bureau. Per your request, I am enclosing information regarding the need for and cost of TTB's upcoming IT hardware refresh.

I appreciate your time and consideration of this matter. As always, my staff and I are available to discuss this issue with you in greater detail and to provide additional information. Please feel free to call me or Tom Hogue if you have any questions at 202-927-5000.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

Enclosure

cc: Bob Knisely

Senate Financial Services & General Government Appropriations Subcommittee
Staff Briefing

STAFF QUESTION

Explain the financial implications and circumstances surrounding the IT hardware refresh issue that originated from the ATF-TTB Homeland Security Split?

TTB RESPONSE

ISSUE: The Alcohol and Tobacco Tax and Trade Bureau (TTB) would require a $3.7M recurring addition to the Bureau's base budget to allow for the replacement of obsolete IT equipment. Funding for equipment purchase and replacement has never been included in the Bureau's base budget. The industry replacement model is based on a replacement cycle of 3 to 5 plus years depending on the type of hardware.

BACKGROUND: TTB was created as an independent bureau in the Department of the Treasury on January 24, 2003, by the Homeland Security Act of 2002. When TTB was established, all information technology (IT) resources, including capital assets, IT personnel and the funding to procure equipment and to develop core business applications remained with the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). TTB was funded at a level sufficient only to reimburse ATF for existing services. In April 2004, ATF officially notified TTB that all support services provided by ATF would be terminated at the end of FY 2005. Consequently, for FY 2006, the President's Budget request included $4.04 million in additional base resources for IT infrastructure support services. This money was used to outsource all IT operations to commercial contractors. However, no funding was provided for initial purchase or subsequent replacement of any of the equipment required to establish and operate TTB's IT Systems.

Nevertheless, TTB was able to finance the original infrastructure equipment using the staffing salary lapse realized while TTB hired its investigators and auditors. Between FY 2004 and FY 2005, TTB acquired desktop and laptop computers, servers that allow for security and email operations and the operation of our mission critical business applications, network equipment, remote access equipment and data storage hardware to support TTB's tax and regulation applications as well as headquarters and field operations. TTB successfully completed the transition of all IT operations from ATF in February 2005 well ahead of schedule and on budget.

IMPACT STATEMENT: TTB is now fully staffed and is no longer able to rely on salary lapse to fund replacement of obsolete IT equipment. Based on internal systems reviews, TTB has determined that the current infrastructure and supporting technologies will soon be technically obsolete. TTB was intentionally designed as a lean and efficient bureau that depends heavily on its IT capabilities to keep costs down while providing superior service. TTB has identified significant impacts of an obsolete infrastructure including risks to $15 billion excise tax collection, public safety concerns, decreased customer satisfaction, management reporting issues, staff productivity inefficiencies, and inability to comply with federal mandates such as HSPD-12 and e-government initiatives. Without regular availability of applications such as COLAs Online and the Internal Revenue Information System, TTB will place a greater burden on industry members by reverting to paper submissions and we will have greater federal staffing requirements for the regulatory and tax functions due to lost efficiencies. Also, investigators and auditors will be forced to spend substantially longer periods of time at industry sites to complete their functions. This happened frequently due to obsolete equipment failures prior to the establishment of TTB's own IT infrastructure.

MAY 2 3 2007

The Honorable Richard J. Durbin
Chairman, Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

The Honorable Richard J. Durbin

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2006, and March 31, 2007, TTB expended approximately 16 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2006, and March 31, 2007, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Richard J. Durbin

Between October 1, 2006, and March 31, 2007, TTB completed 13 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner and by electronic fund transfer (EFT), failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $1,750,696 in additional excise tax revenues due the federal government.

Between October 1, 2006, and March 31, 2007, TTB completed 8 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 24 tobacco investigations.

Between October 1, 2006, and March 31, 2007, TTB collected $3.28 billion in tobacco-related taxes, received 150 importer applications, and approved 123 importer permits.

TTB also continues to be actively involved in cooperative law enforcement and other commodity-related efforts with other Federal, State and international agencies involved in tobacco. Some of these entities include ATF, Customs and Border Protection, Canada Revenue, Immigration and Customs Enforcement, National Association of Attorney's General, Federation of Tax administrators, USDA and the RCMP.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

CORRESPONDENCE APPROVAL AND CLEARANCE

MAY 2 3 2007

The Honorable Sam Brownback
Ranking Member, Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Senator Brownback:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

The Honorable Sam Brownback

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2006, and March 31, 2007, TTB expended approximately 16 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2006, and March 31, 2007, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Sam Brownback

Between October 1, 2006, and March 31, 2007, TTB completed 13 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner and by electronic fund transfer (EFT), failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $1,750,696 in additional excise tax revenues due the federal government.

