

Department of the Treasury
Alcohol and Tobacco Tax and
Trade Bureau

Congressional Budget
Justification and Annual
Performance Report and Plan

FY 2019

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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; and prevent unfair and unlawful market activity for alcohol and tobacco products.

B – Summary of the Request

Supporting the nation’s economic vitality is at the core of the work performed by the Alcohol and Tobacco Tax and Trade Bureau (TTB). The bureau’s role in permitting, regulating, and taxing the alcohol, tobacco, and firearms industries facilitates a compliant and fair marketplace for those engaged in the manufacture and trade of these commodities, and ensures that the Federal Government has the resources needed to fund national priorities. TTB administers its mission according to two core strategic goals—“Collect the Revenue” and “Protect the Public”—both of which serve Treasury’s Strategic Goal 1 (Boost U.S. Economic Growth), and conducts its operations in support of Treasury’s Strategic Goal 5 (Achieve Operational Excellence).

TTB is the third largest tax collection agency in the U.S. Government, after the Internal Revenue Service and U.S. Customs and Border Protection, collecting nearly \$22 billion in excise tax revenues annually. As the most efficient means of tax administration, facilitating voluntary compliance will remain a priority for TTB in FY 2019, and will help TTB absorb staffing and contract reductions while sustaining core tax operations. To this end, TTB will enhance its guidance related to federal alcohol, tobacco, firearms, and ammunition laws and regulations, and explore opportunities to streamline regulations and requirements to reduce compliance burden. These strategies are critical for TTB to mitigate potential performance impacts as TTB redirects its resources to implement the Craft Beverage Modernization and Tax Reform provisions of P.L. 115-97. Further, in FY 2019, to ensure the protection of sensitive taxpayer information, TTB will make critical investments in IT security to ensure that TTB remains at the forefront of cybersecurity.

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 2019 request supports an initial investment of \$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 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 revenues and reduced criminal activity.

As demand for TTB services has grown in line with the expanding alcohol industries, TTB has responded through updated policies to reduce burden, improved systems, and streamlined processes to ensure 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 2019, TTB will focus on IT modernization investments to reduce filing burdens and accelerate approval times for permit applications. Further, at the FY 2019 funding level, TTB will review its service standards in line with anticipated staffing levels and ensure the new standards are clearly communicated to industry to manage expectations and allow appropriate operational planning. TTB will further adjust its strategy for systems modernization to align with resource levels, continuing to focus on clear and consistent guidance to industry to facilitate the submission of compliant applications.

1.1 – Appropriations Detail Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FY 2017		FY 2018		FY 2019		FY 2018 to FY 2019			
	Enacted 1/		Annualized CR		Request		\$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Collect the Revenue	219	\$53,560	242	\$53,127	250	\$57,741	8	\$4,614	3.31%	8.68%
Protect the Public	259	\$57,879	265	\$57,555	242	\$56,686	(23)	(\$869)	-8.68%	-1.51%
Subtotal New Appropriated Resources	478	\$111,439	507	\$110,682	492	\$114,427	(15)	\$3,745	-2.96%	3.38%
Other Resources:										
Offsetting Collections – Reimbursables 2/	10	\$5,854	10	\$6,912	10	\$6,912	0	\$0	0.00%	0.00%
Transfers 3/	0	\$197	0	\$0	0	\$0	0	\$0	0.00%	0.00%
Subtotal Other Resources	10	\$6,051	10	\$6,912	10	\$6,912	0	\$0	0.00%	0.00%
Total Budgetary Resources	488	\$117,490	517	\$117,594	502	\$121,339	(15)	\$3,745	-2.90%	3.18%

1/ FY 2017 FTE and Other Resources are Actuals. This column reflects levels appropriated in H.R. 255, the Consolidated Appropriations Act of 2017. For further details on the execution of these resources see the 2019 Budget *Appendix* chapter for the Department of the Treasury.

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

3/ Transfer from the TEOAF Strategic Support Fund.

