# Department of the Treasury Alcohol and Tobacco Tax and Trade Bureau

# Congressional Budget Justification and Annual Performance Plan and Report

# FY 2021

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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. In FY 2019, TTB collected nearly $20 billion in excise taxes from the alcohol, tobacco, firearms, and ammunition industries.

As the most efficient means of tax administration, facilitating voluntary compliance will remain a priority for TTB in FY 2021. To this end, 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 2021, TTB will enhance its guidance related to Federal alcohol, tobacco, firearms, and ammunition laws and regulations, and pursue opportunities to streamline regulations and requirements to reduce compliance burden. These strategies support the President's Management Agenda and are critical for TTB to mitigate potential performance impacts as TTB continues to prioritize its enforcement of the Craft Beverage Modernization and Tax Reform provisions of P.L. 115-97, recently extended through December 31, 2020. In the first two years of enactment, Federal revenues have declined, with the full impact not yet known. TTB expects that administration and enforcement will continue to pose significant challenges, particularly given the multitude of tax rates and complexity of verifying their appropriate application, and will continue to coordinate with CBP to engage in data-driven enforcement with regard 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 2021 request supports an initial investment of $1.5 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. In FY 2021, TTB will continue to focus on providing timely service to businesses seeking permit, label, and formula approvals. At the FY 2021 funding level, TTB will prioritize improvements to its permitting and labeling online filing systems as part of its IT modernization strategy to develop an integrated online experience for all tax and regulatory transactions with TTB, resulting in improved usability across the bureau's online platforms. As part of these improvements, TTB will also continue to focus on providing clear and consistent industry guidance to facilitate the submission of compliant filings.

## 1.1 – Appropriations Detail Table

Dollars in Thousands

| | FY 2019 | | FY 2020 | | FY 2021 | | FY 2020 to FY 2021 | |
|---|---|---|---|---|---|---|---|---|
| **Appropriated Resources** | **Operating Plan 1/** | | **Enacted** | | **Request** | | **% Change** | |
| **New Appropriated Resources** | **FTE** | **AMOUNT** | **FTE** | **AMOUNT** | **FTE** | **AMOUNT** | **FTE** | **AMOUNT** |
| Collect the Revenue | 209 | $58,856 | 220 | $57,513 | 228 | $62,086 | 3.6% | 8.0% |
| Protect the Public | 253 | $60,744 | 262 | $62,087 | 260 | $63,751 | -0.8% | 2.7% |
| **Subtotal New Appropriated Resources** | **462** | **$119,600** | **482** | **$119,600** | **488** | **$125,837** | **1.2%** | **5.2%** |
| **Other Resources** | | | | | | | | |
| Unobligated Balances from Prior Years 2/ | 23 | $5,079 | 20 | $4,601 | 20 | $3,908 | 0.0% | -15.1% |
| Transfers In/Out 3/ | 0 | $597 | 0 | $0 | 0 | $0 | NA | NA |
| Offsetting Collections and Reimbursables 4/ | 10 | $6,239 | 10 | $7,437 | 10 | $7,437 | 0.0% | 0.0% |
| **Subtotal Other Resources** | **33** | **$11,915** | **30** | **$12,038** | **30** | **$11,345** | **0.0%** | **-5.8%** |
| **Total Budgetary Resources** | **495** | **131,515** | **512** | **$131,638** | **518** | **$137,182** | **1.2%** | **4.2%** |

Note: FY 2019 Other Resources and Full-time Equivalents (FTE) reflect actuals.

1/ FY 2019 New Appropriated Resources by Budget Activity reflect levels appropriated in P.L. 116-6, the Consolidated Appropriations Act of 2019. FY 2019 FTE and Other Resources are Actual Obligations. For further details on the execution of these resources see the 2021 Budget Appendix chapter for the Department of the Treasury.

2/ Includes carryover of prior two-year set aside funding for trade practice enforcement and recoveries of 50 percent in unobligated balances from prior one-year funding.

3/ Transfer from TEOAF Secretary's Enforcement Fund.

4/ Includes reimbursements from the Treasury Executive Office of Asset Forfeiture (TEOAF) Mandatory Fund and Community Development Financial Institutions Fund (CDFI), and offsetting collections from Puerto Rico Cover-Over Program.

## 1.2 – Budget Adjustments Table

Dollars in Thousands

| | FTE | Amount |
|---|---|---|
| **FY 2020 Enacted** | **502** | **$119,600** |
| **Changes to Base:** | | |
| Maintaining Current Levels (MCLs): | 0 | $2,748 |
| Pay Annualization (2020 3.1% pay raise) | 0 | $590 |
| Pay-Raise (1.0% average pay raise) | 0 | $575 |
| FERS Contribution Increase | 0 | $714 |
| Non-Pay | 0 | $869 |
| Other Adjustments: | 6 | $900 |
| Annualization of FY 2020 Hiring | 6 | $900 |
| Subtotal Changes to Base | 6 | $3,648 |
| **FY 2021 Current Services** | **508** | **$123,248** |
| Program Changes: | | |
| Program Decreases | (6) | ($1,500) |
| Enforcement to Maintain a Level Playing Field | (6) | ($1,500) |
| Program Increases: | 6 | $4,089 |
| MyTTB IT System Modernization | 0 | $2,589 |
| Consolidation of Federal Alcohol & Tobacco Tax Jurisdiction | 6 | $1,500 |
| **FY 2021 President's Budget Request** | **508** | **$125,837** |

## C – Budget Increases and Decreases Description

**Maintaining Current Levels (MCLs) .......................................................+$2,748,000 / +0 FTE**

Pay Annualization (3.1%) +$590,000 / +0 FTE

Funds are requested for annualization of the January 2020 3.1% average pay raise.

Pay-Raise (1.0% in 2021) +$575,000 / +0 FTE

Funds are requested for a 1.0% average pay raise in January 2021.

FERS Contribution Increase +$714,000 / +0 FTE

Funds are requested for the Federal Employee Retirement System (FERS) contribution rates effective FY 2021.

Non-Pay +$869,000 / +0 FTE

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

**Other Adjustments ………………..............................................................+$900,000 / +6 FTE**

Annualization of FY 2020 Hiring +$900,000 / +6 FTE

This adjustment reflects the annualization of new hires brought onboard during the second half of FY 2020.

