

Department of the Treasury
Alcohol and Tobacco Tax and
Trade Bureau

Congressional Budget
Justification and Annual
Performance Report and Plan

FY 2020

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Section I – Budget Request

A – Mission Statement

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

B – Summary of the Request

Supporting the nation's economic vitality is at the core of the work performed by the Alcohol and Tobacco Tax and Trade Bureau (TTB). The bureau's role in permitting, regulating, and taxing the alcohol, tobacco, and firearms industries facilitates a compliant and fair marketplace for those engaged in the manufacture and trade of these commodities, and ensures that the Federal government has the resources needed to fund national priorities. TTB's broad mission serves Treasury's Strategic Goal 1 (Boost U.S. Economic Growth), with two strategic goals focused on facilitating commerce through Labeling Modernization and enhanced Business Qualification, and two strategic goals to support fair and effective tax administration by improving Tax Compliance and addressing Cross-Border Tax Risk. Further, TTB conducts its operations in support of Treasury's Strategic Goal 5 (Achieve Operational Excellence), with a focus on building its workforce through its strategic goal of Training Revitalization.

TTB is the third largest tax collection agency in the U.S. government, after the Internal Revenue Service and U.S. Customs and Border Protection (CBP), collecting nearly \$21 billion in excise tax revenue annually. As the most efficient means of tax administration, facilitating voluntary compliance will remain a priority for TTB in FY 2020. To this end, and to ensure the efficient collection of tax revenue, TTB will make critical IT investments to modernize TTB's tax system with the aim of increasing electronic submissions, improving timely filings, and supporting taxpayer compliance. Further, in FY 2020, TTB will enhance its guidance related to Federal alcohol, tobacco, firearms, and ammunition laws and regulations, and explore opportunities to streamline regulations and requirements to reduce compliance burden. These strategies are critical for TTB to mitigate potential performance impacts as TTB continues to prioritize its implementation and enforcement of the Craft Beverage Modernization and Tax Reform provisions of P.L. 115-97. In the first year, Federal revenues have declined, with the full impact not yet known. TTB expects enforcement will continue to pose significant challenges, given the multitude of tax rates and complexity of verifying their appropriate application, and requires ongoing and extensive coordination with CBP to enforce with regards to imported products.

Alcohol and tobacco diversion remain long-term tax enforcement challenges given the high profits to be gained from illegal activity, the relative ease of diversion, and the substantial revenue loss that it represents. Failure to address illicit trade not only deprives governments of revenue, but also gives non-compliant actors an unfair competitive advantage over their lawful counterparts. To improve tax enforcement outcomes, and promote a more efficient Federal government, the Administration is proposing the consolidation of Federal alcohol and tobacco tax enforcement authorities within the Department of the Treasury, including transferring jurisdiction for the Contraband Cigarette Trafficking Act (CCTA) from the Department of Justice's (DOJ) Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) to TTB.

The FY 2020 request supports an initial investment of \$3.3 million in start-up funding for TTB to initiate the transfer and begin to implement this enforcement program. Upon transfer of CCTA authority, and once fully resourced, TTB expects that its current enforcement model, which uses a data-driven approach and relies on teams of agents, auditors, and investigators, as well as state and local law enforcement partners, will provide positive returns in terms of increased revenue and reduced criminal activity.

As demand for TTB services has grown in line with the expanding alcohol industries, TTB has responded through updated burden-reducing policies, improved systems, and streamlined processes to support the timely turnaround of applications for new and existing wineries, breweries, and distilleries. Delays can cause financial hardships for these businesses and create a barrier to compliant commerce. At the FY 2020 funding level, and anticipating continued increases in permit, label, and formula applications, TTB will review its service standards in line with anticipated staffing levels. TTB will clearly communicate these standards to industry to manage expectations and allow appropriate operational planning. TTB will further adjust its strategy for systems modernization to align with resource levels, continuing to focus on clear and consistent guidance to industry to facilitate the submission of compliant applications.

1.1 – Appropriations Detail Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FY 2018		FY 2019		FY 2020		FY 2019 to FY 2020				
	Enacted 1/		Annualized CR		Request		\$ Change		% Change		
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	
New Appropriated Resources:											
Collect the Revenue	207	\$53,560	242	\$53,560	255	\$59,956	13	\$6,396	5.37%	11.94%	
Protect the Public	268	\$57,879	265	\$57,879	252	\$55,471	(13)	(\$2,408)	-4.91%	-4.16%	
Subtotal New Appropriated Resources	475	\$111,439	507	\$111,439	507	\$115,427	0	\$3,988	0.00%	3.58%	
Other Resources:											
Offsetting Collections – Reimbursables 2/	10	\$6,289	10	\$6,900	10	\$6,900	0	\$0	0.00%	0.00%	
Transfers 3/	0	\$989	0	\$0	0	\$0	0	\$0	0.00%	0.00%	
Subtotal Other Resources	10	\$7,278	10	\$6,900	10	\$6,900	0	\$0	0.00%	0.00%	
Total Budgetary Resources	485	\$118,717	517	\$118,339	517	\$122,327	0	\$3,988	0.00%	3.37%	

1/ FY 2018 FTE and Other Resources are Actuals. This column reflects levels appropriated in P.L. 115-141, the Consolidated Appropriations Act of 2018. For further details on the execution of these resources see the 2020 Budget Appendix chapter for the Department of the Treasury.

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

3/ Transfer from the TEOAF Strategic Support Fund.