1.2 – Budget Adjustments Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
FY 2018 Annualized CR	507	\$110,682
Changes to Base:		
Maintaining Current Levels (MCLs)	0	\$1,027
Pay Annualization	0	\$295
Non-Pay	0	\$732
Efficiency Savings	0	(\$450)
Reduce Infrastructure Footprint and Support	0	(\$450)
Services		
Subtotal Changes to Base	0	\$577
Total FY 2019 Base	507	\$111,259
Program Changes:		
Program Decreases	(36)	(\$7,632)
Program Staff Attrition	(14)	(\$1,960)
Trade Practice Enforcement	(22)	(\$5,000)
Program Contract Reductions	0	(\$672)
Program Increases	21	\$10,800
Consolidation of Federal Alcohol & Tobacco Tax	14	\$5,000
Jurisdiction		
IT Modernization/Permits System	5	\$4,600
IT Modernization/Cybersecurity	2	\$1,200
Total FY 2019 Request	492	\$114,427

C – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$1,027,000 / +0 FTE

Pay Annualization +\$295,000 / +0 FTE

Funds are requested for annualization of the January 2018 pay raise.

Non-Pay +\$732,000 / +0 FTE

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

Efficiency Savings -\$450,000 / -0 FTE

Reduce Infrastructure Footprint and Support Services -\$450,000 / -0 FTE

TTB has implemented an aggressive telework program that has enabled the bureau to close half of its field offices, with the remaining field offices being vital to TTB's mission. TTB has also reconfigured and reduced the amount of office space needed to operate its headquarters in Washington, D.C., and the National Revenue Center in Cincinnati. In an ongoing effort to improve space utilization, TTB has identified additional opportunities to reduce leased space, resulting in additional savings of \$250,000. Also, TTB will reduce its operating costs by \$200,000 through savings in administrative overhead and decreased program support operations in line with anticipated program staff attrition.

Program Decreases -\$7,632,000 / -36 FTE

Program Staff Attrition -\$1,960,000 / -14 FTE

TTB will implement a hiring freeze to achieve a workforce reduction of 14 FTE. This reduction, which equates to 3 percent of TTB's full-time positions, will be taken across multiple program areas.

Trade Practice Enforcement -\$5,000,000 / -22 FTE

TTB will reduce its Trade Practice Enforcement program to the FY 2016 funding level. TTB enforcement addresses unlawful trade practices in the marketplace and ensures a level playing field for U.S. alcohol manufacturers and distributors. With two-year funding provided through FY 2018, TTB added staffing to increase its capacity for trade practice investigations from approximately 1 each year to up to 15 active cases annually. At the FY 2019 funding level, TTB will need to bring closure to its active trade practice investigations and reevaluate the program.

Program Contract Reductions -\$672,000 / -0 FTE

TTB will reduce its contract services by reducing or re-scoping contracts for both its commercial vendors and government suppliers.

Program Increases \$10,800,000 / +21 FTE

Consolidation of Federal Alcohol & Tobacco Tax Jurisdiction +5,000,000 / +14 FTE

Start-up funding is requested 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, including agents, auditors, and investigators, to conduct the complex, multi-state investigations associated with contraband cigarette smuggling. The 14 FTE will allow TTB to hire 28 positions including auditors, investigators, and other program staff for approximately the last six months of the fiscal year. Agents will be hired under an expansion of the existing interagency agreement with the IRS, with the FY 2019 start-up funding covering the services of 12 agents for the second half of the year. 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.

IT Modernization/Permits System +4,600,000 / +5 FTE

Funding is requested to enable TTB to incrementally build and deploy a custom-developed online permitting system. A modernized system is a key component to improving program performance because it would allow TTB to optimize its online permit applications and processes to support the timely review and approval of applications, with backlogs for wineries, breweries, and distilleries at around 100 days at the end of FY 2017, well over the 75-day service standard. A custom system would also reduce burden on industry by enabling the eventual integration of all online interactions that industry has with TTB: permit applications, tax returns, operational reports, label applications, and formula applications.

IT Modernization/Cybersecurity +1,200,000 / +2 FTE

Funding is requested to cover the increased operations and maintenance costs of cybersecurity tools and for additional staff to remediate IT system vulnerabilities. To meet security requirements, TTB currently maintains a robust cybersecurity architecture that requires increased operations and maintenance costs. In addition, TTB must continually ensure that its IT systems are modern, updated, and patched in a timely manner. This funding will ensure all TTB systems are modernized to detect and protect against current threats and ensure that TTB remains a Treasury leader operating at the forefront of cybersecurity.