**Program Decreases ...........................................................................-$1,500,000 / -6 FTE**

Enforcement to Maintain a Level Playing Field -$1,500,000 / -6 FTE

TTB will reduce its investigators and support staff dedicated to the 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 set aside funding provided in fiscal years 2017-2020, TTB added staffing to increase its capacity for trade practice investigations from approximately one each year to approximately 50 active cases annually. At the FY 2021 funding level, TTB will maintain fewer active cases and continue its process of evaluating and prioritizing the highest risk revenue and trade practice cases as part of its annual enforcement planning process.

**Program Increases ..........................................................................+$4,089,000 / +6 FTE**
MyTTB IT System Modernization +$2,589,000 / +0 FTE
TTB will continue to invest in IT system modernization to transform the online experience for TTB industry members. The desired end-state, known as MyTTB, will provide an integrated and personalized online system to help industry members navigate the process of doing business with TTB. This initiative would transform the industry member experience with TTB incrementally, developing and delivering functional modules in phases to provide a seamless and consistent experience across all permitting, tax, and labeling interactions with TTB. MyTTB would also facilitate improved data integration across TTB programs and systems, enabling TTB to better detect noncompliance and fraud, validate application data, automate workflows, and increase data-driven decision making.

Consolidation of Federal Alcohol & Tobacco Tax Jurisdiction +$1,500,000 / +6 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 6 FTE, which will allow TTB to begin hiring auditors, investigators, and other program staff. Further, TTB will hire criminal enforcement agents under an expansion of its 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.

## 1.3 Object Classification (Schedule O) Obligations

Dollars in Thousands

| Object Classification | FY 2019 Actual Obligations | FY 2020 Estimated Obligations | FY 2021 Estimated Obligations |
|---|---|---|---|
| 11.1 - Full-time permanent | 53,475 | 57,092 | 60,195 |
| 11.5 - Other personnel compensation | 910 | 941 | 941 |
| 11.5 - Overtime | 671 | 650 | 639 |
| 11.8 - Special personal services payments | 0 | 0 | 0 |
| **11.9 - Personnel Compensation (Total)** | **55,056** | **58,683** | **61,775** |
| 12.0 - Personnel benefits | 17,695 | 20,225 | 21,988 |
| 13.0 - Benefits for former personnel | 18 | 5 | 5 |
| **Total Personnel and Compensation Benefits** | **$72,769** | **$78,913** | **$83,768** |
| 21.0 - Travel and transportation of persons | 2,065 | 2,058 | 1,919 |
| 22.0 - Transportation of things | 28 | 30 | 30 |
| 23.1 - Rental payments to GSA | 4,098 | 4,293 | 4,342 |
| 23.2 - Rental payments to others | 8 | 0 | 0 |
| 23.3 - Communications, utilities, and miscellaneous charges | 841 | 1,175 | 1,193 |
| 24.0 - Printing and reproduction | 210 | 315 | 315 |
| 25.1 - Advisory and assistance services | 15,630 | 14,198 | 13,845 |
| 25.2 - Other services from non-Federal sources | 14,989 | 12,877 | 13,540 |
| 25.3 - Other goods and services from Federal sources | 9,153 | 8,750 | 8,882 |
| 25.4 - Operation and maintenance of facilities | 22 | 22 | 22 |
| 25.7 - Operation and maintenance of equipment | 3,265 | 2,515 | 2,565 |
| 26.0 - Supplies and materials | 381 | 350 | 352 |
| 31.0 - Equipment | 3,126 | 1,795 | 1,872 |
| 32.0 - Land and structures | 193 | 152 | 0 |
| **Total Non-Personnel** | **$54,009** | **$48,530** | **$48,877** |
| **Total Obligations 1/** | **$126,778** | **$127,443** | **$132,645** |
| | | | |
| **Total Full-time Equivalents (FTE) 2/** | **495** | **512** | **518** |

1/ FY 2019 reflect actual obligations totaling $126.8 million, of which $120.6 million was from direct resources (new appropriations, carryover from prior years, and a TEOAF transfer) and $6.2 million was from reimbursable resources/offsetting collections. FY 2020 reflects anticipated obligations totaling $127.4 million, of which $120.5 million is from direct resources (new appropriations and carryover from prior years) and $6.9 million is from reimbursable resources/offsetting collections. FY 2021 reflects anticipated obligations totaling $132.6 million, of which $125.7 million is from direct resources (new appropriations and carryover from prior years) and $6.9 million is from reimbursable resources/offsetting collections.

2/ FY 2019 FTE reflects actual total FTE of 495, of which 485 FTE was from direct resources and 10 FTE was from reimbursable resources/offsetting collections. FY 2020 reflects anticipated total FTE of 512, of which 502 FTE is anticipated from direct resources and 10 FTE is anticipated from reimbursable resources/offsetting collections. FY 2021 reflects anticipated total FTE of 518, of which 508 FTE is anticipated from direct resources and 10 FTE is anticipated from reimbursable resources/offsetting collections.

## D – Appropriations Language and Explanation of Changes

| Appropriations Language | Explanation of Changes |
|---|---|
| DEPARTMENT OF THE TREASURY<br>ALCOHOL AND TOBACCO TAX AND TRADE BUREAU<br>SALARIES AND EXPENSES<br><br>For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, [$119,600,000] *$125,837,000*; *of which $5,000,000 shall remain available until September 30, 2022,* of which not to exceed $6,000 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 [: Provided, That of the amount appropriated under this heading, $5,000,000 shall be for the costs of accelerating the processing of formula and label applications: *Provided further*, That of the amount appropriated under this heading, $5,000,000, to remain available until September 30, 2021, shall be for the costs associated with enforcement of the trade practice provisions of the Federal Alcohol Administration Act (27 U.S.C. 201 et seq.)]. *(Department of the Treasury Appropriations Act, 2020.)* | |

## 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 2021 funding level continues the investment in a multi-year IT system modernization effort, leveraging technology to improve mission outcomes as called for by the President's Management Agenda. The industries TTB regulates have grown significantly in recent years, which present workload and enforcement challenges, particularly in light of recent tax reform legislation. Funding is required to address outdated tax and regulatory systems to support efficient filing and processing as well as facilitate data analytics to timely detect fraud, tax evasion, and critical compliance issues that undermine a level playing field.