Between October 1, 2006, and March 31, 2007, TTB completed 8 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 24 tobacco investigations.

Between October 1, 2006, and March 31, 2007, TTB collected $3.28 billion in tobacco-related taxes, received 150 importer applications, and approved 123 importer permits.

TTB also continues to be actively involved in cooperative law enforcement and other commodity-related efforts with other Federal, State and international agencies involved in tobacco. Some of these entities include ATF, Customs and Border Protection, Canada Revenue, Immigration and Customs Enforcement, National Association of Attorney's General, Federation of Tax administrators, USDA and the RCMP.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda
Administrator

MAY 2 3 2007

The Honorable José E. Serrano
Chairman, Subcommittee on Financial Services
and General Government
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

The Honorable José E. Serrano

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2006, and March 31, 2007, TTB expended approximately 16 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2006, and March 31, 2007, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable José E. Serrano

Between October 1, 2006, and March 31, 2007, TTB completed 13 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner and by electronic fund transfer (EFT), failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $1,750,696 in additional excise tax revenues due the federal government.

Between October 1, 2006, and March 31, 2007, TTB completed 8 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 24 tobacco investigations.

Between October 1, 2006, and March 31, 2007, TTB collected $3.28 billion in tobacco-related taxes, received 150 importer applications, and approved 123 importer permits.

TTB also continues to be actively involved in cooperative law enforcement and other commodity-related efforts with other Federal, State and international agencies involved in tobacco. Some of these entities include ATF, Customs and Border Protection, Canada Revenue, Immigration and Customs Enforcement, National Association of Attorney's General, Federation of Tax administrators, USDA and the RCMP.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda
Administrator

MAY 2 3 2007

The Honorable Ralph Regula
Ranking Member, Subcommittee on Financial Services
and General Government
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Regula:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

The Honorable Ralph Regula

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2006, and March 31, 2007, TTB expended approximately 16 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2006, and March 31, 2007, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Ralph Regula

Between October 1, 2006, and March 31, 2007, TTB completed 13 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner and by electronic fund transfer (EFT), failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $1,750,696 in additional excise tax revenues due the federal government.

Between October 1, 2006, and March 31, 2007, TTB completed 8 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 24 tobacco investigations.

Between October 1, 2006, and March 31, 2007, TTB collected $3.28 billion in tobacco-related taxes, received 150 importer applications, and approved 123 importer permits.

TTB also continues to be actively involved in cooperative law enforcement and other commodity-related efforts with other Federal, State and international agencies involved in tobacco. Some of these entities include ATF, Customs and Border Protection, Canada Revenue, Immigration and Customs Enforcement, National Association of Attorney's General, Federation of Tax administrators, USDA and the RCMP.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

DEPUTY
ADMINISTRATOR

NOV 6 2007

The Honorable Richard J. Durbin
Chairman, Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

The Honorable Richard J. Durbin

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2007 and September 30, 2007, TTB expended approximately 18 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2007 and September 30, 2007, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Richard J. Durbin

Between April 1, 2007 and September 30, 2007, TTB completed 13 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner and by electronic fund transfer (EFT), failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $1,055,693 in additional excise tax revenues due the federal government.

Between April 1, 2007 and September 30, 2007, TTB completed 16 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 16 tobacco investigations.

Between April 1, 2007 and September 30, 2007, TTB collected $3.91 billion in tobacco-related taxes, received 120 importer applications, and approved 91 importer permits.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB has also invited state and international representatives to training conducted by the bureau. TTB is currently working active tobacco investigations with several states, ATF, the Federal Bureau of Investigation, U.S. Immigration and Customs Enforcement, and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA).

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

DEPUTY
ADMINISTRATOR

NOV 6 2007

The Honorable Sam Brownback
Ranking Member, Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Senator Brownback:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2007 and September 30, 2007, TTB expended approximately 18 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2007 and September 30, 2007, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Sam Brownback

Between April 1, 2007 and September 30, 2007, TTB completed 13 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner and by electronic fund transfer (EFT), failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $1,055,693 in additional excise tax revenues due the federal government.