1.3 – Operating Levels Table

Dollars in Thousands

TTB Object Classification	FY 2017 Enacted 1/	FY 2018 Annualized CR	FY 2019 Request
11.1 - Full-time permanent	51,531	51,180	48,812
11.5 - Other personnel compensation	619	615	651
11.9 - Total personnel compensation	52,150	51,796	49,462
12.0 - Personnel benefits	15,671	15,565	14,926
13.0 - Benefits for former personnel	0	0	0
Total Personnel and Compensation Benefits	\$67,821	\$67,360	\$64,388
21.0 - Travel and transportation of persons	2,561	2,544	2,191
22.0 - Transportation of things	50	50	50
23.1 - Rental payments to GSA	4,400	4,370	4,170
23.3 - Communication, utilities, and misc charges	1,594	1,583	1,629
24.0 - Printing and reproduction	267	265	266
25.2 - Other services from non-Federal sources	24,395	24,229	28,803
25.3 - Other goods and services from Federal sources	7,715	7,663	9,451
26.0 - Supplies and materials	499	496	502
31.0 - Equipment	2,137	2,122	2,977
Total Non-Personnel	\$43,618	\$43,322	\$50,039
New Budgetary Resources	\$111,439	\$110,682	\$114,427
FTE	478	507	492

1/ FY17 Appropriated Resources are enacted and FTE are Actual. This column reflects levels appropriated in H.R. 255, the Consolidated Appropriations Act of 2017. For further details on the execution of these resources see the 2019 Budget *Appendix* chapter for the Department of the Treasury.

D – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY ALCOHOL AND TOBACCO TAX AND TRADE BUREAU <i>Federal Funds</i></p> <p style="text-align: center;">SALARIES AND EXPENSES</p> <p><i>For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, \$114,427,000, of which \$5,000,000 shall remain available until September 30, 2020; of which not to exceed \$6,000 shall be available for official reception and representation expenses; and of which not to exceed \$50,000 shall be available for cooperative research and development programs for laboratory services and provision of laboratory assistance to State and local agencies with or without reimbursement.</i></p> <p>Note. – A full-year 2018 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115-56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.</p>	

E – Legislative Proposals

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

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

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 two strategic goals—“Collect the Revenue” and “Protect the Public”—both of which serve to support economic growth and stability. TTB’s strategic goal to collect the revenue ensures that the Federal Government has the resources needed to fund national priorities and supports the 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. TTB’s strategic goal to protect the public ensures that lawful U.S. alcohol businesses are competitive and thriving in the global marketplace and supports 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 and Strategic Objective 1.4 (Free and Fair Trade) to advance a free and fair trade environment for U.S. businesses). Various strategies and activities under TTB’s strategic objectives contribute to the Treasury’s Strategic Goal 5 (Achieve Operational Excellence) through Strategic Objectives 5.1 (Workforce Management), 5.2 (Treasury Infrastructure), and 5.3 (Customer Value).

The Administration is proposing the consolidation of federal alcohol and tobacco tax jurisdiction within the Department of the Treasury to improve mission alignment and focus and, in turn, create tax enforcement efficiencies. This proposal calls for the transfer of enforcement authority for the CCTA and the Prevent All Cigarette Trafficking (PACT) Act from DOJ to Treasury. These federal statutes were intended, among other things, to stop criminal organizations from profiting by smuggling cigarettes from low-tax states to high-tax states, and protect state and local governments from revenue losses from interstate cigarette smuggling. ATF, which currently has primary jurisdiction for CCTA and PACT Act enforcement, has estimated that the sale of contraband cigarettes costs federal, state, and local governments close to \$5 billion a year in revenue. The FY 2019 funding request represents the initial investment required to begin the transfer of these authorities, including preliminary hiring and contract actions to support investigations, as well as required rulemaking, IT, and data analytics efforts to support the program and generate leads for future investigations, as the program ramps up. 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.