1.2 – Budget Adjustments Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
FY 2019 Annualized CR	507	\$111,439
Changes to Base:		
Maintaining Current Levels (MCLs)	0	\$1,001
Non-Pay	0	\$1,001
Subtotal Changes to Base	0	\$1,001
Total FY 2020 Base	507	\$112,440
Program Changes:		
Program Decreases	(13)	(\$3,013)
Trade Practice Enforcement	(13)	(\$3,013)
Program Increases	13	\$6,000
Consolidation of Federal Alcohol & Tobacco Tax Jurisdiction 1/	9	\$3,330
Tax System Modernization	4	\$2,500
Operations and Maintenance (O&M) of Prior-year Enterprise-wide Cybersecurity investments	0	\$170
Total FY 2020 Request	507	\$115,427

1/ Pending legislation to effectuate the transfer of federal alcohol and tobacco jurisdiction from the Department of Justice to the Department of the Treasury.

C – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$1,001,000 / +0 FTE
Non-Pay + \$1,001,000 / +0 FTE

TTB requests funds for non-labor expenses such as travel, contracts, rent, supplies, and equipment.

Program Decreases -\$3,013,000 / -13 FTE
Trade Practice Enforcement -\$3,013,000 / -13 FTE

TTB will reduce its Trade Practice Enforcement program. TTB enforcement addresses unlawful trade practices in the marketplace and ensures a level playing field for U.S. alcohol manufacturers and distributors. With two-year funding provided in both FY 2017 and FY 2018, TTB added staffing to increase its capacity for trade practice investigations from approximately one each year to more than 50 active cases annually. At the FY 2020 funding level, TTB will work to bring most of its active trade practice investigations to closure and continue its process of evaluating and prioritizing the highest risk cases as part of its annual enforcement planning process.

Program Increases \$6,000,000 / +13 FTE
Consolidation of Federal Alcohol & Tobacco Tax Jurisdiction +\$3,330,000 / +9 FTE

TTB requests start-up funding to support the Administration’s proposal to consolidate Federal alcohol and tobacco tax jurisdiction within the Department of the Treasury and TTB. This initial investment will enable TTB to begin hiring the necessary additional enforcement personnel to conduct the complex, multi-state investigations associated with contraband cigarette smuggling. The requested funding level supports 9 FTE, which will allow TTB to hire auditors, investigators, and other program staff. Further, TTB will hire criminal enforcement agents under

an expansion of the existing interagency agreement with the IRS. This initial investment would also enable TTB to initiate any needed rulemaking and guidance as well as support initial research into system requirements and data analytics to improve enforcement targeting. During this transition period, and at the proposed staffing level, TTB will also expand its outreach to state law enforcement partners and work closely with DOJ on the transfer and continuation of existing cases.

Tax System Modernization +\$2,500,000 / +4 FTE

TTB requests an investment of \$2.5 million and 4 FTE for the first year of a multi-year effort to modernize its outdated tax system to support efficient filing and processing as well as facilitate data analytics to timely detect tax evasion, all of which is particularly important in light of recent tax reforms that present workload and enforcement challenges.

The functionality of TTB's Integrated Revenue Information System (IRIS) is substantially the same as in 2000 while, over the same period, the number of TTB taxpayers has increased nearly 250 percent to approximately 25,000. Outdated and labor-intensive processes are contributing to low and declining tax compliance. By creating a TTB-designed external interface to support industry filing compliance, as well as enhancing the internal system design to streamline desk reviews of taxpayer accounts, TTB expects to be able to complete timely follow up and/or enforcement actions that will, over time, result in increased taxpayer compliance rates.

Additionally, without a significant redesign of the legacy tax system, TTB will continue to face challenges in using advanced analytics for tax administration and fraud detection, a key strategy for Treasury and TTB to maximize the reach of limited resources. Enhanced systems and analytics would enable TTB to use its tax information, as well as import and export data from other Federal agencies, to more effectively target known tax evasion schemes.

The IT development plan would transform IRIS incrementally, using multiple system releases to deliver independent modules to create the full functionality needed. The total cost includes the IT development team; additional tax specialist positions to backfill the experienced staff required to support the development effort; and analytics support to streamline work processes, improve non-compliance detection, and improve workload management.

Operations and Maintenance of Prior-year Enterprise-wide Cybersecurity Investments,
+\$170,400 / +0 FTE

The FY 2020 request includes funding to support operations and maintenance (O&M) for prior year Cybersecurity Enhancement Account investments. O&M will be funded for Treasury bureaus through the Treasury Franchise Fund (TFF). This increase represents TTB's portion of the \$17.5 million O&M total for Treasury.

1.3 – Operating Levels Table

Dollars in Thousands

TTB Object Classification	FY 2018 Enacted 1/	FY 2019 Annualized CR	FY 2020 Request
11.1 - Full-time permanent	\$51,531	\$51,531	\$51,083
11.5 - Other personnel compensation	\$619	\$619	\$627
11.9 - Total personnel compensation	\$52,150	\$52,150	\$51,710
12.0 - Personnel benefits	\$15,671	\$15,671	\$15,501
13.0 - Benefits for former personnel	\$5	\$5	\$5
Total Personnel and Compensation Benefits	\$67,826	\$67,826	\$67,216
21.0 - Travel and transportation of persons	\$2,561	\$2,561	\$2,304
22.0 - Transportation of things	\$30	\$30	\$30
23.1 - Rental payments to GSA	\$4,276	\$4,276	\$4,276
23.3 - Communication, utilities, and misc charges	\$1,732	\$1,732	\$1,766
24.0 - Printing and reproduction	\$268	\$268	\$269
25.2 - Other services from non-Federal sources	\$24,395	\$24,395	\$27,577
25.3 - Other goods and services from Federal sources	\$7,715	\$7,715	\$9,239
26.0 - Supplies and materials	\$499	\$499	\$507
31.0 - Equipment	\$2,137	\$2,137	\$2,242
Total Non-Personnel	\$43,613	\$43,613	\$48,211
New Budgetary Resources	\$111,439	\$111,439	\$115,427
FTE	475	507	507

1/ FY18 Appropriated Resources are enacted and FTE are Actual. This column reflects levels appropriated in P.L. 115-141, the Consolidated Appropriations Act of 2018. For further details on the execution of these resources see the 2020 Budget Appendix chapter for the Department of the Treasury.

D – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY ALCOHOL AND TOBACCO TAX AND TRADE BUREAU <i>Federal Funds</i></p> <p style="text-align: center;">SALARIES AND EXPENSES</p> <p><i>For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, \$115,427,000, of which \$5,000,000 shall remain available until September 30, 2021; of which not to exceed \$6,000 shall be available for official reception and representation expenses; and of which not to exceed \$50,000 shall be available for cooperative research and development programs for laboratory services and provision of laboratory assistance to State and local agencies with or without reimbursement.</i></p> <p>Note. – A full-year 2019 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2019 (Division C of P.L. 115-245, as amended). The amounts included for 2019 reflect the annualized level provided by the continuing resolution.</p>	

E – Legislative Proposals

Government Reform Initiative - Consolidation of Federal Alcohol & Tobacco Tax Jurisdiction

The Administration proposes to transfer primary jurisdiction over Federal tobacco and alcohol anti-smuggling laws from the Department of Justice and the Bureau of Alcohol, Tobacco, Firearms and Explosives to the Department of the Treasury and TTB. Under the proposal, TTB would be responsible for the administration and enforcement of the Jenkins Act of 1949 (as amended by the Prevent All Cigarette Trafficking Act of 2009), 15 U.S.C. Chapter 10A, the Contraband Cigarette Trafficking Act of 1978, 18 U.S.C. Chapter 114, and the criminal statutes involving Liquor Trafficking, 18 U.S.C. Chapter 59. Specific statutory language to effect the transfer and facilitate Federal enforcement against tobacco smuggling has been developed in consultation with the Secretary of the Treasury and with the Attorney General.

Section II – Annual Performance Plan and Report

A – Strategic Alignment

TTB is responsible for administering and enforcing the sections of the Internal Revenue Code of 1986 associated with the collection of excise taxes on alcohol, tobacco, firearms, and ammunition, and the Federal Alcohol Administration Act, which provides for the regulation of the alcohol beverage industry for the protection of U.S. consumers. In essence, TTB administers its jurisdiction according to five strategic goals that support economic growth and stability: 1) Tax Compliance; 2) Cross-Border Tax Risk; 3) Business Qualification; 4) Labeling Modernization; and 5) Training Revitalization. TTB's strategic goal of Training Revitalization directly contributes to Treasury's Strategic Goal 5 (Achieve Operational Excellence) through Strategic Objective 5.1 (Workforce Management) and underpins TTB's performance across all of its goals and objectives.

TTB's strategic goals to improve Tax Compliance and address Cross-Border Tax Risk ensure that the Federal government has the resources needed to fund national priorities and support Treasury's Strategic Goal 1 (Boost U.S. Economic Growth) and Strategic Objective 1.1 (Tax Law Implementation) to administer tax laws to better enable all taxpayers to meet their obligations while protecting the integrity of the tax system. The FY 2020 funding level provides the initial investment in a multi-year tax system modernization effort. The industries TTB regulates have grown significantly in recent years, which present workload and enforcement challenges, particularly in light of recent tax reforms. Funding is required to address outdated tax systems to support efficient filing and processing as well as facilitate data analytics to timely detect tax evasion.

Additionally, in support of effective tax administration, the Administration is proposing the consolidation of Federal alcohol and tobacco tax jurisdiction within the Department of the Treasury to improve mission alignment and focus and, in turn, create tax enforcement efficiencies. This proposal calls for the transfer of enforcement authority for the CCTA and the Prevent All Cigarette Trafficking (PACT) Act from DOJ to Treasury. These Federal statutes were intended, among other things, to stop criminal organizations from profiting by smuggling cigarettes across state borders from low-tax states to high-tax states, and protect state and local governments from revenue losses from interstate cigarette smuggling. ATF, which currently has primary jurisdiction for CCTA and PACT Act enforcement, has estimated that the sale of contraband cigarettes costs Federal, state, and local governments close to \$5 billion a year in revenue. The FY 2020 funding request represents the initial investment required to begin the transfer of these authorities, including preliminary hiring and contract actions to support investigations, as well as required rulemaking, IT, and data analytics efforts to support the program and generate leads for future investigations. The full program costs will be higher and will be addressed in future budgets. When fully implemented, TTB anticipates that the consolidation of CCTA and PACT Act enforcement with TTB's existing tobacco enforcement authorities will result in increased Federal and state tobacco excise tax revenues.

These investments will require tradeoffs in TTB's enforcement plans. TTB conducts trade practice enforcement in the alcohol beverage marketplace in support of the Treasury's Strategic Goal 1 (Boost U.S. Economic Growth) and Strategic Objective 1.4 (Free and Fair Trade) to

advance a free and fair trade environment for U.S. businesses. At the FY 2020 funding level, TTB will need to rebalance enforcement priorities to support the successful closure of most active trade practice investigations and sustain a modest enforcement presence, as well as the effective transition of CCTA cases from ATF to TTB.

TTB's strategic goals to enhance Business Qualification and implement Labeling Modernization ensure that lawful U.S. alcohol businesses are competitive and thriving in the global marketplace and support the Treasury's Strategic Goal 1 (Boost U.S. Economic Growth) and Strategic Objective 1.3 (Trusted Currency and Services) to deliver trusted currency and services that enable citizens and businesses to participate in the economy. Timely service remains a priority for TTB and the businesses it regulates. As the demand for TTB services from these businesses continues to rise, and within the FY 2020 resources, TTB will review its customer service standards based on anticipated staffing levels. TTB will also scale down plans to modernize its online systems for filing permit, label, and formula applications, and instead seek to increase guidance to support compliant applications. These strategies will help TTB maintain timely service by increasing the number of first-time approvals, and reducing delays caused by extensive back-and-forth with industry members to correct initial applications containing errors.