Between April 1, 2007 and September 30, 2007, TTB completed 16 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 16 tobacco investigations.

Between April 1, 2007 and September 30, 2007, TTB collected $3.91 billion in tobacco-related taxes, received 120 importer applications, and approved 91 importer permits.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB has also invited state and international representatives to training conducted by the bureau. TTB is currently working active tobacco investigations with several states, ATF, the Federal Bureau of Investigation, U.S. Immigration and Customs Enforcement, and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA).

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPUTY
ADMINISTRATOR

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

NOV 6 2007

The Honorable José E. Serrano
Chairman, Subcommittee on Financial Services
and General Government
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

The Honorable José E. Serrano

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2007 and September 30, 2007, TTB expended approximately 18 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2007 and September 30, 2007, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable José E. Serrano

Between April 1, 2007 and September 30, 2007, TTB completed 13 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner and by electronic fund transfer (EFT), failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $1,055,693 in additional excise tax revenues due the federal government.

Between April 1, 2007 and September 30, 2007, TTB completed 16 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 16 tobacco investigations.

Between April 1, 2007 and September 30, 2007, TTB collected $3.91 billion in tobacco-related taxes, received 120 importer applications, and approved 91 importer permits.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB has also invited state and international representatives to training conducted by the bureau. TTB is currently working active tobacco investigations with several states, ATF, the Federal Bureau of Investigation, U.S. Immigration and Customs Enforcement, and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA).

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPUTY
ADMINISTRATOR

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

NOV 6 2007

The Honorable Ralph Regula
Ranking Member, Subcommittee on Financial Services
and General Government
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Regula:

This letter is in response to the Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

The Honorable Ralph Regula

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2007 and September 30, 2007, TTB expended approximately 18 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2007 and September 30, 2007, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Ralph Regula

Between April 1, 2007 and September 30, 2007, TTB completed 13 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner and by electronic fund transfer (EFT), failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $1,055,693 in additional excise tax revenues due the federal government.

Between April 1, 2007 and September 30, 2007, TTB completed 16 investigations to determine if Chapter 52 violations occurred. TTB is currently conducting 16 tobacco investigations.

Between April 1, 2007 and September 30, 2007, TTB collected $3.91 billion in tobacco-related taxes, received 120 importer applications, and approved 91 importer permits.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB has also invited state and international representatives to training conducted by the bureau. TTB is currently working active tobacco investigations with several states, ATF, the Federal Bureau of Investigation, U.S. Immigration and Customs Enforcement, and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA).

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

JUL 24 2008

The Honorable Richard J. Durbin
Chairman, Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2007, and March 31, 2008, TTB expended approximately 14 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2007, and March 31, 2008, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Richard J. Durbin

Between October 1, 2007, and March 31, 2008, TTB completed 9 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $532,000 in additional excise tax revenues due the federal government.

Between October 1, 2007, and March 31, 2008, TTB conducted 39 investigations to determine if Chapter 52 violations occurred. TTB also conducted 50 tobacco application investigations.

Between October 1, 2007, and March 31, 2008, TTB collected $3.08 billion in tobacco-related taxes, received 116 importer applications, and approved 70 importer permits.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, the Federal Bureau of Investigation, U.S. Customs and Border Protection, State Department, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA).

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

JUL 2 4 2008

The Honorable Sam Brownback
Ranking Member, Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Senator Brownback:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2007, and March 31, 2008, TTB expended approximately 14 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2007, and March 31, 2008, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Sam Brownback

Between October 1, 2007, and March 31, 2008, TTB completed 9 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $532,000 in additional excise tax revenues due the federal government.

Between October 1, 2007, and March 31, 2008, TTB conducted 39 investigations to determine if Chapter 52 violations occurred. TTB also conducted 50 tobacco application investigations.

Between October 1, 2007, and March 31, 2008, TTB collected $3.08 billion in tobacco-related taxes, received 116 importer applications, and approved 70 importer permits.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, the Federal Bureau of Investigation, U.S. Customs and Border Protection, State Department, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA).

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

JUL 24 2008

The Honorable José E. Serrano
Chairman, Subcommittee on Financial Services
and General Government
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

The Honorable José E. Serrano

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2007, and March 31, 2008, TTB expended approximately 14 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2007, and March 31, 2008, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable José E. Serrano

Between October 1, 2007, and March 31, 2008, TTB completed 9 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $532,000 in additional excise tax revenues due the federal government.