B – Budget and Performance by Budget Activity

2.1.1 Collect the Revenue Resources and Measures

Resource Level	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Actual	Actual	Actual	Actual	Actual	Annualized CR	Request
Appropriated Resources	\$48,927	\$51,721	\$50,976	\$53,385	\$53,375	\$53,127	\$57,741
Reimbursables	\$3,277	\$3,506	\$3,681	\$3,143	\$3,217	\$3,798	\$3,798
Transfers In/Out 1/	\$0	\$468	\$0	\$0	\$197	\$0	\$0
Budget Activity Total	\$52,204	\$55,695	\$54,657	\$56,528	\$56,789	\$56,925	\$61,539
FTE 2/	235	224	223	234	223	247	255

1/ TEOAF Strategic Support Fund

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

Measure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018	FY 2019
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Amount of Revenue Collected Per Program Dollar	457	457	437	414	406	400	350	350
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely (In Terms of Revenue)	92	90	88	87	85	90	90	90

Collect the Revenue Budget and Performance

(\$57,741,000 from direct appropriations, \$3,798,000 from reimbursable resources):

This budget activity includes all tax processing, verification, enforcement, and outreach efforts related to administering the federal tax code for alcohol, tobacco, firearms, and ammunition products, and supports Treasury’s Strategic Objective 1.1 (Tax Law Implementation). TTB collects approximately \$22 billion in federal tax revenue annually from more than 14,000 businesses. TTB’s tax base includes 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 all those engaged in the trade of these strictly regulated commodities, TTB also takes appropriate enforcement action to detect and address diversion activity to ensure all products sold in the marketplace are properly taxpaid.

Other Resources (Offsetting Collections/Reimbursables)..... \$3,798,000

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

Description of Performance – Collect the Revenue:

In FY 2017, TTB met one of its two annual targets for the performance measures under the Collect the Revenue budget activity. Taken together, TTB's measures of the Amount of Revenue Collected per Program Dollar and the Percent of Voluntary Compliance from Large Taxpayers in Filing Payments Timely demonstrate the effectiveness and efficiency with which TTB operates its revenue collection function. TTB's strategies for achieving results for both measures include applying technology to streamline internal and external processes and leveraging data sources to direct our outreach and enforcement efforts. At the FY 2019 funding level, TTB will review these strategies and their timelines in an effort to prevent diminished effectiveness in tax administration and to help ensure resources are deployed to maximize the deterrent effect.

Improve Efficiency of Tax Collection

The Amount of Revenue Collected per Program Dollar measure uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2017, TTB achieved a return on investment of \$406 for every program dollar spent on collection activities, which exceeded its annual performance target of \$400. The year-to-year decline in performance represents continued declines in tobacco revenue that, after peaking in FY 2010 following the tax rate increases enacted in 2009, have steadily declined in line with shifts in consumption patterns, product manufacturing, and trade.

In setting its FY 2019 performance target, TTB examined historical collections trends across each of its regulated commodities, other predictors that influence consumer behaviors, and recent Craft Beverage Modernization and Tax Reform provisions enacted by the Tax Cuts and Jobs Act of 2017. TTB used revenue impact estimates from the Joint Committee on Taxation to adjust its projected alcohol excise collections, which generally indicate reduced collections over the effective period of these provisions due, in part, to reduced tax rates for producers across all spirits, wine, and malt beverages based on production. Further, as illustrated by the below table, the 2009 changes to the federal tax rates on certain tobacco products have resulted in increased tobacco tax collections by TTB, although the amount of the increase has generally decreased since FY 2010, the first full fiscal year following the tax rate increases. In accounting for these factors, TTB established a targeted performance level of 350:1 for fiscal years 2018 – 2019.