B – Budget and Performance by Budget Activity

2.1.1 Collect the Revenue Resources and Measures

Dollars in Thousands

Resource Level	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
	Actual	Actual	Actual	Actual	Actual	Annualized CR	Request
Appropriated Resources	\$51,721	\$50,976	\$53,385	\$53,375	\$53,313	\$53,560	\$59,956
Reimbursables	\$3,506	\$3,681	\$3,143	\$3,217	\$3,923	\$4,304	\$4,304
Transfers In 1/	\$468	0	0	\$197	\$902	0	0
Budget Activity Total	\$55,695	\$54,657	\$56,528	\$56,789	\$58,138	\$57,864	\$64,260
FTE 2/	224	223	234	223	212	255	252

1/ TEOAF Strategic Support Fund

2/ Includes 5 FTE from Puerto Rico cover-over reimbursables

Performance Measure	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2018	FY 2019	FY 2020
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Amount of Revenue Collected Per Program Dollar 1/	457	437	414	406	369	400	DISC	DISC
Percent of Voluntary Compliance from Large Taxpayers in Filing Returns/Payments Timely (by filing) 2/	90	88	87	85	85	90	DISC	DISC
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns/Payments Timely (by taxpayer) 2/	N/A	N/A	N/A	N/A	N/A	N/A	B	
Percent of Voluntary Compliance from Large Taxpayers in Filing Operational Reports Timely (by taxpayer) 2/	N/A	N/A	N/A	N/A	N/A	N/A	B	
Percent of Electronically Filed Tax Returns – Pay.gov	32	33	34	35	38	50	50	50
Percent of Electronically Filed Operational Reports – Pay.gov	37	38	39	40	42	50	50	50

1/ Beginning in FY 2019, results will be reported as an indicator rather than a performance measure; as such, no target is established for FY 2019.

2/ TTB is developing new measures to evaluate and monitor taxpayer compliance for FY 2019, which will calculate compliance rates on a taxpayer basis, rather than a per filing basis; TTB will also formally add a measure of the compliance rate for operational reports.

Collect the Revenue Budget and Performance

(\$59,956,000 from direct appropriations, \$4,304,000 from reimbursable resources):

This budget activity includes all tax processing, verification, enforcement, and outreach efforts related to administering the Federal tax code for alcohol, tobacco, firearms, and ammunition products, and supports Treasury's Strategic Objective 1.1 (Tax Law Implementation). TTB collects approximately \$21 billion in Federal tax revenue annually from a tax base of more than 29,000 businesses. TTB's regulated taxpayers include distilleries, breweries, and wineries, which have boomed in recent years, as well as manufacturers and importers of tobacco and firearms. TTB extends the reach of its enforcement resources through advanced analytics and risk-based audits and investigations. To ensure a level playing field for those engaged in the

trade of these regulated commodities, TTB also takes appropriate enforcement action to detect and address diversion activity to ensure all products sold in the marketplace are properly taxpaid.

Other Resources (Offsetting Collections/Reimbursables)..... \$4,304,000

Other resources that fund this budget activity include reimbursement for the operating costs of TTB’s Puerto Rico field office, which are offset against the roughly \$400 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and imported to the United States; reimbursement from the Community Development Financial Institutions Fund (CDFI) for IT services provided by TTB; and funding from the Department of the Treasury’s Executive Office for Asset Forfeiture (TEOAF) mandatory account to cover investigative expenses, data systems, and training.

Description of Performance – Collect the Revenue:

In FY 2018, TTB met neither of its two annual targets for the performance measures under the Collect the Revenue budget activity. Taken together, TTB’s measures of the Amount of Revenue Collected per Program Dollar and the Percent of Voluntary Compliance from Large Taxpayers in Filing Payments Timely are intended to demonstrate the effectiveness and efficiency with which TTB operates its revenue collection function. TTB is proposing several updates to its measures for this budget activity, including adding measures of Percent of Electronically Filed Tax Returns and Percent of Electronically Filed Operational Reports via Pay.gov. These measures of electronic filing rates, combined with an update to the measure of Percent of Voluntary Compliance from Large Taxpayers in Tax Filings (Tax Returns, Payments, and Operational Reports), will inform TTB’s efforts to improve its level of taxpayer service and enhance tax oversight. TTB’s strategies for achieving results under its new suite of measures include applying technology to streamline internal and external processes and leveraging data sources to direct our outreach and enforcement efforts. At the FY 2020 funding level, TTB will initiate critical system modernization efforts to increase its effectiveness in tax administration and to help ensure resources are deployed to maximize the deterrent effect.

Improve Efficiency of Tax Collection

The Amount of Revenue Collected per Program Dollar measure uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of TTB’s tax collection program. In FY 2018, TTB achieved a return on investment of \$369 for every program dollar spent on collection activities, below the annual performance target of \$400. TTB set this performance target based on historical trends and other predictors that influence consumer behaviors.

The year-to-year decline in performance represents continued declines in tobacco revenue that, after peaking in FY 2010 following the significant tax rate increases enacted in 2009, have steadily declined in line with shifts in consumption patterns, product manufacturing, and trade. Annual alcohol revenue also trended down, largely due to the recent tax reform legislation that lowered effective tax rates across all commodities and expanded eligibility for reduced rates and credits. In total, revenue collections were down 6 percent from FY 2017; however, as the law took effect in January 2018, the full impact of these provisions is not yet known. Going forward, TTB will continue to monitor its return on investment for its Collect the Revenue activities as a key indicator; however, it will be discontinued as a performance measure under which TTB

establishes an annual target, given the substantial influence of external factors on performance results.