Between October 1, 2007, and March 31, 2008, TTB conducted 39 investigations to determine if Chapter 52 violations occurred. TTB also conducted 50 tobacco application investigations.

Between October 1, 2007, and March 31, 2008, TTB collected $3.08 billion in tobacco-related taxes, received 116 importer applications, and approved 70 importer permits.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, the Federal Bureau of Investigation, U.S. Customs and Border Protection, State Department, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA).

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

JUL 24 2008

The Honorable Ralph Regula
Ranking Member, Subcommittee on Financial Services and General Government
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Regula:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2007, and March 31, 2008, TTB expended approximately 14 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2007, and March 31, 2008, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

The Honorable Ralph Regula

Between October 1, 2007, and March 31, 2008, TTB completed 9 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on TTB's regulated taxpayers in the cigar and cigarette manufacturing industry. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, failure to account for and pay FET on inventory sold, and failure to include required information on packaging. In particular, these audits identified $532,000 in additional excise tax revenues due the federal government.

Between October 1, 2007, and March 31, 2008, TTB conducted 39 investigations to determine if Chapter 52 violations occurred. TTB also conducted 50 tobacco application investigations.

Between October 1, 2007, and March 31, 2008, TTB collected $3.08 billion in tobacco-related taxes, received 116 importer applications, and approved 70 importer permits.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, the Federal Bureau of Investigation, U.S. Customs and Border Protection, State Department, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA).

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

DEC 9 2008

The Honorable Sam Brownback
Ranking Member, Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Senator Brownback:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or

cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2008, and September 30, 2008, TTB expended approximately 15 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2008, and September 30, 2008, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

Between April 1, 2008, and September 30, 2008, TTB completed 14 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on cigar and cigarette manufactures, tobacco importers, and tobacco export warehouses. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, and failure to account for and pay FET on inventory sold. In particular, these audits identified $6,579,000 in additional excise tax revenues due the federal government.

Between April 1, 2008, and September 30, 2008, TTB conducted 10 investigations to determine if Chapter 52 violations occurred. TTB also conducted 24 tobacco application investigations.

Between April 1, 2008, and September 30, 2008, TTB collected $3.31 billion in tobacco-related taxes, received 112 importer applications, and approved 85 importer permits.

TTB is in the process of re-engineering its program involving diversion for FY 2009. Offices within TTB's Office of Field Operations will increase their audits and investigations of importers, manufacturers, and exporters involving those individuals and

companies: Operating without a permit; understating quantities manufactured, imported and exported; misclassifying products at a lower tax class; relanding cigarettes without the permission of the domestic trade mark owner; dealing in counterfeit products; trafficking of cigarettes from high tax states to low tax states; making internet sales of non-taxed cigarettes; false reporting of exported products; and transfers of product from one export warehouse to another with the intent of losing traceability of the product.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating Body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, Immigration and Customs Enforcement, the Federal Bureau of Investigation, U.S. Customs and Border Protection, U. S. Department of Agriculture, U.S. Department of State Department, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA). TTB conducted diversion training for 60 TTB auditors and investigators during this reporting period as well as conducted a presentation at ATF's diversion training class on TTB authorities.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

DEC 9 2008

The Honorable Richard J. Durbin
Chairman, Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or

cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2008, and September 30, 2008, TTB expended approximately 15 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2008, and September 30, 2008, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

Between April 1, 2008, and September 30, 2008, TTB completed 14 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on cigar and cigarette manufactures, tobacco importers, and tobacco export warehouses. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, and failure to account for and pay FET on inventory sold. In particular, these audits identified $6,579,000 in additional excise tax revenues due the federal government.

Between April 1, 2008, and September 30, 2008, TTB conducted 10 investigations to determine if Chapter 52 violations occurred. TTB also conducted 24 tobacco application investigations.

Between April 1, 2008, and September 30, 2008, TTB collected $3.31 billion in tobacco-related taxes, received 112 importer applications, and approved 85 importer permits.