Excise Tax and Other Collections by Fiscal Year

Dollars in Thousands

Fiscal Year	Alcohol	Tobacco	FAET	SOT	FST	Other	Total
2008	\$ 7,420,576	\$ 6,851,705	\$312,622	\$ 448	\$ -	\$ 634	\$ 14,585,985
2009	7,424,292	11,548,504	452,693	272	1,192,375	970	20,619,106
2010	7,476,789	15,913,479	360,813	300	8,558	180	23,760,119
2011	7,594,330	15,515,073	344,262	268	5,220	2,257	23,461,410
2012	7,856,391	15,002,616	514,622	249	5,942	61	23,379,881
2013	7,851,953	14,321,017	762,836	280	1,521	38	22,937,645
2014	7,924,951	13,552,711	768,927	332	465	2	22,247,388
2015	7,997,467	13,620,497	638,518	288	2,444	7	22,259,221
2016	8,075,476	13,274,371	749,789	258	245	505	22,100,644
2017	8,103,714	12,966,317	761,630	227	69	521	21,832,478
Average	<u>\$ 7,772,594</u>	<u>\$ 13,256,629</u>	<u>\$566,671</u>	<u>\$ 292</u>	<u>\$ 121,684</u>	<u>\$ 518</u>	<u>\$ 21,718,388</u>

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

In FY 2019, to meet its performance target of \$350, TTB will continue to improve efficiencies and results in its tax enforcement program through systems and process improvements related to tax verification. TTB will evaluate and develop options to increase automation in the detection, notification, assessment, and collection of excise taxes due to preserve staff time for substantive tax analysis. Additionally, TTB will continue to use data analytics and other intelligence to efficiently deploy its limited enforcement resources. A primary focus for TTB tax enforcement continues to be diversion schemes related to imported and exported alcohol and tobacco products given the high profit potential and relative ease. Investigations to date have identified significant tax liabilities and remain an enforcement priority under the Craft Beverage Modernization and Tax Reform provisions, effective through calendar year 2019, which include reduced rates for alcohol importers as well as domestic producers.

TTB will review its plans to modernize its tax systems to increase automation and improve tax verification. TTB will also review planned enhancements to data analytics tools that support identification of high-risk activities for audit and the investigation and criminal prosecution of such identified activities. Further, TTB will review its enforcement plans to address potential vulnerabilities and new tax evasion schemes arising from both the new tax legislation and TTB's expanded enforcement responsibilities in the interstate smuggling of cigarettes. The administration has proposed legislative changes to consolidate federal alcohol and tobacco tax authorities within Treasury, which will integrate ATF authorities into TTB's federal excise tax enforcement program.

Increase Voluntary Compliance from Taxpayers

Fostering voluntary compliance among taxpayers is a primary tax administration strategy for TTB. The Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely 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 tax payments on or before the scheduled due date. In FY 2017, TTB achieved a compliance rate of 85 percent from its large taxpayers, which fell below the performance target of 90 percent. The declining compliance rate in recent years is due, in part, to an increase in the universe of industry members paying more than \$50,000 in annual taxes due to continued industry growth and expansion,

which increasingly includes more recent permittees who may be less familiar with TTB's statutory and regulatory requirements. Although TTB analysis indicates that this trend does not represent a significant revenue risk, non-compliance undermines the level playing field, which is critical for small producers who comprise the majority of TTB taxpayers.

In FY 2019, TTB will strive to meet its established performance target of a 90 percent voluntary compliance rate for its large taxpayers through complementary strategies that focus on promoting electronic filing options to enable taxpayers to file complete, accurate, and timely tax returns and payments; improving online guidance and industry outreach strategies, particularly for those industry members with expanding operations; and maintaining an enforcement presence to encourage voluntary compliance. Moving forward on all three fronts is required to ensure that TTB strikes the appropriate balance between supporting businesses in establishing compliant operations while ensuring adequate coverage of the high-risk activity that undermines lawful business activity.

TTB will review its enforcement plans and workforce capacity to continue its mission's execution. Enactment of the legislative proposal will expand TTB's responsibilities to include enforcement of interstate cigarette smuggling laws. TTB will also implement significant changes to the tax rates and credits applicable to the alcohol industry under P.L. 115-97. TTB will also review its current criminal investigations given the proposed transfer of CCTA, particularly as the program ramps up, and work closely with DOJ to effectively transition active cases. Since TTB commenced its criminal enforcement program in FY 2011, these investigations have resulted in more than \$600 million in tax liabilities (a 4:1 return on investment) and numerous criminal convictions, which are an essential component of tax enforcement. Consolidating federal alcohol and tobacco tax jurisdiction within Treasury, once enacted and fully funded, will result in a more effective and efficient enforcement approach for detecting and addressing tax evasion schemes that deny federal and state revenues and undercut legitimate businesses.