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 protect state and local governments from revenue losses from interstate cigarette smuggling as well as stop criminal organizations from profiting by smuggling cigarettes across state borders from low-tax states to high-tax states. 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 2021 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 effectively implement 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 across TTB's enforcement programs. 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 2021 funding level, TTB will rebalance enforcement priorities to sustain an enforcement presence to deter prohibited trade practice activities while establishing a CCTA enforcement program, including the timely and 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 2021 resources, TTB will aim to sustain improved service times for permit, label, and formula approvals. TTB will combine IT system modernization efforts with streamlined application requirements and enhanced guidance to achieve its performance goals for customer service. 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 2015 Actual | FY 2016 Actual | FY 2017 Actual | FY 2018 Actual | FY 2019 Actual | FY 2020 Enacted | FY 2021 Request |
|---|---|---|---|---|---|---|---|
| Appropriated Resources | $52,721 | $52,785 | $53,560 | $53,560 | $58,856 | $57,513 | $62,086 |
| Unobligated Balances from Prior Years | $109 | $170 | $125 | $112 | $214 | $125 | $125 |
| Transfers In/Out | $0 | $0 | $197 | $902 | $597 | $0 | $0 |
| Offsetting Collections and Reimbursables | $3,681 | $3,143 | $3,217 | $3,923 | $3,573 | $4,176 | $4,176 |
| **Collect the Revenue Total** | **$56,511** | **$56,098** | **$57,099** | **$58,497** | **$63,240** | **$61,814** | **$66,387** |
| **FTE Total (Direct and Reimbursable)** | **223** | **234** | **223** | **212** | **213** | **224** | **232** |

The FY 2015 - FY 2019 appropriated resources represents the approved operating plan. The FY 2015 - FY 2019 columns represent realized resources for full-time equivalents, reimbursables, and user fees.

| Performance Measure | FY 2015 Actual | FY 2016 Actual | FY 2017 Actual | FY 2018 Actual | FY 2019 Actual | FY 2019 Target | FY 2020 Target | FY 2021 Target |
|---|---|---|---|---|---|---|---|---|
| Amount of Revenue Collected Per Program Dollar | 437 | 414 | 406 | 369 | 339 | N/A | N/A | N/A |
| Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns/Payments Timely (by filing) 1/ | 88 | 87 | 85 | 85 | DISC | N/A | DISC | DISC |
| Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns/Payments Timely (by taxpayer) 1/ | - | - | 60 | 69 | 69 | 95 | 95 | 95 |
| Percent of Voluntary Compliance from Large Taxpayers in Filing Operational Reports Timely (by taxpayer) 1/ | - | - | 66 | 74 | 76 | 95 | 95 | 95 |
| Percent of Electronically Filed Tax Returns - Pay.gov 2/ | 33 | 33 | 35 | 37 | 41 | 50 | 50 | 60 |
| Percent of Electronically Filed Operational Reports - Pay.gov | 38 | 39 | 40 | 42 | 46 | 50 | 50 | 60 |

1/ TTB developed 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 also formally added a measure of the compliance rate for operational reports.

2/ Minor adjustments to prior year data based on data quality review.

### Collect the Revenue Budget and Performance

*($62,086,000 from new direct appropriations, $125,000 from unobligated balances from the prior year, and $4,176,000 from reimbursable sources)*:

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 $20 billion in Federal tax revenue annually from a tax base of nearly 32,000 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…...………………………..……………………………………$4,301,000**

*Unobligated Balances from the Prior Year………..………………………………..……….…..$125,000*

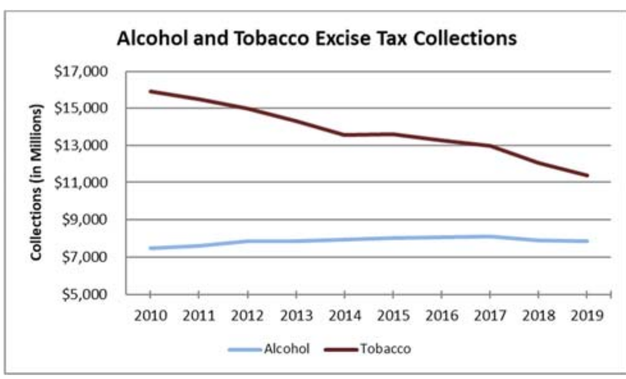
*Offsetting Collections/Reimbursables.………………………………………………......…. $4,176,000*

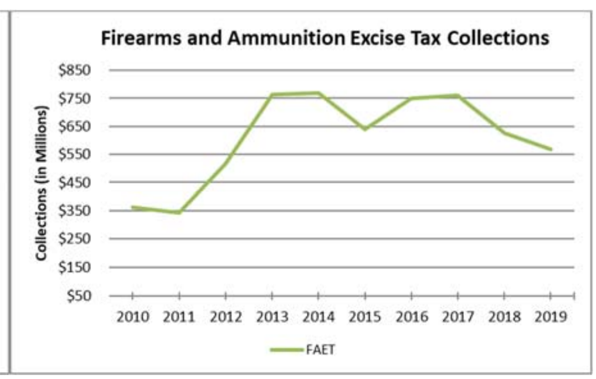
Other resources that fund this budget activity include unobligated balances from the prior year appropriation; reimbursement for the operating costs of TTB's Puerto Rico field office, which are offset against the roughly $450 million in taxes collected on the alcohol beverage products that are manufactured 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:*

TTB combines measures and indicators to demonstrate the effectiveness and efficiency with which TTB operates its tax administration function, including through facilitating voluntary compliance as well as field enforcement efforts to address critical threats to Federal revenues. Through FY 2021, TTB's plans to improve tax compliance include updating its tax filings, processes, and technologies; enhancing its capacity to timely identify and address non-compliance through analytics and other detection tools; and continuing to improve taxpayer education and outreach.