TTB is in the process of re-engineering its program involving diversion for FY 2009. Offices within TTB's Office of Field Operations will increase their audits and investigations of importers, manufacturers, and exporters involving those individuals and

The Honorable Richard J. Durbin

companies: Operating without a permit; understating quantities manufactured, imported and exported; misclassifying products at a lower tax class; relanding cigarettes without the permission of the domestic trade mark owner; dealing in counterfeit products; trafficking of cigarettes from high tax states to low tax states; making internet sales of non-taxed cigarettes; false reporting of exported products; and transfers of product from one export warehouse to another with the intent of losing traceability of the product.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating Body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, Immigration and Customs Enforcement, the Federal Bureau of Investigation, U.S. Customs and Border Protection, U. S. Department of Agriculture, U.S. Department of State Department, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA). TTB conducted diversion training for 60 TTB auditors and investigators during this reporting period as well as conducted a presentation at ATF's diversion training class on TTB authorities.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

DEC 9 2008

The Honorable Ralph Regula
Ranking Member, Subcommittee on Financial Services and General Government
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Regula:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or

cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2008, and September 30, 2008, TTB expended approximately 15 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2008, and September 30, 2008, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

Between April 1, 2008, and September 30, 2008, TTB completed 14 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on cigar and cigarette manufactures, tobacco importers, and tobacco export warehouses. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, and failure to account for and pay FET on inventory sold. In particular, these audits identified $6,579,000 in additional excise tax revenues due the federal government.

Between April 1, 2008, and September 30, 2008, TTB conducted 10 investigations to determine if Chapter 52 violations occurred. TTB also conducted 24 tobacco application investigations.

Between April 1, 2008, and September 30, 2008, TTB collected $3.31 billion in tobacco-related taxes, received 112 importer applications, and approved 85 importer permits.

TTB is in the process of re-engineering its program involving diversion for FY 2009. Offices within TTB's Office of Field Operations will increase their audits and investigations of importers, manufacturers, and exporters involving those individuals and

The Honorable Ralph Regula

companies: Operating without a permit; understating quantities manufactured, imported and exported; misclassifying products at a lower tax class; relanding cigarettes without the permission of the domestic trade mark owner; dealing in counterfeit products; trafficking of cigarettes from high tax states to low tax states; making internet sales of non-taxed cigarettes; false reporting of exported products; and transfers of product from one export warehouse to another with the intent of losing traceability of the product.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating Body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, Immigration and Customs Enforcement, the Federal Bureau of Investigation, U.S. Customs and Border Protection, U. S. Department of Agriculture, U.S. Department of State Department, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA). TTB conducted diversion training for 60 TTB auditors and investigators during this reporting period as well as conducted a presentation at ATF's diversion training class on TTB authorities.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

DEC 9 2008

The Honorable José E. Serrano
Chairman, Subcommittee on Financial Services
and General Government
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or

The Honorable José E. Serrano

cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between April 1, 2008, and September 30, 2008, TTB expended approximately 15 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between April 1, 2008, and September 30, 2008, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

Between April 1, 2008, and September 30, 2008, TTB completed 14 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on cigar and cigarette manufactures, tobacco importers, and tobacco export warehouses. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, and failure to account for and pay FET on inventory sold. In particular, these audits identified $6,579,000 in additional excise tax revenues due the federal government.

Between April 1, 2008, and September 30, 2008, TTB conducted 10 investigations to determine if Chapter 52 violations occurred. TTB also conducted 24 tobacco application investigations.

Between April 1, 2008, and September 30, 2008, TTB collected $3.31 billion in tobacco-related taxes, received 112 importer applications, and approved 85 importer permits.

TTB is in the process of re-engineering its program involving diversion for FY 2009. Offices within TTB's Office of Field Operations will increase their audits and investigations of importers, manufacturers, and exporters involving those individuals and

The Honorable José E. Serrano

companies: Operating without a permit; understating quantities manufactured, imported and exported; misclassifying products at a lower tax class; relanding cigarettes without the permission of the domestic trade mark owner; dealing in counterfeit products; trafficking of cigarettes from high tax states to low tax states; making internet sales of non-taxed cigarettes; false reporting of exported products; and transfers of product from one export warehouse to another with the intent of losing traceability of the product.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating Body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, Immigration and Customs Enforcement, the Federal Bureau of Investigation, U.S. Customs and Border Protection, U. S. Department of Agriculture, U.S. Department of State Department, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA). TTB conducted diversion training for 60 TTB auditors and investigators during this reporting period as well as conducted a presentation at ATF's diversion training class on TTB authorities.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

The Honorable Jo Ann Emerson
Ranking Member, Subcommittee on Financial Services
and General Government
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Ms. Emerson:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or

cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2008, and March 31, 2009, TTB expended approximately 18 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2008, and March 31, 2009, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

Between October 1, 2008, and March 31, 2009, TTB completed 5 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on cigar and cigarette manufactures, tobacco importers, and tobacco export warehouses. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, and failure to account for and pay FET on inventory sold. In particular, these audits identified approximately $354,000 in additional excise tax revenues due the federal government.