2.1.2 Protect the Public Resources and Measures

Dollars in Thousands

Resource Level	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Actual	Actual	Actual	Actual	Actual	Annualized CR	Request
Appropriated Resources	\$45,727	\$47,279	\$47,451	\$52,709	\$53,527	\$57,555	\$56,686
Reimbursables	\$2,670	\$3,236	\$2,451	\$2,577	\$2,637	\$3,114	\$3,114
Transfers In/Out 1/	\$0	\$432	\$0	\$0	\$0	\$0	\$0
Budget Activity Total	\$48,397	\$50,947	\$49,902	\$55,286	\$56,164	\$60,669	\$59,800
FTE 2/	241	246	243	246	265	270	247

1/ TEOAF Strategic Support Fund

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

Measure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018	FY 2019
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Percent of Electronically Filed Permit Applications	73	80	81	81	85	82	87	90
Percentage of Permit Applications Processed within Service Standards	50	58	47	32	48	85	85	85
Initial Error Rate for Permit Applications	B	72	67	57	60	25	25	25
Customer Satisfaction Rate with TTB Permitting Process	N/A	B	76	71	80	80	80	80
Percent of Electronically Filed Label and Formula Applications	90	93	94	97	98	95	95	95
Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards 1/	50	71	80	80	62	85	85	85
Initial Error Rate for Label and Formula Applications	B	39	42	44	43	25	25	25

Key: B - Baseline

1/ TTB established new service standards of 10 days for both labels and formulas in FY 2017 following an infusion of dedicated resources in the FY16/17 enacted budgets. The standards were 30-days for labels and 45-days for formulas in fiscal years 2013 - 2016. Though annual results are below target, TTB met its target in September 2017, as projected. In FY18 and FY19, TTB expects to revise its service standard from 10 days to 15 days for both labels and formulas based on anticipated staff erosion and spikes in submissions driven by imported products. All data has been revised to reflect a methodology update to exclude label applications deemed abandoned by the applicant (i.e., no action after 30 days).

Protect the Public Budget and Performance

(\$56,686,000 from direct appropriations, and \$3,114,000 from reimbursable resources):

This budget activity funds the programs that ensure the integrity of the products and industry members in the marketplace; promote compliance with federal laws and regulations by the more than 92,700 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 and Strategic Objective 1.4 (Free and Fair Trade) to advance a free and fair trade environment for U.S. businesses.

Other Resources (Offsetting Collections/Reimbursables)..... \$3,114,000
Other resources that support this budget activity include reimbursement for the operating costs of the TTB Puerto Rico field office, which are offset against the roughly \$400 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and imported into the United States (cover-over payments); reimbursement by the Community Development Financial Institutions Fund (CDFI) for TTB’s IT services; and funding from the Department of the Treasury’s Executive Office for Asset Forfeiture (TEOAF) mandatory account to cover investigative expenses, data systems, and training.

Description of Performance – Protect the Public:

In FY 2017, TTB met three of its seven annual targets for the performance measures under its Protect the Public budget activity. TTB reports on its success in meeting Treasury’s objective 1.3 Trusted Currency and Services to deliver trusted currency and services that enables citizens and businesses to participate in the economy and TTB’s goal to protect U.S. businesses and consumers through five principal performance measures. These measures help TTB monitor the degree to which it is meeting the service standards it establishes for permit, label, and formula applications; the impact that electronic filing initiatives are having on improved service delivery; and the level of satisfaction that prospective industry members have with TTB’s permitting process. In FY 2019, TTB is introducing two new measures that track the error rate on permit applications and label and formula applications, as applications submitted with errors significantly add to TTB’s overall workload and present a critical risk to TTB achieving its service standards. TTB’s strategies to achieve its performance targets for these measures include a combination of streamlining internal processes, implementing enhancements to online filing systems, modernizing application requirements, and providing clearer guidance to industry members.