Excise Tax and Other Collections by Fiscal Year

Dollars in Thousands

<u>Fiscal Year</u>	<u>Alcohol</u>	<u>Tobacco</u>	<u>FAET</u>	<u>SOT</u>	<u>FST</u>	<u>Other</u>	<u>Total</u>
2009	\$ 7,424,292	\$ 11,548,504	\$452,693	\$ 272	\$1,192,375	\$ 970	\$ 20,619,106
2010	7,476,789	15,913,479	360,813	300	8,558	180	23,760,119
2011	7,594,330	15,515,073	344,262	268	5,220	2,257	23,461,410
2012	7,856,391	15,002,616	514,622	249	5,942	61	23,379,881
2013	7,851,953	14,321,017	762,836	280	1,521	38	22,937,645
2014	7,924,951	13,552,711	768,927	332	465	2	22,247,388
2015	7,997,467	13,620,497	638,518	288	2,444	7	22,259,221
2016	8,075,476	13,274,371	749,789	258	245	505	22,100,644
2017	8,103,714	12,966,317	761,630	227	69	521	21,832,478
2018	7,877,214	12,050,283	624,802	273	7	1,006	20,553,585
Average	<u>\$ 7,818,258</u>	<u>\$ 13,776,487</u>	<u>\$597,889</u>	<u>\$ 275</u>	<u>\$ 121,685</u>	<u>\$ 555</u>	<u>\$ 22,315,148</u>

FAET – Firearms and Ammunition Excise Tax; SOT – Special Occupational Tax; FST – Floor Stocks Tax

In FY 2020, to maintain positive returns on its revenue mission, TTB will continue to improve efficiencies and results in its tax enforcement program through systems and process improvements related to tax verification. The FY 2020 funding level includes \$2.5 million to initiate a multi-year effort to modernize TTB’s tax systems, which will allow TTB to increase automation in the detection, notification, assessment, and collection of excise taxes due while preserving staff time for substantive tax analysis. TTB’s two new measures of Electronically Filed Tax Returns and Electronically Filed Operational Reports indicate that less than half of these required tax filings are submitted to TTB via Pay.gov, the current online system for electronic submissions. High rates of paper filings – with just 38 percent of returns and 42 percent of required operational reports submitted electronically – make compliance checks and fraud monitoring more difficult and costly. The tax system investment will drive increases in electronic filing rates, which should support timelier, complete, and more accurate submissions as well as timely access to the data for TTB tax verification and analysis.

System modernization efforts also support a data-driven approach to efficiently and effectively identify and address high-risk activity for audit and investigation. In FY 2020, TTB will continue to use data analytics and other intelligence to efficiently deploy its limited enforcement resources. A primary focus for TTB tax enforcement continues to be diversion schemes related to imported and exported alcohol and tobacco products given the relative ease of these schemes and the high profit potential. Investigations to date have identified significant tax liabilities and remain an enforcement priority under the Craft Beverage Modernization and Tax Reform provisions, effective through calendar year 2019, which include reduced rates for alcohol importers as well as domestic producers.

Increase Voluntary Compliance from Taxpayers

Fostering voluntary compliance among taxpayers is a primary tax administration strategy for TTB. The Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments

Timely indicates the rate of compliance by large taxpayers (i.e., those that pay more than \$50,000 in annual taxes) in voluntarily filing their tax payments on or before the scheduled due date. In FY 2018, TTB achieved a compliance rate of 85 percent from its large taxpayers, which fell below the performance target of 90 percent. The declining compliance rate in recent years is due, in part, to industry growth and expansion and a corresponding increase in the number of industry members who qualify as “large taxpayers” because they owe more than \$50,000 in annual taxes due. Such recent permittees may be less familiar with TTB’s statutory and regulatory requirements. Although TTB analysis indicates that this trend does not represent a significant revenue risk, non-compliance undermines the level playing field, which is especially critical for small producers who comprise the majority of TTB taxpayers.

In FY 2018, TTB began developing new measures that will calculate voluntary compliance rates by taxpayer and incorporate additional stratifications by tax liability, resulting in the discontinuation of the current Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely measure. The new measures will also incorporate voluntary compliance rates for operational reports, a critical information collection that provides production information to support TTB tax verification efforts. TTB will baseline these new measures in FY 2019 and establish annual targets. By enhancing its data-driven and risk-based approach, TTB will be able to develop more targeted strategies to better align its resources to the most critical revenue risks and address potential underreporting or fraud.

In FY 2020, TTB will strive to improve the voluntary compliance rate under the new metrics through complementary strategies that focus on promoting electronic filing options to enable taxpayers to file complete, accurate, and timely tax returns and payments; improving online guidance and industry outreach strategies, particularly for those industry members with expanding operations; and maintaining an enforcement presence to encourage voluntary compliance. Moving forward on all three fronts is required to ensure that TTB strikes the appropriate balance between supporting businesses in establishing compliant operations while ensuring adequate coverage of the high-risk activity that undermines lawful business activity.

Further, TTB will review its enforcement plans to address potential vulnerabilities and new tax evasion schemes arising from both the new tax legislation and TTB’s expanded enforcement responsibilities in the interstate smuggling of cigarettes. The Administration has proposed legislative changes to consolidate Federal alcohol and tobacco tax authorities within Treasury, which will integrate ATF authorities into TTB’s Federal excise tax enforcement program. The FY 2020 budget supports an initial investment to ramp up CCTA enforcement at TTB, which TTB expects to result in enforcement efficiencies, increased field presence, and, over time, improved voluntary compliance through an increased deterrent effect.