The *Amount of Revenue Collected per Program Dollar* indicator uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2019, TTB achieved a return on investment of $339 for every program dollar spent on collection activities. The year-to-year decline represents continued decreases 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 is also trending down, likely due to the recent tax reform legislation that lowered effective tax rates across all commodities and expanded eligibility for reduced rates and credits, currently in effect through December 31, 2020. In total, revenue collections are down 4 percent between FY 2018 and FY 2019; however, the full impact of these provisions may not yet be known. Going forward, TTB will continue to monitor its return on investment for its Collect the Revenue activities as a key indicator, with the negative collections trend likely to continue into FY 2020 based on historical data and other external factors.

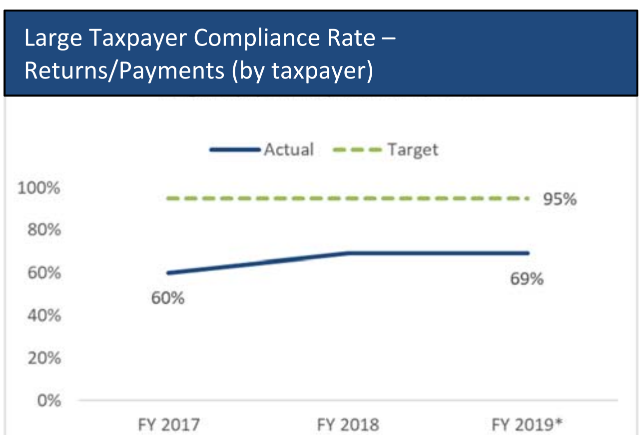


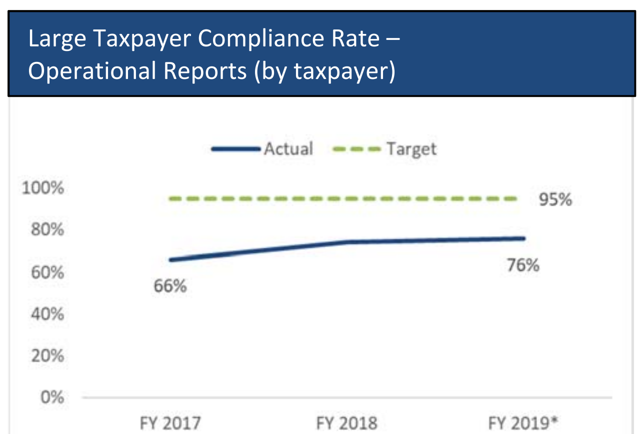




As the most efficient means of tax collection, fostering voluntary compliance among taxpayers is a primary tax administration strategy for TTB. The *Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns and Payments Timely* is a key performance metric that shows the rate of compliance by large taxpayers (i.e., those that pay more than $50,000 in annual taxes) in voluntarily filing their required tax returns and payments on or before the scheduled due date. In FY 2019, TTB revised its method for this metric and added a new measure of the *Percent of Voluntary Compliance from Large Taxpayers in Filing Operational Reports Timely*. Under the new measure methodology, TTB evaluates filing compliance at the taxpayer level, rather than on a per filing basis, using multiple compliance factors and strict tolerances based on revenue exposure. A taxpayer must meet all factors to be considered compliant for the year. TTB plans to use this information to take a risk-driven enforcement approach based on significant patterns of non-compliance with filing requirements.

In FY 2019, TTB achieved a compliance rate of 69 percent from its large taxpayers in filing required tax returns and payments, and a compliance rate of 76 percent from its large taxpayers in filing required operational reports, both of which fell below the performance target of 95 percent. Results for FY 2019 are actual values through Q3 FY 2019 (due to data latency issues resulting from the high volume of paper filings). Although TTB analysis indicates that this trend does not represent a significant revenue risk, as late filings represent the majority of the compliance violations, non-compliance undermines the level playing field, which is particularly critical for the small producers who comprise the majority of TTB taxpayers.

Improving voluntary compliance rates has proven challenging given the recent growth in the industries TTB regulates. In the last five years, the number of TTB taxpayers has increased over 60 percent, which has created additional workload and enforcement challenges in maintaining industry compliance, particularly in light of recent tax reforms. This growth has cut across industry types, with the most significant increases in small businesses entering the alcohol industry. Over time, with resource challenges, TTB outreach efforts to educate industry members on tax requirements have also decreased. More recently, TTB has also faced competing enforcement priorities, including renewed efforts to address illicit trade practice activity in the alcohol industry, with directed funding for this purpose enacted in TTB's budgets in FY 2017 – FY 2019.




*Estimated result based on data through Q3 FY 2019 due to data latency issues with paper filings

In fiscal years 2020-2021, improving compliance rates will remain a priority for TTB. At the requested funding level, plans through FY 2021 include refining TTB's procedures for risk-based reviews of taxpayer accounts, which will include the integration of new analytics tools into internal processes to address identified non-compliance. Over the next several years, TTB also plans to improve its education and outreach strategies to drive compliant behavior across TTB taxpayers, including publishing new online guidance and tools.

In FY 2019, to facilitate the alcohol industry's understanding of and compliance with new tax provisions signed into law under the TCJA, TTB maintained a dedicated section on TTB.gov to provide Frequently Asked Questions to respond to questions received from industry. As part of a coordinated outreach strategy, TTB updated the website on a rolling basis as additional guidance was available, which was also promoted through the TTB newsletter, feature articles on TTB.gov, and interviews with industry press and trade associations. In FY 2020, to support industry compliance, TTB will continue to actively manage its online guidance to provide current information on rules and requirements in response to any Congressional action to extend the craft beverage modernization provisions beyond December 31, 2020.

TTB will also focus on improving tax compliance through developing the integrated, modernized system supported by the FY 2021 budget request. TTB relies on Pay.gov, a Bureau of the Fiscal Service system designed for government payments, for the electronic filing of tax returns and operational reports. TTB's two measures to monitor the *Electronic Filing Rates for Tax Returns* and *Operational Reports* in Pay.gov support ongoing efforts to reduce paper filings. E-filing rates for tax returns and operational reports remain well below target, especially compared to other TTB e-filing systems. These low rates – which ended the year at 41 percent of tax returns and 46 percent of operational reports submitted electronically – impede TTB's ability to timely and effectively detect and address non-compliance and add costs to making the data available for routine reconciliation and advanced analytics. Additional Pay.gov promotion may improve e-filing rates in the near term to achieve its FY 2020 target of 50 percent, although more significant tax system modernization is likely required for TTB to reach its FY 2021 target of 60 percent.