Improve Efficiency and Effectiveness of Permitting Process

TTB protects consumers by screening permit applicants to ensure only qualified persons engage in the alcohol, tobacco, firearms, and ammunition industries. For this purpose, in FY 2017, TTB processed approximately 8,000 original permit applications, performing investigations into high-risk applicants to meet TTB’s business integrity objective. TTB monitors its timeliness in approving permit applications through its measure of the Percentage of Permit Applications Processed within Service Standards. As businesses rely on accurate information related to TTB service delivery in their operational planning, this measure provides important data related to a key outcome for TTB and its stakeholders.

In FY 2017, TTB met its 75-day service standard for 48 percent of original permit applications, a significant year-to-year improvement but still well below the 85 percent performance target. In recent years, the increased 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 over 200 days in FY 2016 for alcohol producer applications, creating potential financial hardships for these applicants. In FY 2017, TTB realized the benefits of several crosscutting initiatives to update its permitting business process instituted over the last

two years. The initiatives included policy, workflow, and system changes that, by year-end, combined to result in a dramatic reduction in the backlog of applications and average approval times below 100 days.

At the FY 2019 funding level, TTB expects to meet its 75-day standard for 85 percent of permit applications through a combination of industry education efforts and ongoing enhancements to Permits Online. Additionally, TTB intends to complete a comprehensive review of its qualification requirements, informed by public comment, to streamline TTB's permit applications and further reduce burdens related to the filing process. This review, combined with the FY 2019 investment in TTB's permitting system, will support TTB in reaching its current service standard as well as its long-term goal of reducing service times to 60 days or less across alcohol application types.

According to its measure of the Percent of Electronically Filed Permit Applications, which tracks the electronic filing rate for new business applications, TTB received approximately 85 percent of permit applications via Permits Online in FY 2017. This year-to-year increase is attributed to TTB.gov improvements to better direct applicants to the online filing system. TTB expects this trend to continue following the release of the redesigned Permits Online system, targeted for FY 2018, which will include improved guidance for first-time filers to reduce errors on applications that delay processing times as well as a simplified method for amending an existing permit that replaces the current paper-based process. These system changes, combined with effective outreach and training for industry, will support TTB in achieving its targeted electronic filing rate of 90 percent in FY 2019.

The Permits Online enhancements should also contribute to improved outcomes for TTB's new measure of the Initial Error Rate on Permit Applications, which tracks how many applications are submitted either incomplete or with errors. This measure is critical to timely processing, as the error rate significantly influences total approval time, given the necessary back-and-forth with applicants to obtain additional documentation or accurate information. In FY 2017, the error rate trended negatively, with 60 percent of original permit applications submitted with errors. This rate is well above the target of 25 percent, and reflects the need for improved guidance and system validations to ensure applicants are able to submit correctly the first time. Following the FY 2018 system release, and planned TTB.gov enhancements, TTB expects to draw closer to its target by year-end. Broader changes to streamline permit application requirements, most of which will require rulemaking to fully implement, are underway and may be required before TTB can achieve its targeted performance level.

Increase Customer Satisfaction with TTB Service Delivery

TTB also measures its performance in its permitting function by surveying the businesses that apply for a TTB permit. TTB monitors the Customer Satisfaction Rate with TTB's Permitting Process by using an e-mail survey to assess how satisfied businesses are when applying for a permit through Permits Online. Satisfaction rates in FY 2017 met the annual target of 80 percent, driven in large part by improvements in the level of service received and timeliness of TTB's response. TTB expects satisfaction rates to remain at or above target in FY 2019, based on planned initiatives to streamline the application and filing process, beginning with new features planned for release in Permits Online in FY 2018 that will improve the overall customer

experience with the system. TTB will also implement process changes to improve the level of service provided to customers seeking live assistance with the permit application process via TTB's call center.

