Department of the Treasury
Alcohol and Tobacco Tax and Trade Bureau

Congressional Budget Justification and Annual Performance Plan and Report

FY 2023

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Section I – Budget Request

A – Mission Statement
To collect taxes on alcohol, tobacco, firearms, and ammunition; protect consumers 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 2021, TTB collected approximately $20.3 billion in excise taxes from the alcohol, tobacco, firearms, and ammunition industries.

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. At the FY 2023 funding level, and 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, modernizing its online filing systems, and issuing clear and timely industry guidance. These efforts will also increase market competition and ensure all have an equal opportunity to thrive.

Complex or overly burdensome regulatory requirements do not serve the interests of taxpayers or the government. In FY 2023, TTB plans to continue three major regulatory reform efforts in permitting, tax, and alcohol beverage labeling to consolidate, clarify, or simplify requirements and, where possible, minimize filing frequency. The revised requirements will ease the burdens placed on new and existing businesses and make it easier for them to voluntarily comply. At the same time, TTB plans to tailor the requirements to improve data quality and better detect risk to direct its enforcement efforts. As industry recovers and expands, these efforts are required to sustain service times and support all taxpayers in meeting their tax obligations.

In FY 2023, TTB's mission will also 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 administer the new claims program to provide importers with CBMA tax benefits. The FY 2023 request supports the development and maintenance of custom information technology (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.

At the FY 2023 funding level, TTB will also prioritize other improvements to its online filing systems as part of its 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.

TTB will also continue to focus on providing clear and consistent industry guidance to facilitate the submission of compliant filings. Omissions and errors on permit and alcohol label applications create inefficiencies for TTB and delays in service to industry. Undue delays in service can be a barrier to industry expansion and ongoing product innovation that fuel the economy. Further, to support these industries as they rebound, TTB plans to use compliance data to target and tailor its guidance, industry outreach, and enforcement activities, ensuring that businesses have the information they need to comply and are operating on a level playing field.

1.1 – Appropriations Detail Table

Dollars in Thousands

Appropriated Resources	FY 2021 Operating Plan[1]		FY 2022 Annualized CR		FY 2023 Request		FY 2022 to FY 2023 % Change	
New Appropriated Resources	**FTE**	**AMOUNT**	**FTE**	**AMOUNT**	**FTE**	**AMOUNT**	**FTE**	**AMOUNT**
Collect the Revenue	207	57,526	222	57,526	262	77,821	18.0%	35.3%
Protect the Public	258	66,811	265	66,811	265	73,042	0.0%	9.3%
Subtotal New Appropriated Resources	**465**	**$124,337**	**487**	**$124,337**	**527**	**$150,863**	**8.2%**	**21.3%**
Other Resources								
Reimbursables and Offsetting Collections[2]	14	7,072	12	7,880	12	7,880	0.0%	0.0%
Unobligated Balances from Prior Years[3]	22	4,611	21	4,824	21	4,450	0.0%	-7.8%
Transfers In/Out[4]	0	1,087	0	838	0	0	NA	-100.0%
Subtotal Other Resources	**36**	**$12,770**	**33**	**$13,543**	**33**	**$12,330**	**0.0%**	**-9.0%**
Total Budgetary Resources	**501**	**$137,107**	**520**	**$137,880**	**560**	**$163,194**	**7.7%**	**18.4%**

[1]FY 2021 New Appropriated 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.

[2]Includes 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.

[3]All years include carryover of unobligated balances from prior two-year set aside funding for trade practice enforcement and recoveries of 50 percent in unobligated balances from prior one-year funding.

[4]FY 2021 actual obligations include a transfer from TEOAF Secretary's Enforcement and Strategic Support Fund. FY 2022 approved amounts includes approved TEOAF transfer from the Secretary's Enforcement and Strategic Support Fund.

1.2 – Budget Adjustments Table

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**

C – Budget Increases and Decreases Description

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 / +40 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. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 made permanent most CBMA provisions of the Tax Cuts and Jobs Act of 2017, with several amendments, including transferring responsibility for administering the CBMA provisions related to imported alcohol from CBP to Treasury as of January 1, 2023. Treasury intends for TTB to administer the new CBMA import claims program.

Under the law, starting in 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.