At the FY 2021 funding level, and informed by ongoing process improvement efforts, TTB intends to continue implementing phased releases to its tax system, including developing a custom external interface for electronic tax filings to increase e-filing rates and enhancing internal workflows to support TTB tax administration. In FY 2019, TTB deployed system releases to increase automation and address inefficiencies related to posting paper tax filings and amended tax returns, which are time-intensive, manual processes. Combined, these releases allow for more timely detection of non-compliance and enable TTB specialists to focus on higher priority, analytical work rather than manual processes.

In addition, in FY 2019, due to the labor-intensive nature of TTB's current tax administration processes, and to ensure that the resources dedicated to tax administration are commensurate with revenue risk, TTB initiated a broad-based evaluation of its tax return and operational report requirements. The evaluation generated recommendations to significantly decrease the amount of information collected as well as the frequency with which it is collected, reducing burden on industry and TTB in line with the President's Management Agenda. The evaluation also included recommendations to address increased underreporting risks created by new tax reform provisions, which have been extended through December 31, 2020. This multi-year initiative will continue through FY 2021 to fully implement the required form and regulatory updates to achieve substantial burden reductions. These efforts should also boost overall tax compliance, particularly if developed in tandem with the planned modernization of TTB's tax systems.

Effective TTB tax administration also requires taking a data-driven approach to timely identifying potential tax evasion and fraud, which is even more critical in light of recent tax reform legislation. At present, resource-intensive manual analysis and reconciliation of multiple reports and returns, in combination with other data sources, by specialists, auditors, and investigators are required to detect and address high-risk activity. In fiscal years 2020 and 2021, TTB will focus on enhancing its analytics tools to facilitate TTB's use of its tax information, in combination with other data sources such as import and export data, to more effectively target its limited resources to known evasion schemes, particularly those involving the cross-border trade in alcohol and tobacco products, which poses a significant risk to Federal revenues.

Given the amount of import-related data that has become available in recent years through the International Trade Data System (ITDS) – and the new revenue risks posed by the import-related provisions of the recent tax reform legislation – TTB focused its data-driven enforcement efforts in FY 2019 on imported alcohol and tobacco products. In FY 2019, TTB made progress in mining this data and enhancing its analytics tools to detect illicit activity, such as importers operating without a TTB permit and importers misclassifying or underreporting entries of alcohol and tobacco products to CBP to evade excise taxes.

In fiscal years 2020-2021, TTB will continue its efforts to improve import enforcement using ITDS data, including in conjunction with CBP's Commercial Targeting and Analysis Center (CTAC), to detect and address the misclassification of imports to evade taxes. CTAC is an interagency center that provides access to a wide range of data sources about imports and exports, including real-time data on the cross-border trade of TTB-regulated products. Through FY 2021, TTB also plans to ensure continued coordination with CBP, including through the exchange and use of the data needed by both agencies to ensure that domestic and foreign producers are not improperly paying reduced tax rates or receiving credits on quantities exceeding those allowed by law.

## 2.1.2 – Protect the Public Resources and Measures

Dollars in Thousands

| Resource Level | FY 2015 Actual | FY 2016 Actual | FY 2017 Actual | FY 2018 Actual | FY 2019 Actual | FY 2020 Enacted | FY 2021 Request |
|---|---|---|---|---|---|---|---|
| Appropriated Resources | $47,279 | $53,654 | $57,879 | $57,879 | $60,744 | $62,087 | $63,751 |
| Unobligated Balances from Prior Years | $109 | $170 | $125 | $4,166 | $4,865 | $4,476 | $3,783 |
| Transfers In/Out | $0 | $0 | $0 | $87 | $0 | $0 | $0 |
| Offsetting Collections and Reimbursables | $2,451 | $2,577 | $2,637 | $2,366 | $2,666 | $3,261 | $3,261 |
| **Protect the Public Total** | **$49,839** | **$56,401** | **$60,641** | **$64,498** | **$68,275** | **$69,824** | **$70,795** |
| **FTE Total (Direct and Reimbursable)** | **243** | **246** | **265** | **273** | **282** | **288** | **286** |

The FY 2015 - FY 2019 appropriated resources represents the approved operating plan. The FY 2015 - FY 2019 columns represent realized resources for full-time equivalents, reimbursables, and user fees.

| Performance Measure | FY 2015 Actual | FY 2016 Actual | FY 2017 Actual | FY 2018 Actual | FY 2019 Actual | FY 2019 Target | FY 2020 Target | FY 2021 Target |
|---|---|---|---|---|---|---|---|---|
| Percentage of Permit Applications Processed within Service Standards (75 days) | 47 | 32 | 48 | 71 | 58 | 85 | 85 | 85 |
| Initial Error Rate for Permit Applications 1/ | 77 | 81 | 83 | 80 | 71 | 25 | 25 | 25 |
| Percent of Electronically Filed Permit Applications 2/ | 85 | 81 | 85 | 87 | 89 | 87 | 90 | 90 |
| Customer Satisfaction Rate with eGov Systems - Permits Online | 64 | 54 | 68 | 77 | 68 | 80 | 80 | 80 |
| Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards (15 days) 3/ | 80 | 80 | 62 | 84 | 48 | 85 | 85 | 85 |
| Initial Error Rate for Label and Formula Applications | 42 | 44 | 43 | 40 | 37 | 25 | 25 | 25 |
| Percent of Electronically Filed Label and Formula Applications | 94 | 97 | 98 | 98 | 99 | 95 | 95 | 95 |
| Customer Satisfaction Rate with eGov Systems - COLAs Online | 71 | 74 | 82 | 81 | 77 | 80 | 80 | 80 |
| Customer Satisfaction Rate with eGov Systems - Formulas Online 4/ | 48 | 58 | 70 | 79 | 70 | 80 | 80 | 80 |

1/ Result for FY 2019 likely lower than reported due to a data quality issue in Q4 based on the incorrect application of "corrections" status on certain permit applications.

2/ Revised actuals for prior years due to data quality review and cleanup of data source.

3/ 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.

