

Alcohol and Tobacco Tax and Trade Bureau

Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2021	FY 2022	FY 2023	FY 2022 to FY 2023	
	Operating Plan ¹	Annualized CR	Request	\$ Change	% Change
Collect the Revenue	\$57,526	\$57,526	\$77,821	\$20,295	35.28%
Protect the Public	\$66,811	\$66,811	\$73,042	\$6,231	9.33%
Subtotal, TTB	\$124,337	\$124,337	\$150,863	\$26,526	21.33%
Reimbursable and Offsetting Collections ²	\$7,072	\$7,880	\$7,880	\$0	0.00%
Unobligated Balances from Prior Years ³	\$4,611	\$4,824	\$4,450	(\$374)	-7.75%
Transfers In/Out 4/	\$1,087	\$838	\$0	(\$838)	NA
Total Program Operating Level	\$137,107	\$137,880	\$163,194	\$25,314	18.36%
Direct FTE	487	508	548	40	7.87%
Reimbursable FTE	14	12	12	0	0.00%
Total Full-time Equivalents (FTE)	501	520	560	40	7.69%

¹FY 2021 Resources by Budget Activity reflect levels appropriated in P.L. 116-260, the Consolidated Appropriations Act of 2021. FY 2021 Full-time Equivalents (FTE) and FY 2021 Other Resources reflect actuals.

²Includes reimbursements from the Treasury Executive Office of Asset Forfeiture (TEOAF) Mandatory Fund, Community Development Financial Institution (CDFI) Fund, and Treasury Departmental Offices; and offsetting collections from Puerto Rico Cover-Over Program.

³All years include 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.

⁴Actual obligations (FY 2021) and approved allocation (FY 2022) from TEOAF Secretary's Enforcement Fund & Strategic Support transfers.

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 (IRC) provisions for excise taxes on alcohol, tobacco, firearms, and ammunition, and the Federal Alcohol Administration (FAA) Act, which provides for the regulation of the alcohol beverage industry to protect U.S. consumers and ensures a fair and competitive marketplace for U.S. businesses.

The economic impact of COVID-19 is still reverberating across U.S. communities, including for many of the small breweries, wineries, and distilleries that comprise the majority of TTB taxpayers. In FY 2023, in support of the Administration's economic recovery and growth priorities, TTB plans to focus on timely service levels and facilitating voluntary compliance by simplifying tax and regulatory requirements, issuing clear and timely industry guidance, and modernizing its online filing systems.

At the FY 2023 funding level, TTB will continue to make critical investments in online filing systems as part of its multi-year information technology (IT) modernization strategy to develop an integrated online experience for all tax and regulatory transactions with TTB. By improving the ease and usability of its online platforms, TTB aims to increase electronic submissions, improve timely filings, and support taxpayer compliance. Reducing paper submissions also supports "green" filing practices in line with the Administration's climate change agenda.

Additionally, in FY 2023, TTB's mission will expand to include a new import claims program. The Craft Beverage Modernization Act (CBMA), as amended, transfers jurisdiction for import-related provisions from U.S. Customs and Border Protection (CBP) to Treasury as of January 1,

2023. Treasury intends for TTB to administer the new CBMA import claims program. TTB is taking a data-driven and risk-based approach to stand up the new claims program to provide importers the CBMA tax benefits. The FY 2023 request supports the development and maintenance of custom IT modules for foreign producers and importers to enable online filing and processing of claims, as well as additional tax administration and enforcement staff necessary to timely issue refunds.

Budget Highlights

Dollars in Thousands

	FTE	Amount
FY 2022 Annualized CR	508	\$124,337
Changes to Base:		
2023 Maintaining Current Levels (MCLs):	0	\$4,604
Pay Annualization (2.7% average pay raise)	0	\$572
Pay Raise (4.6% average pay raise)	0	\$2,942
Non-Pay	0	\$1,090
Other Adjustments:	0	\$6,993
Adjustments to meet Current Operating Levels	0	\$6,993
Subtotal Changes to Base	0	\$11,597
FY 2023 Current Services	508	\$135,934
Program Changes:		
Program Increases:	40	\$14,929
CBMA Import Claims	40	\$14,929
FY 2023 President's Budget Request	548	\$150,863

Budget Adjustments

Adjustments to Request

Maintaining Current Level (MCLs).....+\$4,604,000 / +0 FTE

Pay Annualization (2.7%) +\$572,000 / +0 FTE

Funds are requested for annualization of the January 2022 2.7% average pay raise.

Pay Raise (4.6% in 2023) +\$2,942,000 / +0 FTE

Funds are requested for a 4.6% average pay raise in January 2023.

Non-Pay +\$1,090,000 / +0 FTE

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

Other Adjustments.....+\$6,993,000 / +0 FTE

Adjustments to meet Current Operating Levels, +\$6,993,000 / +0 FTE

Treasury requests adjustments to meet current services operating levels. Current Operating Levels include the annualization of the January 2021 1.0% average pay raise, 2.7% average pay raise in January 2022, FY 2022 FERS Contribution Increases, and FY 2022 non-labor expenses.