1.3 – Object Classification (Schedule O) Obligations

Dollars in Thousands

Object Classification	FY 2021 Actual Obligations	FY 2022 Estimated Obligations	FY 2023 Estimated Obligations
11.1 - Full-time permanent	56,625	58,541	66,682
11.5 - Other personnel compensation	1,008	1,005	1,095
11.5 - Overtime	292	582	635
11.9 - Personnel Compensation (Total)	**57,925**	**60,128**	**68,411**
12.0 - Personnel benefits	20,805	21,573	25,241
13.0 - Benefits for former personnel	0	5	5
Total Personnel and Compensation Benefits	**$78,730**	**$81,706**	**$93,657**
21.0 - Travel and transportation of persons	389	1,544	1,903
22.0 - Transportation of things	31	30	34
23.1 - Rental payments to GSA	4,589	4,342	4,557
23.3 - Communication, utilities, and misc charges	900	1,300	1,252
24.0 - Printing and reproduction	204	315	329
25.1 - Advisory and assistance services	10,285	10,489	22,164
25.2 - Other services from non-Federal sources	14,886	15,805	17,812
25.3 - Other goods and services from Federal sources	9,401	9,388	10,632
25.4 - Operation and maintenance of facilities	21	22	24
25.7 - Operation and maintenance of equip	3,295	3,295	2,621
26.0 - Supplies and materials	289	375	388
31.0 - Equipment	8,948	4,451	3,622
32.0 - Land and structures	218	0	0
Total Non-Personnel	**$53,456**	**$51,356**	**$65,336**
Total Obligations[1]	**$132,186**	**$133,062**	**$158,993**
Full-time Equivalents (FTE)[2]	**501**	**520**	**560**

*Amounts reflect obligations from all fund sources including annual appropriation, carryover balances, reimbursables, offsetting collections, and transfers.

[1]FY 2021 reflects actual obligations totaling $132.2 million, of which $125.1 million was from direct resources (new appropriations, carryover from prior years, and a TEOAF transfer) and $7.0 million was from reimbursable resources/offsetting collections. FY 2022 reflects anticipated obligations totaling $133.1 million, of which $125.5 million is from direct resources (new appropriations and carryover from prior years) and $7.6 million is from reimbursable resources/offsetting collections. FY 2023 reflects anticipated obligations totaling $159.0 million, of which $151.1 million is from direct resources (new appropriations and carryover from prior years) and $7.9 million is from reimbursable resources/offsetting collections.

[2]FY 2021 FTE reflects actual total FTE of 501, of which 487 FTE was from direct resources and 14 FTE was from reimbursable resources/offsetting collections. FY 2022 reflects anticipated total FTE of 520, of which 508 FTE is anticipated from direct resources and 12 FTE is anticipated from reimbursable resources/offsetting collections. FY 2023 reflects anticipated total FTE of 560, of which 548 FTE is anticipated from direct resources and 12 FTE is anticipated from reimbursable resources/offsetting collections.

D – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY ALCOHOL AND TOBACCO TAX AND TRADE BUREAU *Federal Funds* SALARIES AND EXPENSES *For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, $150,863,000; of which $5,000,000 shall remain available until September 30, 2024; 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.* Note.—A full-year 2022 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, 2022 (Division A of Public Law 117–43, as amended). The amounts included for 2022 reflect the annualized level provided by the continuing resolution.	

E – Legislative Proposals

TTB has no legislative proposals.

Section II – Annual Performance Plan and Report

A – Strategic Alignment
This year, TTB is working to align budget activities and performance measures to the new objectives in the Treasury FY 2022 – 2026 Strategic Plan. This work will include benchmarking performance and may result in changes to performance measures in the FY 2024 budget. 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. TTB generally administers its jurisdiction according to five strategic goals that support U.S. economic growth and stability: 1) Business Qualification; 2) Labeling Modernization; 3) Tax Compliance; 4) Cross-Border Tax Risk; and 5) Workforce Readiness. TTB's strategic goal of Workforce Readiness 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 through fair and effective administration and enforcement of tax laws. These efforts support Treasury's Objective 1.1 (Tax Administration and Policy), which aims to enhance tax compliance and service, as well as improve tax policy design. The industries TTB regulates have grown significantly in recent years, which presents taxpayer service and enforcement challenges, particularly in light of recent tax reform legislation. These reforms expand TTB's tax mission to include a new import claims program. This new program requires additional investments in TTB to ensure businesses are timely refunded for claims filed on imported alcohol beverage products and to prevent fraudulent claims. At the FY 2023 funding level, TTB will also continue its multi-year IT system modernization of outdated tax and regulatory systems to support efficient filing and processing. In addition, TTB plans to leverage technology to improve the TTB taxpayer experience and increase voluntary compliance, consistent with the Administration's priorities. IT modernization also facilitates data analytics to timely detect fraud, tax evasion, and critical compliance issues that undermine a level playing field.

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. These efforts support Treasury's Objective 1.3 (Economically Resilient Communities) by promoting economic recovery and growth for small businesses in communities across the country, including the thousands of breweries, wineries, and distilleries that TTB regulates. To this end, timely service remains a priority for TTB. As the demand for TTB services from these businesses continues to rise, and within the FY 2023 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 application errors.