2.1.2 Protect the Public Resources and Measures

Dollars in Thousands

Resource Level	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
	Actual	Actual	Actual	Actual	Actual	Annualized CR	Request
Appropriated Resources	\$47,279	\$47,451	\$52,709	\$53,527	\$56,995	\$57,879	\$55,471
Reimbursables	\$3,236	\$2,451	\$2,577	\$2,637	\$2,366	\$2,596	\$2,596
Transfer In 1/	\$432	0	0	0	\$87	0	0
Budget Activity Total	\$50,947	\$49,902	\$55,286	\$56,164	\$59,448	\$60,475	\$58,067
FTE 2/	246	243	246	265	273	247	245

1/ TEOAF Strategic Support Fund

2/ Includes 5 FTE from Puerto Rico cover-over reimbursables

Performance Measure	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2018	FY 2019	FY 2020
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Percentage of Permit Applications Processed within Service Standards (75 days) 1/	58	47	32	48	71	85	85	85
Initial Error Rate for Permit Applications 2/	73	77	81	83	80	25	25	25
Percent of Electronically Filed Permit Applications 3/	80	84	81	84	86	87	90	90
Customer Satisfaction Rate with TTB Permitting Process	B	76	71	80	83	80	DISC	DISC
Customer Satisfaction Rate with eGov Systems - Permits Online 4/	B	64	54	68	77	80	80	80
Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards 5/	71	80	80	62	84	85	85	85
Initial Error Rate for Label and Formula Applications	39	42	44	43	40	25	25	25
Percent of Electronically Filed Label and Formula Applications	93	94	97	98	98	95	95	95
Customer Satisfaction Rate with eGov Systems - COLAs Online 6/	71	71	74	82	81	80	80	80
Customer Satisfaction Rate with eGov Systems - Formulas Online 6/	53	48	58	70	81	80	80	80

1/ Prior year data subject to additional validations following TTB migration to new reporting platform in FY 2018.

2/ Prior year data revised due to errors in methodology related to wholesaler and importer applications.

3/ Revised actuals for fiscal years 2016 and 2017 due to error in source data.

4/ New measure of user satisfaction with TTB's Permits Online electronic filing system; replaces discontinued measure of satisfaction rates with permitting process.

5/ Service standards are set annually based on TTB analysis of submission volume, error rates, and resource levels. For FY 2018, TTB established new service standards of 15 days for both labels and formulas based on a significant spike in submissions. In FY 2017, the service standard was 10 days for both labels and formulas. Between FY 2014 - 2016, the service standard was 30 days for labels and 45 days for formulas.

6/ New measures of user satisfaction with TTB's COLAs Online and Formulas Online (FONL) electronic filing systems. Results for FONL represent beverage alcohol formula filers; nonbeverage alcohol formula filers are excluded.

Protect the Public Budget and Performance

(\$55,471,000 from direct appropriations, and \$2,596,000 from reimbursable resources):

This budget activity funds the programs that ensure the integrity of the products and industry members in the marketplace; promote compliance with Federal laws and regulations by more than 90,000 businesses that TTB regulates; facilitate fair and lawful domestic and international trade in the alcohol and tobacco commodities; and provide full and accurate alcohol beverage product information to the public as a means to prevent consumer deception. These activities support Treasury’s Strategic Goal 1 (Boost U.S. Economic Growth) and Strategic Objective 1.3 (Trusted Currency and Services) to deliver trusted currency and services that enable citizens and businesses to participate in the economy as well as Strategic Objective 1.4 (Free and Fair Trade) to advance a free and fair trade environment for U.S. businesses.

Other Resources (Offsetting Collections/Reimbursables)..... \$2,596,000

Other resources that support this budget activity include reimbursement for the operating costs of the TTB Puerto Rico field office, which are offset against the roughly \$400 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and imported into the United States ; reimbursement by the Community Development Financial Institutions Fund (CDFI) for TTB’s IT services; and funding from the Department of the Treasury’s Executive Office for Asset Forfeiture (TEOAF) mandatory account to cover investigative expenses, data systems, and training.

Description of Performance – Protect the Public:

In FY 2018, TTB met two of its seven annual targets for the performance measures under its Protect the Public budget activity. These measures help TTB monitor the degree to which it is meeting the service standards it establishes for permit, label, and formula applications; its effectiveness in reducing error rates on applications to address processing delays caused by incomplete or non-compliant submissions; the impact that electronic filing initiatives are having on improved service delivery; and the level of satisfaction that industry members have with TTB’s permitting process. TTB is revising its suite of measures to discontinue its current metric of customer satisfaction and instead track customer satisfaction with its eGov systems for filing permit, label, and formula applications, as TTB continues to pursue system enhancements to streamline filing and processing to help manage increasing workloads. TTB’s strategies to achieve its performance targets for these measures include a combination of streamlining internal processes, implementing enhancements to online filing systems, modernizing application requirements, and providing clearer guidance to industry members.

Improve Efficiency and Effectiveness of Permitting Process

TTB protects consumers by screening permit applicants to ensure only qualified persons engage in the alcohol, tobacco, firearms, and ammunition industries. For this purpose, in FY 2018, TTB processed approximately 9,000 original permit applications, performing investigations into high-risk applicants to meet TTB’s business integrity objectives. TTB monitors its timeliness in approving permit applications through its measure of the Percentage of Permit Applications Processed within Service Standards. As businesses rely on accurate information related to TTB service delivery in their operational planning, this measure provides important data related to a key outcome for TTB and its stakeholders.

Ongoing expansion of the alcohol beverage industry in recent years has increased the volume of permit and brewer's notice applications, particularly for new alcohol producers. This growth in workload has contributed to delayed permit approvals by TTB – reaching a peak of 122 days on average in FY 2016 – so that new businesses often waited months to begin producing and selling their products while having already made significant investments in their operations. To address this performance challenge, in FY 2018, Treasury and TTB established a priority goal to reduce average approval times for alcohol and tobacco business permits by at least 20 percent (from 96 days to 75 days) and achieve the 75-day standard for 85 percent of applicants by September 30, 2019.