Program Increases.....+\$14,929,000 / +0 FTE
CBMA Import Claims, +\$14,929,000 / + 40 FTE

TTB is requesting \$14.9 million and 40 FTE to implement and administer CBMA provisions related to imported alcohol. Starting in January 2023, alcohol beverage importers will no longer be eligible for the CBMA tax benefits at the time of entry; rather, importers will be required to pay the full tax rate at entry and submit quarterly refund claims to TTB to receive the benefits. TTB anticipates that this program will roughly double its current claims workload, estimating that importers will submit approximately 7,000 claims per year for roughly \$250 million in refunds.

TTB requires additional resources to implement and administer the new import claims program so that current services and operations are not disrupted. This investment funds the full-year cost for the program, including:

- *IT Systems and Support, + \$5,500,000 / +0 FTE*
TTB plans to develop two online modules that will enable TTB to receive import claims and foreign producer assignments electronically as well as develop automated validations for these claims.
- *Foreign Producer Registration & Import Claims and Bond Processing, +\$3,386,000 / +22 FTE*
TTB requests additional staff to process foreign producer registrations, importer claims, and related submissions.
- *Enforcement and Risk Analysis, +\$4,536,000 / +11 FTE*
TTB plans to develop risk-targeting tools to identify ineligible or fraudulent claims for review and field enforcement. TTB will also acquire new data sets to improve and maintain visibility into controlled groups.
- *Regulations and Guidance, +\$1,009,000 / +5 FTE*
TTB requests additional staff to develop implementing regulations and industry guidance and to educate industry stakeholders on new requirements.
- *Administrative Support, +\$498,000 / +2 FTE*
TTB requests additional administrative support to address human resources-related needs.

Legislative Proposals

TTB has no legislative proposals.

Performance Highlights

Budget Activity	Performance Measure	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
		Actual	Actual	Actual	Target	Target
Collect the Revenue	Amount of Revenue Collected Per Program Dollar (\$)	339	380	375	I	I
Collect the Revenue	Voluntary Compliance from Large Taxpayers - Overall (%)	91	91	93	95	95
Collect the Revenue	<i>By Payment</i>	99	99	99	-	-
Collect the Revenue	<i>By Tax Return</i>	84	84	87	-	-
Collect the Revenue	<i>By Operational Report</i>	83	83	87	-	-
Collect the Revenue	Electronically Filed Tax Returns - Pay.gov (%)	41	43	48	60	65
Collect the Revenue	Electronically Filed Operational Reports - Pay.gov (%)	42	46	50	60	65
Collect the Revenue	Claims Processed within Service Standard (30-45 days) (%) 1/			71	85	85
Protect the Public	Permit Applications Processed within Service Standards (75 days) (%)	58	84	92	85	85
Protect the Public	Alcohol Beverage Label and Formula Applications Processed within Service Standards (15 days) (%) 2/	48	83	92	85	85
Protect the Public	Initial Error Rate for Permit Applications (%)	71	62	67	25	25
Protect the Public	Initial Error Rate for Label and Formula Applications (%)	37	34	31	25	25
Protect the Public	Electronically Filed Permit Applications (%)	89	92	95	95	95
Protect the Public	Electronically Filed Label and Formula Applications (%)	99	99	100	I	I
Protect the Public	Customer Satisfaction Rate with eGov Systems - Permits Online (%)	68	78	79	80	80
Protect the Public	Customer Satisfaction Rate with eGov Systems - COLAs Online (%)	77	80	83	80	80
Protect the Public	Customer Satisfaction Rate with eGov Systems - Formulas Online (%) 3/	70	73	80	80	80

Key: I – Indicator

1/ Includes current tax claim types, including drawback claims from manufacturers of nonbeverage products (30-day service standard) and all other claims (45-day service standard); in FY 2023, TTB will modify the measure to include CBMA import claims.

2/ Service standards are set annually based on TTB analysis of submission volume, error rates, and resource levels. In FY 2018, following a spike in submission volume, TTB established service standards of 15 days for both labels and formulas; these standards have remained in effect through FY 2021.

3/ Results represent beverage alcohol filers only (nonbeverage alcohol formula submissions are excluded).

Description of Performance

In FY 2021, TTB met or exceeded the performance targets for 10 of its 15 performance measures. TTB also monitored performance through several key indicators that support data-driven decision making across TTB's strategic goals. Across its performance measures, TTB made substantial improvements in FY 2021 in key service and operational measures, with most exceeding target or trending in a positive direction by year-end, demonstrating TTB's effective

strategies to drive improved service and compliance across the industries that TTB regulates. To meet its performance goals in FY 2023, TTB will implement an aggressive strategic agenda that integrates policy updates, process improvements, and modern technology, as well as data-driven outreach and enforcement.

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 tax evasion and fraud to ensure all products sold in the marketplace are properly taxpaid.

In

FY 2021, TTB collected excise taxes totaling \$20.3 billion, comprised of \$10.8 billion for tobacco products, \$8.4 billion for alcohol beverage products, and \$1.1 billion for firearms and ammunition.