B – Budget and Performance by Budget Activity
2.1.1 – Collect the Revenue Resources and Measures

Dollars in Thousands

Resource Level	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Annualized CR	FY 2023 Request
Appropriated Resources	$53,560	$53,560	$58,856	$57,513	$57,526	$57,526	*$77,821*
Reimbursable and Offsetting Collections	$3,217	$3,923	$3,573	$4,131	$3,654	$4,807	*$4,807*
Unobligated Balances from Prior Years	$125	$112	$214	$98	$77	$113	$125
Transfers In/Out	$197	$902	$597	$349	$1,087	$419	*0*
Budget Activity Total	**$57,099**	**$58,497**	**$63,240**	**$62,091**	**$62,344**	**$62,865**	***$82,753***
Full-time Equivalents (FTE)	**223**	**212**	**213**	**211**	**211**	**226**	***267***

The FY 2017 - FY 2021 Appropriated Resources level represents the approved operating plan; all other resources in FY 2017 - FY 2021 represent actual obligations.

Performance Measure	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2021 Target	FY 2022 Target	FY 2023 Target
Amount of Revenue Collected Per Program Dollar ($)	406	369	339	380	375	I	I	I
Voluntary Compliance from Large Taxpayers - Overall (%)	90	90	91	91	93	95	95	95
By Payment	99	99	99	99	99	-	-	-
By Tax Return	79	82	84	84	87	-	-	-
By Operational Report	82	82	83	83	87	-	-	
Electronically Filed Tax Returns - Pay.gov (%)	35	37	41	43	48	55	60	65
Electronically Filed Operational Reports - Pay.gov (%)	39	40	42	46	50	55	60	65
Claims Processed within Service Standard (30-45 days) (%)[1]					71	85	85	85

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.

Collect the Revenue Budget and Performance

($77,821,000 from new direct appropriations, $125,000 from unobligated balances from the prior year, and $4,807,000 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. TTB collects approximately $20.3 billion in Federal tax revenue annually from a tax base of nearly 37,000 businesses. TTB's regulated taxpayers include distilleries, breweries, and wineries, 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 tax evasion and fraud to ensure all products sold in the marketplace are properly taxpaid.

Other Resources……………………………………………………………...$4,932,000

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

Offsetting Collections/Reimbursables…………………………………………………….... $4,807,000

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 $520 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and imported to the United States; reimbursement from

Community Development Financial Institution (CDFI) for IT services provided by TTB; and funding from the Treasury Executive Office of Asset Forfeiture (TEOAF) Mandatory Fund to cover investigative expenses, data systems, and training.

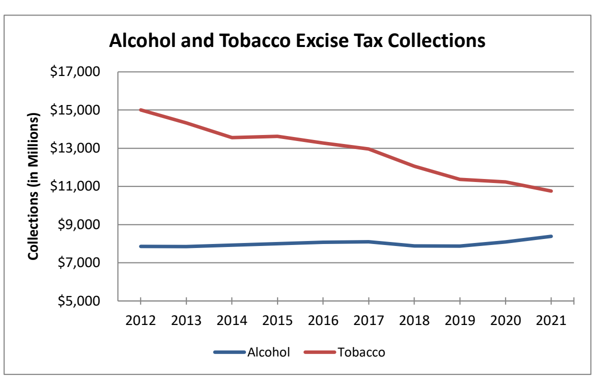
Description of Performance:
TTB combines measures and indicators to demonstrate the effectiveness and efficiency with which TTB operates its tax administration function, including through facilitating voluntary compliance as well as field enforcement efforts to address critical threats to Federal revenues. Through FY 2023, TTB plans to improve tax compliance by 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.

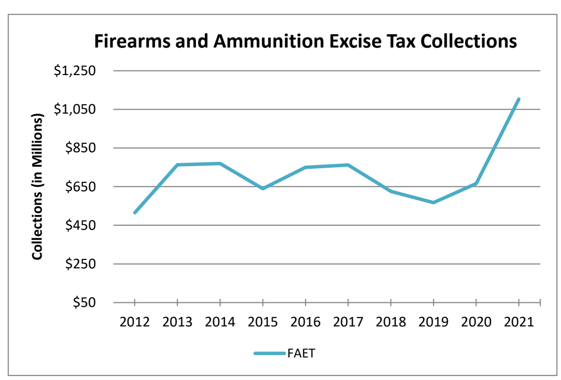
The *Amount of Revenue Collected per Program Dollar* indicator uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2021, TTB achieved a return on investment of $375 for every program dollar spent on collection activities.