4/ Revised actual for FY 2018 due to error in calculation; results represent beverage alcohol formula filers only (nonbeverage alcohol formula filers are excluded)

### Protect the Public Budget and Performance

*($63,751,000 from new direct appropriations, $3,783,000 from unobligated balances from the prior year, and $3,261,000 from reimbursable sources)*:

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 100,000 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…....…………………….....……………………………………$7,044,000**
*Unobligated Balances from the Prior Year…………………………………………….$3,783,000*
*Offsetting Collections/Reimbursables…………………………………………..….. $3,261,000*
Other resources that support this budget activity include unobligated balances from the prior year appropriation; reimbursement for the operating costs of the TTB Puerto Rico field office, which are offset against the roughly $450 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*:
TTB uses a combination of measures to monitor the degree to which the bureau is meeting its established service standards 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; and the level of satisfaction that industry members have with TTB's online systems. TTB's strategies to achieve its performance targets for these measures include a combination of improving internal processes, modernizing its IT systems, streamlining application requirements, and providing clearer guidance to industry members.

TTB monitors its timeliness in processing 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. In recent years, the volume of submissions, particularly in the more complex application types related to producing alcohol beverage products, has caused approval times to increase. Approval times spiked to an average of 122 days in FY 2016, and over 200 days for alcohol producer applications, creating potential financial hardships for these applicants. TTB started to reduce approval times in FY 2017 and, to build on these performance improvements, TTB and Treasury established a two-year Agency Priority Goal (APG) for FY 2018 – 2019 to improve the timeliness and consistency of service levels by reducing average processing times for new permit applications by 20 percent and achieving its service standard for 85 percent of applicants.
TTB met one of its two APG targets by the end of FY 2019, reducing average approval times by 20 percent from 96 days in FY 2017 to 75 days in FY 2019. However, TTB fell short of its second target to achieve the 75-day service standard for 85 percent of permit applicants. During the 35-day partial government shutdown, with industry continuing to file for Federal permit approval, the backlog of pending applications continued to increase and age. As a result, for FY 2019, TTB issued 58 percent of permit applications within its 75-day service standard.

Through focused recovery efforts, TTB made significant progress in the second half of the fiscal year in reducing the backlog of pending applications, from a high of nearly 3,000 applications in February 2019 to approximately 1,500 at year-end. These improvements brought down original application processing times for alcohol manufacturers from post-shutdown peaks of over 100 days, with TTB achieving an average of 84 days for FY 2019 for wineries, breweries, and distilleries. TTB ended the fiscal year with 68 percent of applications issued within 75 days in September 2019, which positions TTB to achieve this priority goal target in FY 2020.

Achieving and sustaining these performance improvements in FY 2020 and beyond will remain a challenge. With priority attention placed on reducing backlogs, TTB had to delay many of its crosscutting initiatives in FY 2019 to improve its permitting business processes. These initiatives will continue into next year and, through FY 2021, TTB will focus on achieving its performance target through Permits Online system enhancements and continued process improvements. These include implementing new permit application dashboards that display key metrics on the status and age of pending applications to support effective management of pending applications. TTB will also continue to update its procedures to screen permit applicants, refining the risk criteria, tools, and procedures used to vet applicants for suitability to hold a Federal permit. In fiscal years 2020 and 2021, TTB will continue to use the results of its field investigations to inform its risk factors to improve the timeliness and effectiveness of its business qualification process.

TTB measures the *Initial Error Rate on Permit Applications*, which tracks how many applications are submitted either incomplete or with errors, to develop directed strategies to maintain timely service by increasing the number of first-time permit application approvals. Errors increase the overall workload volume, requiring extensive back-and-forth with applicants to ensure the application is complete and verified, which adds to the total processing time. Over the last five years, TTB's ability to meet its service standard for new permit applications has been challenged by high error rates, which had persistently remained around 80 percent. Error rates are much higher for prospective breweries, wineries, and distilleries, which have more complex applications compared to non-manufacturers (i.e., wholesalers and importers). With the release of the redesigned Permits Online system and publication of extensive online guidance in FY 2018, as well as the permit application changes implemented to date, TTB was able to bend the curve on the high volume of applications submitted with errors. For FY 2019, the error rate on permit applications decreased to 71 percent, with improvements achieved across most application types.

Further, to improve both error rates and approval times, TTB continued to work with experts in Treasury to implement recommendations from a Lean Six Sigma review of its process for returning permit applications for corrections. In FY 2019, TTB piloted new tools and procedures to streamline the application return process and standardize internal procedures. In fiscal years 2020 and 2021, to continue making progress toward its target of 25 percent, TTB will finalize implementation of the identified process improvements, including increased standardization, effective workload balancing, and system enhancements, to provide greater consistency in reviews and improve industry interactions with TTB.

According to its measure of the *Percent of Electronically Filed Permit Applications*, which tracks the electronic filing rate for new business applications, TTB received 89 percent of permit applications via Permits Online in FY 2019. TTB attributes the year-to-year increase to TTB.gov improvements following the July 2018 release of the redesigned Permits Online system, which provided improved guidance for first-time filers to help them navigate the application process. These system changes, combined with the extensive outreach and online training for industry provided with the release, will support TTB in achieving its FY 2020 and FY 2021 targets of achieving and sustaining an electronic filing rate of 90 percent or greater and reducing the initial error rate on permit applications to 25 percent.

In alignment with its strategy to optimize its electronic filing systems, TTB measures *Customer Satisfaction with the Permits Online eGov System* through an e-mail survey to assess how satisfied businesses are in applying for a permit or registration through Permits Online. In FY 2019, system satisfaction rates decreased 9 percent, from 77 percent in FY 2018 to 68 percent in FY 2019. Notably, satisfaction rebounded significantly in Q4 FY 2019 to 73 percent, which correlates with improved permit approval times later in the year. Although still below the annual target of 80 percent, TTB expects the positive trend to continue in line with overall improvements in service levels, and as TTB initiates broader IT system modernization efforts in FY 2020 and FY 2021 to provide applicants with an integrated online filing experience. TTB will also focus on improving the level of service provided to customers seeking live assistance with the permit application process via TTB's call center.