Additionally, TTB has devoted resources to ensuring compliance with the Floor Stocks Tax (FST) imposed by The Children's Health Insurance Program Reauthorization Act of 2009, which was enacted on February 4, 2009. TTB sent data collection letters to and conducted field visits on the wholesalers, tobacco manufacturers, tobacco importers, and tobacco retailers that produce and distribute the vast majority of the tobacco product through the domestic supply chain. TTB conducted over 200 field visits in preparation for the FST, observing of inventory counts, testing of inventory procedures, and reviewing of "in transit" procedures.

The Honorable Jo Ann Emerson

Between October 1, 2008, and March 31, 2009, TTB conducted 44 investigations to determine if Chapter 52 violations occurred. TTB also conducted 32 tobacco application investigations.

Between October 1, 2008, and March 31, 2009, TTB collected $3.03 billion in tobacco-related taxes, received 111 importer applications, and approved 86 importer permits.

TTB is in the process of re-engineering its program involving diversion for FY 2009. Offices within TTB's Office of Field Operations will increase their audits and investigations of importers, manufacturers, and exporters involving those individuals and companies: Operating without a permit; understating quantities manufactured, imported and exported; misclassifying products at a lower tax class; relanding cigarettes without the permission of the domestic trade mark owner; dealing in counterfeit products; trafficking of cigarettes from high tax states to low tax states; making internet sales of non-taxed cigarettes; false reporting of exported products; and transfers of product from one export warehouse to another with the intent of losing traceability of the product.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating Body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, Immigration and Customs Enforcement, the Federal Bureau of Investigation, U.S. Customs and Border Protection, U. S. Department of Agriculture, U.S. Department of State, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA). TTB also sponsored a Western Region Information Sharing Conference which included federal and state agency representatives.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

The Honorable José E. Serrano
Chairman, Subcommittee on Financial Services
and General Government
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or

cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2008, and March 31, 2009, TTB expended approximately 18 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2008, and March 31, 2009, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

Between October 1, 2008, and March 31, 2009, TTB completed 5 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on cigar and cigarette manufactures, tobacco importers, and tobacco export warehouses. The audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, and failure to account for and pay FET on inventory sold. In particular, these audits identified approximately $354,000 in additional excise tax revenues due the federal government.

Additionally, TTB has devoted resources to ensuring compliance with the Floor Stocks Tax (FST) imposed by The Children's Health Insurance Program Reauthorization Act of 2009, which was enacted on February 4, 2009. TTB sent data collection letters to and conducted field visits on the wholesalers, tobacco manufacturers, tobacco importers, and tobacco retailers that produce and distribute the vast majority of the tobacco product through the domestic supply chain. TTB conducted over 200 field visits in preparation for the FST, observing of inventory counts, testing of inventory procedures, and reviewing of "in transit" procedures.

The Honorable José E. Serrano

Between October 1, 2008, and March 31, 2009, TTB conducted 44 investigations to determine if Chapter 52 violations occurred. TTB also conducted 32 tobacco application investigations.

Between October 1, 2008, and March 31, 2009, TTB collected $3.03 billion in tobacco-related taxes, received 111 importer applications, and approved 86 importer permits.

TTB is in the process of re-engineering its program involving diversion for FY 2009. Offices within TTB's Office of Field Operations will increase their audits and investigations of importers, manufacturers, and exporters involving those individuals and companies: Operating without a permit; understating quantities manufactured, imported and exported; misclassifying products at a lower tax class; relanding cigarettes without the permission of the domestic trade mark owner; dealing in counterfeit products; trafficking of cigarettes from high tax states to low tax states; making internet sales of non-taxed cigarettes; false reporting of exported products; and transfers of product from one export warehouse to another with the intent of losing traceability of the product.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating Body for the international treaty "Framework Convention on Tobacco Control".. TTB is currently working active tobacco investigations with several states, ATF, Immigration and Customs Enforcement, the Federal Bureau of Investigation, U.S. Customs and Border Protection, U. S. Department of Agriculture, U.S. Department of State, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA). TTB also sponsored a Western Region Information Sharing Conference which included federal and state agency representatives.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

The Honorable Susan Collins
Ranking Member, Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Senator Collins:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or

cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2008, and March 31, 2009, TTB expended approximately 18 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2008, and March 31, 2009, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

Between October 1, 2008, and March 31, 2009, TTB completed 5 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on cigar and cigarette manufactures, tobacco importers, and tobacco export warehouses. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, and failure to account for and pay FET on inventory sold. In particular, these audits identified approximately $354,000 in additional excise tax revenues due the federal government.