In FY 2018, in driving toward its priority goal targets, TTB dramatically improved processing times, decreasing from an average of 96 days in FY 2017 to 61 days in FY 2018, exceeding the targeted 20 percent reduction. TTB also improved the consistency of its service, processing 71 percent of permit applications within the 75-day standard compared to 48 percent the prior year. TTB achieved these gains through revised processes and policies, and strategic workforce management.

At the FY 2020 funding level, TTB expects to meet its 75-day standard for 85 percent of permit applications through targeted industry education efforts and continued enhancements to Permits Online. Additionally, TTB intends to continue its modernization of its qualification requirements, informed by public comment, to streamline TTB's permit applications and further reduce burdens related to the filing process. These changes, combined with incremental enhancements to TTB's permitting system, will support TTB in reaching and sustaining its current service standard. At the FY 2020 funding level, TTB would postpone custom system development efforts and reassess the timeline for its long-term goal of reducing service times to 60 days or less across alcohol application types.

According to its measure of the Percent of Electronically Filed Permit Applications, which tracks the electronic filing rate for new business applications, TTB received approximately 87 percent of permit applications via Permits Online in FY 2018. This year-to-year increase is attributed to its regular outreach to direct applicants to the online filing system. TTB expects this trend to continue following the July 2018 release of the redesigned Permits Online system. The redesigned system includes improved guidance for first-time filers to reduce errors on applications that delay processing times as well as a simplified method for amending an existing permit that replaces the current paper-based process. These system changes, combined with effective outreach and training for industry, will support TTB in achieving and maintaining its targeted electronic filing rate of 90 percent in fiscal years 2019 and 2020.

Given the new system features, TTB expects Customer Satisfaction Rates with eGov Systems to increase for Permits Online in the years ahead following a transition period for TTB and industry. In FY 2018, TTB discontinued its measure of the Customer Satisfaction Rate with TTB's Permitting Process and replaced it with a new measure oriented toward satisfaction with its online permitting system. The vast majority of permit applicants file electronically, and TTB is focused on ensuring the system supports them in filing complete, accurate applications to improve its service levels.

The Permits Online enhancements should also contribute to improved outcomes for TTB's measure of the Initial Error Rate on Permit Applications, which tracks how many applications are submitted either incomplete or with errors. This measure is critical to timely processing, as the error rate significantly influences total approval time given the necessary back-and-forth with applicants to obtain additional documentation or complete information. In FY 2018, the error rate trended positively, with 80 percent of original permit applications submitted with errors compared to 83 percent in the prior year. This rate is well above the target of 25 percent, however, and reflects the need for improved guidance and system validations to ensure applicants are able to submit correctly the first time. Following the FY 2018 system release, TTB expects to draw closer to its target in the year ahead, although current system limitations limit TTB's ability to deploy more advanced features to support applicants in accurate and complete filings. Broader changes to streamline permit application requirements, most of which will require rulemaking to fully implement, are underway and may also be required before TTB can achieve its targeted performance level.

Improve Efficiency and Effectiveness of Alcohol Beverage Label Processing

TTB protects U.S. consumers by ensuring that the alcohol beverage products sold at retail outlets are properly labeled and comply with Federal production standards. In FY 2018, TTB received nearly 195,000 Certificate of Label Approval (COLA) applications and 17,000 formula applications, which reflect historically high submission rates and indicate the ongoing expansion of the alcohol beverage industry. Given the importance of timely TTB approvals and the negative impact that delays have on U.S. businesses, TTB monitors its ability to provide timely and consistent service through its measure of the Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards. TTB combines label and formula applications in this measure given the interdependent nature of these approvals.

In FY 2018, TTB continued to progress toward its strategic goal to modernize its labeling program, making significant strides in maintaining timely service in spite of tremendous year-to-year increases in submission volume, which reached 15 percent or more for both label and formula applications. Based on these increases, TTB revised its service standards for labels and formulas from 10 days to 15 days in FY 2018.

Through effectively managing its backlog and strategic workforce management, relying on additional staffing resources hired using directed funding to accelerate these approvals, TTB was able to respond to these challenges and sustain average processing times at or below its service standards, and maintained a total average review time of 30 days or less for products requiring lab analysis, formula approval, and label approval. Further, in terms of consistent service, TTB met or nearly met its target to process 85 percent of label and formula applications within the 15-day standard, with 91 percent of formulas and 84 percent of labels turned around in 15 days or less.

In the year ahead, TTB will focus its efforts on increasing voluntary compliance through initiatives to reduce label and formula application errors. Application errors are a key driver of processing times, as additional review is required for each resubmitted application. Results for its measure of the Initial Error Rate for Label and Formula Applications indicate that these

updates are having a positive effect in reducing label error rates, with errors holding below 40 percent for the first time in the second half of FY 2018.

In FY 2020, TTB will continue to make iterative enhancements to COLAs Online and Formulas Online, informed by user testing and feedback, which will include additional help features and system-based validations to reduce application errors. According to its measure of the Percent of Electronically Filed Label and Formula Applications, TTB receives 98 percent of applications via COLAs Online and Formulas, indicating that continued focus on system validations is warranted and will support performance goals in increasing accurate applications and accelerating approval times. TTB expects that these ongoing improvements will help TTB continue to attract users to its online systems and maintain a submission rate above its 95 percent target in FY 2020.

Efforts to drive down error rates also include enhancing information on TTB.gov related to obtaining label and formula approval for alcohol beverage products. In FY 2018, in response to industry input, TTB published formula guidance with specific example applications and supporting documentation to clarify the requirements. TTB also released an updated web-based tool to assist malt beverage producers and importers in determining whether their products require formula approval, with the aim of bringing down filings for products that no longer require advance TTB approval. Additional step-by-step guidance to support industry in checking label and formula compliance prior to submitting applications is planned for FY 2019.