Broader changes to TTB's application requirements, some of which will require rulemaking, are underway and may need to be fully implemented before TTB can achieve and sustain its targeted performance levels for FY 2020 and 2021. These actions are being informed by industry proposals submitted in response to the Department of the Treasury's June 2017 Request for Information, which asked the public to submit views and recommendations for Treasury regulations that can be eliminated, modified, or streamlined to reduce burdens. In FY 2019, TTB continued to make progress towards simplifying and streamlining its permit applications. Using a multi-disciplinary team, TTB evaluated its permit requirements and developed recommendations to modernize and streamline applications based on TTB's statutory responsibilities and enforcement needs. In FY 2019, TTB continued to implement application changes to reduce filing burden and, to date, has significantly shortened the Personnel Questionnaire and eliminated a number of application questions and required supporting documentation for many permit types.

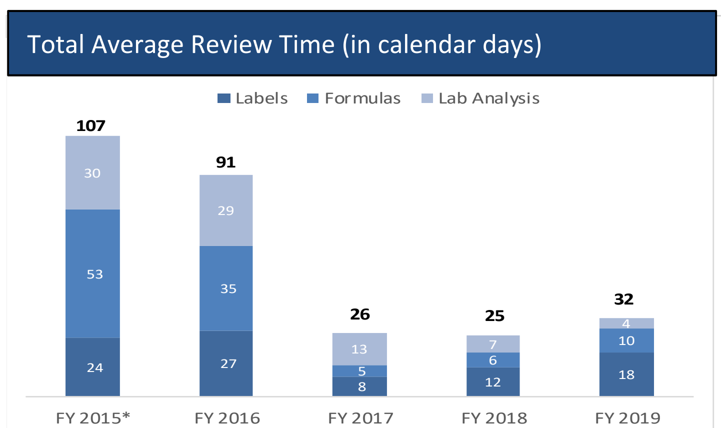
These efforts will carry forward into FY 2020, with ongoing evaluation of options to simplify the Federal permitting and registration process by reducing open text fields and requirements to upload supporting documentation, including those changes that can be implemented in advance of rulemaking. TTB intends to propose rulemaking in FY 2020 for more significant modifications to the permit application process, with the aim of substantial burden reductions both for industry and TTB in FY 2021. In addition to reducing compliance burdens, a key priority on the President's Management Agenda, simplifying and clarifying TTB's regulatory requirements should also result in a reduced volume of initial permit applications submitted with errors, which would contribute to improved approval times.

Given the importance of timely TTB approvals for alcohol beverage product labeling 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.

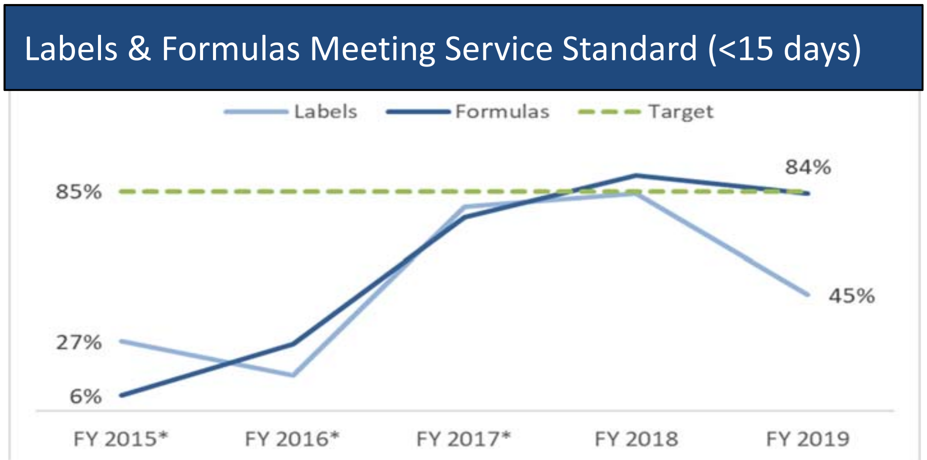
Significant increases in label and formula submissions that began late in FY 2017 continued in FY 2019, with TTB receiving nearly 199,000 label applications and well over 20,000 formula applications, reflecting the ongoing expansion and product innovation within the alcohol beverage industry. In just the last two years, submission volume has increased nearly 20 percent for labels and nearly 40 percent for formulas. Innovation in the craft beer and spirits sectors continues to drive growth in label applications, with an increase of approximately 10 percent for malt beverage and distilled spirits applications in FY 2019. Although all alcohol beverage commodities contributed to the increase in formula submissions, wine and malt beverage submissions increased at the fastest rate, up roughly 35 percent compared to last year, based on the use of innovative ingredients and market trends toward flavored products including cider, mead, and malt beverages.

In light of customer expectations, as well as planned process improvements supported by funding enacted in the FY 2019 budget directed toward accelerating approval times, TTB maintained its service standards for beverage alcohol labels and formulas at 15 days in FY 2019. Despite increased submission volume, the formulation area rebounded quickly from the government shutdown to reach targeted performance levels, and ended the year at 84 percent of formula applications meeting the 15-day standard, nearly meeting the target of 85 percent. This was achieved through effective monitoring and management of the application backlog combined with strategic workforce management to efficiently deploy staffing. However, despite employing similar strategies, label performance fell short of target in FY 2019. While TTB began the fiscal year with 85 percent of label applications meeting the 15-day service standard, results in subsequent quarters fell well below target and trended negatively quarter-to-quarter, with just 45 percent meeting the 15-day service standard as of year-end. Staffing turnover in labeling specialists coupled with the year-over-year increase in application submissions contributed to the challenges in recovering from the government shutdown. TTB expects results to trend positively in FY 2020 as backlogs are cleared through continuous queue management and strategic resource alignment. As a result, TTB expects to maintain its 15-day service standard for label and formula applications, and will work toward its FY 2020 and FY 2021 targets of meeting this standard for 85 percent of applications through strategic initiatives



*Estimated values

to upgrade online systems and guidance, with particular focus on reducing application errors that increase total workload and challenge timely processing.