Additionally, TTB has devoted resources to ensuring compliance with the Floor Stocks Tax (FST) imposed by The Children's Health Insurance Program Reauthorization Act of 2009, which was enacted on February 4, 2009. TTB sent data collection letters to and conducted field visits on the wholesalers, tobacco manufacturers, tobacco importers, and tobacco retailers that produce and distribute the vast majority of the tobacco product through the domestic supply chain. TTB conducted over 200 field visits in preparation for the FST, observing of inventory counts, testing of inventory procedures, and reviewing of "in transit" procedures.

The Honorable Susan Collins

Between October 1, 2008, and March 31, 2009, TTB conducted 44 investigations to determine if Chapter 52 violations occurred. TTB also conducted 32 tobacco application investigations.

Between October 1, 2008, and March 31, 2009, TTB collected $3.03 billion in tobacco-related taxes, received 111 importer applications, and approved 86 importer permits.

TTB is in the process of re-engineering its program involving diversion for FY 2009. Offices within TTB's Office of Field Operations will increase their audits and investigations of importers, manufacturers, and exporters involving those individuals and companies: Operating without a permit; understating quantities manufactured, imported and exported; misclassifying products at a lower tax class; relanding cigarettes without the permission of the domestic trade mark owner; dealing in counterfeit products; trafficking of cigarettes from high tax states to low tax states; making internet sales of non-taxed cigarettes; false reporting of exported products; and transfers of product from one export warehouse to another with the intent of losing traceability of the product.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating Body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, Immigration and Customs Enforcement, the Federal Bureau of Investigation, U.S. Customs and Border Protection, U. S. Department of Agriculture, U.S. Department of State, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA). TTB also sponsored a Western Region Information Sharing Conference which included federal and state agency representatives.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator

DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
WASHINGTON, D.C. 20220

ADMINISTRATOR

The Honorable Richard J. Durbin
Chairman, Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This letter is in response to Conference Report 106-319, which directed the former Bureau of Alcohol, Tobacco, and Firearms (ATF), our predecessor agency in the Department of the Treasury, to report on the implementation of the Tobacco Compliance Initiative, which was enacted as part of the Balanced Budget Act of 1997 (BBA). The Tobacco Compliance Initiative included numerous amendments to the Internal Revenue Code of 1986 (IRC) that were intended to prevent the diversion to use within the United States of non-tax paid tobacco products nominally destined for export.

In the Conference Report, the conferees noted their particular concern regarding the enforcement problems that would arise as a result of changes in Federal law regarding the domestic distribution of cigarettes manufactured for export. The conferees directed ATF to report back to the Committee on Appropriations on a semi-annual basis on the number of employees dedicated to handling this transition in the law and its enforcement, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Under the provisions of the Homeland Security Act, the former ATF was split into two agencies, one of which was the Alcohol and Tobacco Tax and Trade Bureau (TTB). TTB was created as an independent bureau in the Department of the Treasury and was charged with enforcing, among other provisions, chapter 52 of the IRC, regarding manufacture, taxation, importation and exportation of tobacco products, and the enforcement provisions related to chapter 52. While TTB has investigators to enforce the civil provisions subject to the Tobacco Compliance Initiative, TTB does not have special agents, and therefore relies upon other agencies to enforce its criminal authority.

TTB is submitting this report to respond to only those aspects of the Tobacco Compliance Initiative that fall within TTB's jurisdiction.

As relevant background, the BBA amended the IRC to increase the excise taxes on tobacco products and cigarette papers and tubes and to impose the excise tax on roll-your-own tobacco. The BBA also imposed certain control measures to prevent the diversion into the United States of non-tax paid products destined for export. These measures include importation restrictions on previously exported tobacco products, cigarette papers and tubes, and permit requirements for every person engaged in the business as an importer of tobacco products, including roll-your-own tobacco. The BBA and subsequent amendments to it in the Imported Cigarette Compliance Act of 2000 (ICCA) amended the IRC to prohibit the sale, relanding, or receipt of tobacco products or

cigarette papers and tubes that have been labeled or shipped for exportation by any person other than a manufacturer or export warehouse proprietor authorized by the manufacturer. The ICCA also extended the civil penalty for violations of these provisions to apply to all tobacco products labeled for export irrespective of whether they were actually shipped for exportation. The civil penalty imposed by the BBA is equal to the greater of $1,000 or five times the amount of tax imposed by 26 U.S.C. Chapter 52 (relating to tobacco products and cigarette papers and tubes).