In addition, TTB will continue its efforts to improve industry guidance through updated labeling regulations. In FY 2018, TTB made substantial progress on its multi-year effort to modernize Federal labeling regulations by consolidating, streamlining, and simplifying requirements to reflect current TTB policy and modern industry practices. The notice of proposed rulemaking, published in November 2018, also reflects proposals that are designed to reduce regulatory burden.

C – Changes in Performance Measures

TTB continues its work to develop and baseline performance measures to align to the new strategic objectives in the Treasury and TTB Strategic Plans for FY 2018-2022. This could result in additional changes to performance measures included in the FY 2020 budget.

Performance Measure or Indicator	Change and Justification
1. Amount of Revenue Collected Per Program Dollar (Discontinue)	TTB proposes to discontinue this measure in the CJ/BIB and instead report on its return on investment for its Collect the Revenue budget activity as an indicator, whereby TTB no longer establishes an annual target given the significant influence of external factors on the overall result.
2. Percent of Voluntary Compliance from Large Taxpayers in Filing Returns/Payments Timely (by filing) (Discontinue)	TTB proposes to discontinue this measure in the CJ/BIB and replace it with measures that report voluntary compliance rates by taxpayer rather than by filing. TTB also proposes adding a measure for the voluntary compliance rates for operational reports, a required companion filing to support tax return validation and verification. The new methodologies, in development in FY 2019, will inform targeted outreach and enforcement strategies.
3. Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns/Payments Timely (by taxpayer) (New)	Percent of Voluntary Compliance from Large Taxpayers in Filing Returns/Payments Timely is defined as the total number of taxpayers with annual liabilities of \$50,000 or greater who filed their semi-monthly tax return and payment on time divided by the total number of large taxpayers. The data source for this measure is the TTB Integrated Revenue Information System (IRIS). This measure provides actionable information to address late or missing returns and payments and supports effective outreach and enforcement strategies.
4. Percent of Voluntary Compliance from Large Taxpayers in Filing Operational Reports Timely (by taxpayer) (New)	Percent of Voluntary Compliance from Large Taxpayers in Filing Operational Reports Timely is defined as the total number of taxpayers with annual liabilities of \$50,000 or greater who filed their monthly operational report on time divided by the total number of large taxpayers. The data source for this measure is the TTB Integrated Revenue Information System (IRIS). This measure provides actionable information to address late

	or missing reports and supports effective outreach and enforcement strategies.
5. Percent of Electronically Filed Tax Returns - Pay.gov (New)	Percent of electronically filed tax returns is defined as the number of tax returns submitted via Pay.gov divided by the total number of tax returns filed. The data source for this measure is Pay.gov. This measure provides information on taxpayer use of the current online tax filing system and informs TTB initiatives to increase electronic submissions, including custom system development efforts.
6. Percent of Electronically Filed Operational Reports - Pay.gov (New)	Percent of electronically filed operational reports is defined as the number of operational reports submitted via Pay.gov divided by the total number of operational reports filed. The data source for this measure is Pay.gov. This measure provides information on taxpayer use of the current online tax filing system and informs TTB initiatives to increase electronic submissions, including custom system development efforts.
7. Customer Satisfaction Rate with TTB Permitting Process (Discontinue)	TTB proposes to discontinue this metric in the CJ/BIB and replace it with a focused measure on customer satisfaction with Permits Online (see below). The majority of TTB permit applicants are serviced through this online filing system and, going forward, TTB will emphasize online guidance and enhanced system features to achieve its targets for timely service to prospective businesses seeking a TTB permit.
8. Customer Satisfaction Rate with eGov Systems – Permits Online (New)	Customer satisfaction rate for Permits Online is defined as the total percentage of system users who responded that they are very satisfied or satisfied with TTB’s online permit application process. User data is derived from the Permits Online system, and satisfaction scores are collected through an email survey to system users with activity within the reporting period. This measure provides information on the areas of relative dissatisfaction with the permit application process and informs system enhancements to improve the completeness and accuracy of applications to support timely service.

<p>9. Customer Satisfaction Rate with eGov Systems – COLAs Online (New)</p>	<p>Customer satisfaction rate for COLAs Online is defined as the total percentage of system users who responded that they are very satisfied or satisfied with TTB’s online label application process. User data is derived from the COLAs Online system and satisfaction scores are collected through an email survey to system users with activity within the reporting period. This measure provides information on the areas of relative dissatisfaction with the label application process and informs system enhancements to improve the completeness and accuracy of applications to support timely service.</p>
<p>10. Customer Satisfaction Rate with eGov Systems - Formulas Online (New)</p>	<p>Customer satisfaction rate for Formulas Online is defined as the total percentage of system users who responded that they are very satisfied or satisfied with TTB’s online formula application process. User data is derived from the Formulas Online system and satisfaction scores are collected through an email survey to system users with activity within the reporting period. This measure provides information on the areas of relative dissatisfaction with the formula application process and informs system enhancements to improve the completeness and accuracy of applications to support timely service.</p>

Section III – Additional Information

A – Summary of Capital Investments

Information Technology

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

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

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

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

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

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

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

Scientific Equipment for Laboratories

This investment will enable TTB's chemists to continue to provide accurate and reproducible scientific data and laboratory results to support regulatory compliance, tax enforcement, tax classification, rulemaking, and investigations for both the alcohol and tobacco commodities. Laboratory instruments require periodic replacement, as they have finite lifecycles due to use and as advances in scientific technology render older instruments obsolete. Periodic replacement of the existing technologies is essential for TTB laboratories to remain state-of-the-art and effective to support the bureau's mission, strategy, and day-to-day operations.

A summary of capital investment resources, including major information technology and non-technology investments can be found at:

<http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>

This website also contains a digital copy of this document.