*Adjusted historic data to reflect the 15-day service standard for FY 2018 to support trend analysis; see Part II, Goal 2 performance table for performance levels at annual service standards

Application errors are a key driver of label and formula processing times, as additional review is required for each resubmitted application. TTB relies on its measure of the *Initial Error Rate of Label and Formula Applications* to monitor error trends and evaluate the effect of system and guidance enhancements on first-time approvals. In FY 2019, approximately 37 percent of label and formula applications were submitted incomplete or with errors, falling short of the targeted performance level of 25 percent, although demonstrating year-to-year progress. TTB has continued to use a data-driven strategy to address frequent application errors, with the goal of increasing the number of applications that do not need to be returned for correction. In FY 2019, TTB implemented a new “conditionally approved” status in COLAs Online, enabling industry to accept minor technical changes to a label application without requiring a resubmission. Results indicate that the changes implemented to date have proven effective, with error rates dropping below 40 percent, and down 7 percent for formulas and 6 percent for labels since Q1 FY 2018.

In FY 2020 and FY 2021, at the requested funding level, TTB intends to reduce error rates by expanding and improving system-based validations and online guidance features. These include detailed examples of compliant label and formula submissions by commodity as well as web-based tools to make it easier for industry members to determine if their products require TTB formula approval. TTB also plans to continue to engage with industry trade associations to enhance its strategies for reducing targeted application errors. Further, TTB intends to update the information on processing times available to industry on TTB.gov, which will publish TTB’s service standards to external customers and provide data on how error rates negatively affect processing times to incentivize correct submissions.

In addition, TTB continued its initiative to modernize Federal alcohol beverage labeling regulations to reflect current TTB policy and modern industry practices. In FY 2019, TTB published a notice of proposed rulemaking intended to consolidate, clarify, and simplify labeling requirements, which received approximately 1,200 industry comments. Through this rulemaking, TTB is seeking to provide additional guidance to industry that, combined with proposed burden-reducing measures, should contribute to more complete and accurate label and formula applications. TTB anticipates proceeding with final rulemaking in FY 2020 to codify certain proposals that are liberalizing and received broad industry consensus.

To be successful in these strategies, TTB must maintain high rates of electronic filing for label and formula applications. According to its measure of the *Percent of Electronically Filed Label and Formula Applications*, TTB now receives 99 percent of applications via COLAs Online and Formulas Online, indicating that continued focus on system validations is warranted and will support performance goals in increasing accurate applications and accelerating approval times. Going forward, at the FY 2021 requested funding level, TTB will continue to make iterative enhancements to COLAs Online and Formulas Online, informed by user testing and feedback, which will support advanced help features and system-based validations to reduce application errors.

System updates released in FY 2019 appear to have had limited influence on user satisfaction with TTB's electronic filing systems. Through its new measures of *Customer Satisfaction with COLAs Online* and *Customer Satisfaction with Formulas Online*, TTB monitors user satisfaction with the process of submitting an application through its eGov systems, collecting responses via e-mail survey to assess factors such as ease of access, guidance, and overall experience. In FY 2019, satisfaction rates decreased significantly, from 81 percent to 77 percent for COLAs Online users and 79 percent to 70 percent for Formulas Online users. TTB attributes these declines to industry dissatisfaction with increased processing times and other service challenges following the partial government shutdown, and anticipates that performance will improve through FY 2020 in line with service improvements. Further, TTB expects that planned system improvements and regular review of survey feedback in FY 2020 and FY 2021 will help TTB reach and sustain its user satisfaction target of 80 percent and continue to attract users to its online systems to maintain electronic filing rates above its target of 95 percent.

**C – Changes in Performance Measures**
TTB has no proposed changes to its performance measures.

**D – Evidence-Building Activity**
Through its Balanced Scorecard strategic management framework, TTB maintains a culture of continuous improvement that employs data to direct strategy, inform policy, and drive innovation to improve program delivery.

<u>Implementation of Craft Beverage Modernization Tax Reform Provisions</u>: Since the Craft Beverage Modernization and Tax Reform provisions of the TCJA took effect in January 2018, TTB has engaged in a data-driven enforcement approach, in coordination with CBP, to address the near-term revenue risk posed by the tax reform import-related provisions. In FY 2019, TTB focused its efforts on developing analytic tools using its tax data in conjunction with the information available through the International Trade Data System to timely detect imports improperly taking reduced rates or tax credits at the time of entry.

In FY 2020, with the extension of the craft beverage modernization provisions to December 31, 2020, TTB plans to further improve cooperation and information sharing with CBP to identify methods to timely detect and address potential issues, with a particular emphasis on maintaining oversight of controlled groups containing both domestic and foreign producers to ensure that the applicable reduced rate and tax credit limitations are not exceeded. TTB will also continue to leverage interagency partnerships, such as CBP's Commercial Targeting and Analysis Center, to increase the number and effectiveness of its analytics-driven cases, including through use of real-time data on the cross-border trade of TTB-regulated products to identify potential tax evasion and flag shipments for inspection by CBP at the ports.

Federal Permit/Registration/Notice Requirements: In FY 2019, TTB continued its evaluation of Federal application requirements for alcohol importers, wholesalers, and manufacturers and tobacco wholesalers and manufacturers. TTB used a multi-disciplinary team to conduct an internal evaluation of current permit application requirements to determine areas that could be eliminated or modified to reduce burden on industry and TTB without impeding effective screening and qualification processes to protect Federal revenues. Throughout the evaluation, TTB relied on interviews with subject matter experts as well as data, including application error rates and areas of frequent noncompliance in field investigations, to inform its analysis and recommendations. To date, several burden-reducing measures have already been implemented, with additional interim updates planned for FY 2020 until more significant changes can be made following the completion of planned rulemaking.

Federal Alcohol and Tobacco Tax Requirements: In FY 2019, TTB completed an initial evaluation of its tax return and operational report filing requirements. At present, resource-intensive manual analyses and reconciliation of multiple reports and returns, in combination with other data sources, are required to detect and address high-risk activity. TTB used a multi-disciplinary team to review its tax filings to lessen burden on industry while improving the information available to TTB for tax administration and incorporation into advanced analytics and other tools. The evaluation generated recommendations to significantly reduce requirements to decrease both the amount of information collected as well as the frequency with which it is collected. The evaluation also included recommendations to address increased risks to underreporting caused by recent tax reform provisions, recently extended to December 31, 2020. This multi-year initiative, which TTB will continue through FY 2021, will require form and regulatory updates to fully implement.

## 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 investments, including major information technology and non-technology investments, can be accessed at: https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/budget-requestannual-performance-plan-and-reports/summary-of-capital-investments.