The investments in the Collect the Revenue activity resulted in the following performance highlights and accomplishments during FY 2021:

- TTB collected \$20.3 billion in excise taxes and other revenues from a tax base of nearly 37,000 taxpayers in the alcohol, tobacco, firearms, and ammunitions industries. In FY 2021, TTB returned \$375 for every dollar invested in its tax collection activities.
- Electronically filed tax returns and operational reports trended positively in FY 2021, although still roughly 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, and have a higher environmental impact. The IT system modernization investment requested for FY 2023 will support system improvements that will drive increased electronic tax filing rates, and should result in more accurate, timely, and complete submissions as well as improved access to data for tax verification.
- TTB made progress in reversing the declining filing compliance trend for its large taxpayers, defined as those with \$50,000 or more in annual tax liability. Given the revenue exposure, TTB set a high target for filing compliance for its largest taxpayers at 95 percent. In FY 2021, TTB achieved an overall compliance rate of 93 percent from its large taxpayers in meeting all tax filing requirements, up from 91 percent last year. Payment compliance rates remained high, at over 99 percent, indicating that the majority of reported liabilities are paid on time. Compliance rates for both tax returns and operational reports increased to 87 percent, up roughly 3-4 percent over last year. These filings provide important information for tax verification and fraud detection, and require continued focus to improve compliance through FY 2023. Late filings represent a significant portion of the compliance violations, and TTB plans to focus on effective strategies to address non-compliance that undermines the level playing field – particularly critical for the small producers who comprise the majority of TTB taxpayers. The FY 2023 request supports the IT system and analytics enhancements that would enable TTB to more efficiently detect and address these issues.
- Additionally, in FY 2023, TTB's mission will expand to include a new import claims program. CBMA, as amended, transfers jurisdiction for import-related provisions from CBP to Treasury as of January 1, 2023. TTB is taking a data-driven and risk-based approach to administer the new claims program to provide importers with CBMA tax benefits.

The FY 2023 funding supports the development and maintenance of custom IT modules for foreign producers and importers to enable online filing and processing of claims, as well as additional tax administration and enforcement staff necessary to timely issue refunds. TTB is adding a new measure of claims processed within service standards to monitor its ability to timely issue refund claims across all claims types. TTB's ability to quickly and accurately issue tax refunds fills a critical business need, particularly for those potentially experiencing cash flow issues during the pandemic. TTB's service standards for drawback claims by manufacturers of nonbeverage products is 30 days; the service standard for all other claims is 45 days. CBMA import claims will be included beginning in FY 2023. In FY 2021, in baselining this new measure, TTB met its respective service standards for 71 percent of claims submissions. Going forward, TTB plans to continue focusing on process and IT system enhancements to support efficient claims filing and processing, with the aim of improving service levels and preventing potential service disruptions due to the anticipated influx of CBMA import claims.

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 the more than 111,000 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.

The investments in the Protect the Public activity resulted in the following performance highlights and accomplishments during FY 2021:

- TTB received over 195,000 label applications and 28,000 formula applications for new alcohol and beverage product approvals. Federal law prohibits the import or domestic bottling of an alcohol beverage without an approved Certificate of Label Approval (COLA), making this service integral to U.S. businesses and economic recovery priorities. Even as submission volume increased to at or above pre-COVID levels, TTB performance improved in FY 2021. TTB ended the year at 93 percent of label applications meeting the 15-day service standard, exceeding its 85 percent target. This was achieved through effective monitoring and management of the application backlog combined with strategic workforce deployment in response to submission fluctuations. By employing similar strategies, TTB was also able to overcome significant increases in formula submissions to meet the 15-day standard for 92 percent of formula applications, also exceeding its 85 percent target.
- TTB received approximately 8,300 applications for a Federal permit or registration, and qualified approximately 7,100 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. In FY 2021, TTB made significant advances in its priority performance goal to timely issue permits to qualified applicants. With submission volume down, and through continued process improvements, TTB was able to reduce backlogs and accelerate service levels. Across permit types, TTB reduced average approval times to 34 days in FY 2021, down 65 percent since TTB established its priority goal in FY 2018. Additionally, TTB surpassed its priority goal target to issue permits within the 75-day service standard for 85 percent of applicants, achieving 92

percent by year-end. TTB achieved these performance improvements using new analytic tools to support more effective workload management and oversight.

- 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 67 percent for permit applications and 31 percent for label and formula applications. Improvements in FY 2021 were driven by system enhancements and online guidance, as well as internal training, and guided by ongoing analysis of high frequency errors. Performance in permitting is expected to continue to improve following recent enhancements to the Permits Online system and completion of planned rulemakings to implement broader changes to TTB permit applications. At the FY 2023 funding level, 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. 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 2021, satisfaction rates increased, from 80 percent to 83 percent for COLAs Online users and 73 percent to 80 percent for Formulas Online users. TTB attributes these increases in part to reduced processing times, and anticipates that performance will continue to improve through FY 2023 in line with timely service levels. Further, TTB expects that planned system improvements funded at the FY 2023 request level, combined with regular review of survey feedback, will help TTB to exceed its user satisfaction target of 80 percent and continue to attract users to its online systems to maintain high electronic filing rates.