Additionally, the Consolidated Appropriations Act of 2001 (CAA 2001) amended the civil penalty provision of IRC 5761(c) by exempting from its coverage persons who reland or receive tobacco products in the quantity allowed free of tax under Chapter 98 of the Harmonized Tariff Schedule of the United States. This last provision allows travelers to bring in a limited quantity of tobacco products under a personal use exemption.

These amendments are effective as if included in the BBA. As these amendments to the IRC occurred subsequent to the issuance of the Conference Report, yet are directly relevant to its directive, our report includes statistics relative to the enforcement of these amendments.

Between October 1, 2008, and March 31, 2009, TTB expended approximately 18 Full Time Equivalents in the enforcement of requirements of the BBA, the ICCA and the CAA 2001 that fall within TTB's jurisdiction. This includes processing and issuing permits.

Between October 1, 2008, and March 31, 2009, TTB reports receiving no complaints regarding potential Chapter 52 violations arising under the amendments to the IRC as a result of the Tobacco Compliance Initiative.

Between October 1, 2008, and March 31, 2009, TTB completed 5 excise tax audits related to the enforcement of Chapter 52 of the IRC. These audits were conducted on cigar and cigarette manufactures, tobacco importers, and tobacco export warehouses. These audits disclosed various violations such as failure to maintain required records, failure to file and pay Federal excise tax (FET) in a timely manner, failure to use the correct tax rate to calculate taxes due, failure to submit required monthly reports to TTB, and failure to account for and pay FET on inventory sold. In particular, these audits identified approximately $354,000 in additional excise tax revenues due the federal government.

Additionally, TTB has devoted resources to ensuring compliance with the Floor Stocks Tax (FST) imposed by The Children's Health Insurance Program Reauthorization Act of 2009, which was enacted on February 4, 2009. TTB sent data collection letters to and conducted field visits on the wholesalers, tobacco manufacturers, tobacco importers, and tobacco retailers that produce and distribute the vast majority of the tobacco product through the domestic supply chain. TTB conducted over 200 field visits in preparation for the FST, observing of inventory counts, testing of inventory procedures, and reviewing of "in transit" procedures.

The Honorable Richard J. Durbin

Between October 1, 2008, and March 31, 2009, TTB conducted 44 investigations to determine if Chapter 52 violations occurred. TTB also conducted 32 tobacco application investigations.

Between October 1, 2008, and March 31, 2009, TTB collected $3.03 billion in tobacco-related taxes, received 111 importer applications, and approved 86 importer permits.

TTB is in the process of re-engineering its program involving diversion for FY 2009. Offices within TTB's Office of Field Operations will increase their audits and investigations of importers, manufacturers, and exporters involving those individuals and companies: Operating without a permit; understating quantities manufactured, imported and exported; misclassifying products at a lower tax class; relanding cigarettes without the permission of the domestic trade mark owner; dealing in counterfeit products; trafficking of cigarettes from high tax states to low tax states; making internet sales of non-taxed cigarettes; false reporting of exported products; and transfers of product from one export warehouse to another with the intent of losing traceability of the product.

TTB is a co-sponsor of the annual US/Canada Tobacco Diversion Workshop. TTB participated in the Intergovernmental Negotiating Body for the international treaty "Framework Convention on Tobacco Control". TTB is currently working active tobacco investigations with several states, ATF, Immigration and Customs Enforcement, the Federal Bureau of Investigation, U.S. Customs and Border Protection, U. S. Department of Agriculture, U.S. Department of State, the European Anti-Fraud Office (OLAF), and the Royal Canadian Mounted Police. TTB coordinates with the National Association of Attorneys General for information on the enforcement of the Master Settlement Agreement (MSA). TTB also sponsored a Western Region Information Sharing Conference which included federal and state agency representatives.

I trust that this information has been responsive to the Committee's request. If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Manfreda

John J. Manfreda
Administrator