

## Alcohol and Tobacco Tax and Trade Bureau

### Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2019	FY 2020	FY 2021	FY 2020 to FY 2021	
	Operating Plan 1/	Enacted	Request	\$ Change	% Change
Collect the Revenue	\$58,856	\$57,513	\$62,086	\$4,573	7.95%
Protect the Public	\$60,744	\$62,087	\$63,751	\$1,664	2.68%
<b>Subtotal, TTB</b>	<b>\$119,600</b>	<b>\$119,600</b>	<b>\$125,837</b>	<b>\$6,237</b>	<b>5%</b>
Unobligated Balances Brought Forward 2/	\$5,079	\$4,601	\$3,908	(\$693)	-15.05%
Transfers In/Out 3/	\$597	\$0	\$0	\$0	NA
Offsetting Collections - Reimbursable 4/	\$6,239	\$7,437	\$7,437	\$0	0.00%
<b>Total Program Operating Level</b>	<b>\$131,515</b>	<b>\$131,638</b>	<b>\$137,182</b>	<b>\$5,544</b>	<b>4%</b>
Direct FTE	485	502	508	6	1.20%
Reimbursable FTE	10	10	10	0	0.00%
<b>Total Full-time Equivalents (FTE)</b>	<b>495</b>	<b>512</b>	<b>518</b>	<b>6</b>	<b>1.17%</b>

1/ FY 2019 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.

### Summary

The Alcohol and Tobacco Tax and Trade Bureau (TTB) serves as the nation's primary Federal authority in the taxation and regulation of the alcohol and tobacco industries. TTB is responsible for the administration and enforcement of the Internal Revenue Code provisions for excise taxes on alcohol, tobacco, firearms, and ammunition, and the Federal Alcohol Administration Act, which provides for the regulation of the alcohol beverage industry to protect U.S. consumers and ensures a fair and competitive marketplace for U.S. businesses.

In FY 2021, TTB will continue to focus on enforcing compliance with alcohol, tobacco, firearms, and ammunition laws and regulations in the interest of collecting all appropriate excise taxes and promoting a marketplace for alcohol beverages that complies with Federal production, labeling, advertising, and marketing standards. The FY 2021 President's Budget request enables TTB to improve service levels for permitting and alcohol beverage labeling as well as tax administration and enforcement outcomes through investments in information technology (IT) modernization. Leveraging technology, a key tenet of the President's Management Agenda, TTB will prioritize plans to simplify and streamline the filing and processing of TTB tax returns and required reports to improve voluntary compliance and support enhanced analytics to detect underreporting and fraud. These modernization efforts are critical to protect Federal revenue and preserve a level playing field for industry 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, Federal revenues have declined, with the full impact not yet known. Enforcement will continue to pose significant challenges and, with regards to imported products, will require TTB to continue its extensive coordination with U.S. Customs and Border Protection.

Further, 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 to TTB. The FY 2021 request supports an initial investment of \$1.5 million in start-up costs 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 enforcement model will provide positive returns in terms of increased revenues and reduced criminal activity. This investment will require tradeoffs across TTB’s enforcement programs. 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.

***Budget Highlights***

Dollars in Thousands

	FTE	Amount
<b>FY 2020 Enacted</b>	<b>502</b>	<b>\$119,600</b>
<b>Changes to Base:</b>		
Maintaining Current Levels (MCLs):	0	\$2,748
Pay Annualization (2020 3.1% average 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
<b>FY 2021 Current Services</b>	<b>508</b>	<b>\$123,248</b>
<b>Program Changes:</b>		
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
<b>FY 2021 President’s Budget Request</b>	<b>508</b>	<b>\$125,837</b>

***Budget Adjustments***

**Adjustments to Request**

**Maintaining Current Level (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 submission 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.

## Legislative Proposals

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.

## Performance Highlights

Budget Activity	Performance Measure	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
		Actual	Actual	Actual	Target	Target
Collect the Revenue	Amount of Revenue Collected Per Program Dollar	406	369	339	N/A	N/A
Collect the Revenue	Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns/Payments Timely (by filing) 1/	85	85	DISC	DISC	DISC
Collect the Revenue	Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns/Payments Timely (by taxpayer) 1/	60	69	69	95	95
Collect the Revenue	Percent of Voluntary Compliance from Large Taxpayers in Filing Operational Reports Timely (by taxpayer) 1/	66	74	76	95	95
Collect the Revenue	Percent of Electronically Filed Tax Returns - Pay.gov 2/	35	37	41	50	60
Collect the Revenue	Percent of Electronically Filed Operational Reports - Pay.gov	40	42	46	50	60
Protect the Public	Percentage of Permit Applications Processed within Service Standards (75 days)	48	71	58	85	85
Protect the Public	Initial Error Rate for Permit Applications 3/	83	80	71	25	25
Protect the Public	Percent of Electronically Filed Permit Applications 4/	85	87	89	90	90
Protect the Public	Customer Satisfaction Rate with eGov Systems - Permits Online	68	77	68	80	80
Protect the Public	Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards (15 days) 5/	62	84	48	85	85
Protect the Public	Initial Error Rate for Label and Formula Applications	43	40	37	25	25
Protect the Public	Percent of Electronically Filed Label and Formula Applications	98	98	99	95	95
Protect the Public	Customer Satisfaction Rate with eGov Systems - COLAs Online	82	81	77	80	80
Protect the Public	Customer Satisfaction Rate with eGov Systems - Formulas Online 6/	70	79	70	80	80

Key: DISC - Discontinued

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.