Improve Efficiency and Effectiveness of Alcohol Beverage Label Processing

TTB protects U.S. consumers by ensuring that the alcohol beverage products sold at retail outlets are properly labeled and comply with federal production standards. In FY 2017, TTB received approximately 170,000 Certificate of Label Approval (COLA) applications and 14,500 formula applications, which reflect levels at or above the prior year and indicate the ongoing expansion of the alcohol beverage industry. Given the importance of timely TTB approvals and the negative impact that delays have on U.S. businesses, TTB monitors its ability to provide timely and consistent service through its measure of the Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards. TTB combines label and formula applications in this measure given the interdependent nature of these approvals.

In FY 2016, under its service standards of 30 days for a label approval and 45 days for a formula approval, many businesses were waiting nearly three months on average from the time they filed for a formula approval to being able to bottle and distribute a new product. In FY 2017, with additional staffing resources hired using directed funding to accelerate these approvals, TTB established new service standards of 10 days for both label and formula applications. Following a period of onboarding and training, which affected performance in the first half of FY 2017, TTB significantly reduced approval times and, by September 2017, achieved the 10-day standard for 85 percent of labels and formulas. At the FY 2019 funding level, based on anticipated staffing levels and recent spikes in label and formula submissions driven by imported products, TTB expects to revise its service standard from 10 days to 15 days for 85 percent of applicants.

In recent years, to help address processing delays, TTB has used its authority to implement risk-based policy changes to reduce the volume of label and formula applications without compromising TTB's market protection role. These changes successfully reduced the volume of label and formula submissions in the short-term; however, in FY 2017, industry growth combined with market trends toward products that require an approved formula prior to production have resulted in increased submissions that have offset these reductions. At the same time, TTB has employed a complementary strategy to reduce total workload volume through initiatives to reduce label and formula application errors. Application errors are a key driver of processing times, as additional review is required for each resubmitted application. TTB has established a new 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 2017, the initial error rate was 43 percent, falling short of the targeted performance level of 25 percent, indicating that TTB will need to expand and improve on the system-based help and online guidance features that it implemented this year.

In FY 2019, TTB will continue to make iterative enhancements to COLAs Online and Formulas Online, informed by user testing and feedback, which will include additional help features and system-based validations to reduce application errors. According to its measure of the Percent of Electronically Filed Label and Formula Applications, TTB receives 98 percent of applications via COLAs Online and Formulas, indicating that continued focus on system validations is

warranted and will support performance goals in increasing accurate applications and accelerating approval times. TTB expects that these ongoing improvements will help TTB continue to attract users to its online systems and maintain performance above its 95 percent target in FY 2019.

Further, in FY 2019, TTB will also continue initiatives to improve industry guidance, including the labeling modernization project, which will update and streamline the labeling regulations to reflect current TTB policy and industry practices, and increasing the guidance on TTB.gov related to obtaining label and formula approval for alcohol beverage products.

C – Changes in Performance Measures

With the publication of Treasury’s Strategic Plan for FY 2018-2022, TTB will work this year to baseline its performance against the new strategic objectives. This could result in additional changes to performance measures in the FY 2020 budget.

Performance Measure or Indicator	Change and Justification
1. Initial Error Rate for Permit Applications (New)	Initial error rate is defined as the total percentage of electronic permit applications received that required TTB to return to the applicant for corrections (missing or incomplete application fields) or additional information (missing or incomplete documentation to support the application). The data will come from Permits Online. This measure provides information on the volume and type of errors on applications and informs TTB initiatives to address them, a critical strategy given that a high volume of errors impedes timely review and approval as the total processing time includes all back-and-forth with applicants.
2. Initial Error Rate for Label and Formula Applications (New)	Initial error rate is defined as the total percentage of electronic label and formula applications received that required TTB to return to the applicant for corrections (missing or incomplete application fields) or revisions (noncompliance with federal labeling and/or production requirements). The data will come from COLAs Online and Formulas Online. This measure provides information on the volume and type of errors on applications and informs TTB initiatives to address them, a critical strategy given that a high volume of errors impedes timely review and approval as the total processing time includes all back-and-forth with applicants.

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 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 scientific technology advances render older instruments obsolete. Periodic replacement of the existing technologies is essential for TTB laboratories to remain state-of-the-art and effective to support the bureau's mission, strategy, and day-to-day operations.

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

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

This website also contains a digital copy of this document.