3/ 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.

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

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

## *Description of Performance*

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During FY 2019, TTB met or exceeded the performance targets for 1 of its 13 performance measures, which includes two new measures of timely tax filing compliance to support data-driven decision making in support of TTB's mission. The bureau will continue to monitor its annual business plan and use performance information to improve the effectiveness of its programs. TTB's strategies to achieve its performance targets in the years ahead include a combination of improving internal processes, modernizing IT systems, simplifying and streamlining application requirements, and enhancing guidance to industry members.

TTB's Collect the Revenue budget activity includes all tax processing, verification, enforcement, and outreach efforts related to administering the Federal excise tax on alcohol, tobacco, firearms, and ammunition products. In ensuring 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 and ensure all products sold in the marketplace are properly taxpaid. In FY 2019, TTB collected excise taxes totaling nearly \$20 billion, comprised of \$11 billion for tobacco products, \$8 billion for alcohol beverage products, and \$567 million for firearms and ammunition. This budget activity supports 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 investments in the Collect the Revenue activity resulted in the following performance highlights and accomplishments during FY 2019:

- TTB collected nearly \$20 billion in excise taxes and other revenues from a tax base of nearly 32,000 taxpayers in the alcohol, tobacco, firearms, and ammunitions industries. In FY 2019, TTB returned \$339 for every dollar invested in its tax collection activity.
- TTB's two measures of electronically filed tax returns and operational reports indicate that less than half of TTB tax submissions are submitted to TTB via Pay.gov, the current online system for electronic submissions. High rates of paper filings make compliance monitoring and fraud detection more difficult and costly. The IT system investment requested for FY 2021 will drive increased electronic tax filing rates, which will support more accurate, timely, and complete submissions as well as improved access to data for TTB tax verification and analysis.
- In FY 2019, under two new measures of compliance rates in timely filing tax returns and operational reports, TTB achieved a compliance rate of 69 percent for returns and 76 percent for reports from its large taxpayers (i.e., those that pay more than \$50,000 in annual taxes), which fell below the performance target of 95 percent. Increasing voluntary compliance by taxpayers in recent years has been a challenge, as existing technology, processes, and requirements have not kept pace with continued industry growth and expansion. In the last five years, the number of TTB taxpayers has increased 60 percent, and increasingly includes more recent permittees who may be less familiar with TTB's statutory and regulatory requirements. Non-compliance undermines the level playing field, which is especially critical for small producers who comprise the majority of TTB taxpayers. The FY 2021 request supports the IT system and analytics enhancements that would enable TTB to more efficiently detect and address these issues.

TTB's Protect the Public 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 nearly 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.

The investments in the Protect the Public activity resulted in the following performance highlights and accomplishments during FY 2019:

- TTB received approximately 199,000 label applications and 20,000 formula applications, which reflects the ongoing expansion of the alcohol beverage industry. Federal law prohibits the import or domestic bottling of an alcohol beverage without an approved label, making this service integral to U.S. businesses. TTB continues to face performance challenges due to increased submission volume, which increased approximately 20 percent for label applications and 40 percent for formula applications in the last two years. Despite concerted recovery efforts following the partial government shutdown, TTB fell short of its FY 2019 performance target to process 85 percent of label and formula applications within its 15-day service standard, although TTB nearly achieved the target for formula applications at 84 percent. TTB also achieved a 99 percent electronic filing rate for alcohol beverage label and formula applications.
- TTB received approximately 7,800 applications for a Federal permit or registration, and qualified approximately 6,500 new businesses, predominantly small businesses. A TTB permit or registration is required before a business can lawfully operate in the alcohol and tobacco industries, and TTB ensures a fair and lawful marketplace by screening permit applicants to ensure only qualified persons engage in operations. 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, although TTB fell short of its second target to achieve the 75-day service standard for 85 percent of permit applicants. During the partial government shutdown, with industry continuing to file for Federal permit approval, the application backlog 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 progress in the second half of the fiscal year and is positioned to achieve this priority goal target in FY 2020. TTB also achieved an 89 percent electronic filing rate for permit applications.
- TTB made significant progress in reducing the error rate on initial permit, label, and formula applications, a critical strategy to maintaining timely service, although performance remains well above the targeted rate of 25 percent, at 71 percent for permit applications and 37 percent for label and formula applications. Improvements in FY 2019 were driven by system enhancements and online guidance. Performance in permitting is expected to continue to improve following planned enhancements to the Permits Online system and completion of planned rulemaking to implement broader changes to TTB permit applications. TTB will also continue to pursue system-based validations and user guidance to reduce label and formula

application errors. System enhancements to date have resulted in high rates of customer satisfaction with TTB's eGov systems, although service delays following the partial government shutdown contributed to system satisfaction rates trending away from the 80 percent target in FY 2019.