Revenue from the alcohol, tobacco, and firearms and ammunition industries increased year-to-year, with alcohol collections up 4 percent, and firearms and ammunition excise tax collections up 66 percent. Tobacco collections continued to steadily decline, down another 4 percent in FY 2021, in line with shifts in consumption patterns, product manufacturing, and trade.

At the same time, TTB's tax administration and enforcement costs have generally decreased over the past two years, as TTB continued to curtail much of its in-person enforcement activities due to the pandemic. TTB anticipates returning to a more robust in-person outreach and enforcement posture in FY 2022, guided by direction from the Administration and public health officials.

Going forward, TTB will continue to monitor its return on investment for its Collect the Revenue activities as a key indicator; however, results will depend on several external factors, including the long-term effects of the craft beverage modernization provisions, and the duration and impact of the COVID-19 pandemic on TTB-regulated industries.





Fostering voluntary compliance among taxpayers is a primary tax administration strategy for

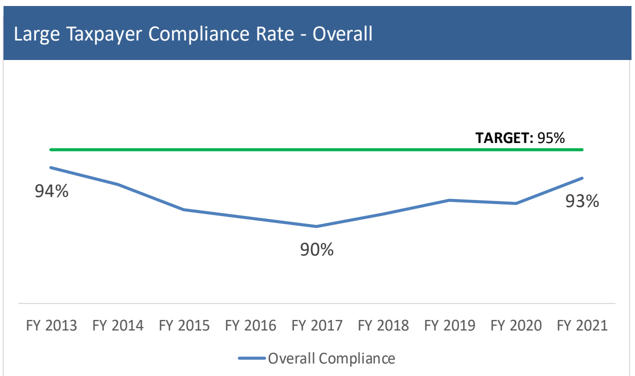
TTB. The *Percent of Voluntary Compliance from Large Taxpayers* is a key performance measure that shows the rate of compliance by large taxpayers (i.e., those that pay more than $50,000 in annual taxes) in voluntarily filing their required tax returns, operational reports, and payments on or before the scheduled due date. TTB uses its tax compliance data to improve the bureau's ability to rate and prioritize taxpayers based on relative risk to ensure TTB addresses the most serious instances and patterns of non-compliance.

To ensure adequate protection of Federal tax revenue, TTB established a high standard for its largest taxpayers, with a targeted filing compliance rate of 95 percent. In FY 2021, TTB achieved an overall compliance rate of 93 percent from its large taxpayers in meeting all tax filing requirements. The overall compliance rate increased from 91 percent in FY 2020. Payment compliance rates remained high at over 99 percent, indicating that the majority of reported liabilities were paid on time. Compliance rates for both tax returns and operational reports increased to 87 percent. These filings provide important information for tax verification and fraud detection, and require continued focus to improve compliance through FY 2023.

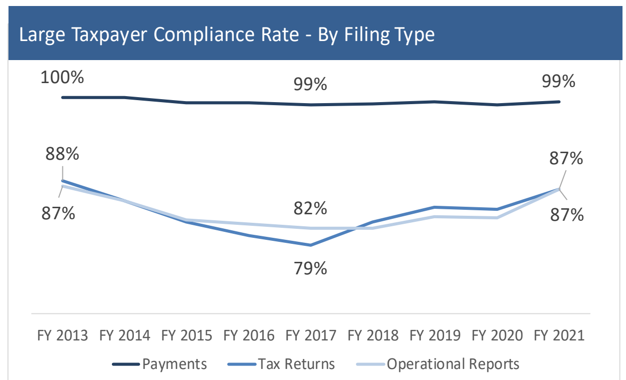
As the taxpayer universe grows, and workloads increase, TTB has faced resource challenges in maintaining taxpayer service and voluntary compliance. In the last five years, the number of TTB taxpayers has increased over 40 percent, which has created additional workload and enforcement challenges, particularly 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 limited resources, TTB outreach efforts to educate industry members on tax requirements have also decreased. More recently, TTB had to defer planned tax policy and technology improvements and shift base resources to prepare to implement the new import refund claims program by the January 2023 statutory effective date. 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 appropriations since FY 2017.

In FY 2021, to improve tax oversight, TTB refined its analytic tools and internal procedures to address identified non-compliance. New dashboard views of taxpayer compliance data include summary and detailed information about each compliance factor (i.e., late/missing tax returns, late/missing operational reports, late payments, and underpayments). Based on these data, TTB used streamlined procedures for reconciling taxpayer accounts and issuing assessments. At the same time, TTB employed new risk criteria for taxpayer referrals for field audits to address serious non-compliance issues that undermine the level playing field. These policy and process improvements proved effective, and have resulted in identified tax liabilities of $135 million and $32 million collections to date. While these assessments were necessary to protect revenue, at the same time, TTB also provided guidance to industry on payment options in cases of financial distress caused by COVID-19.

At the FY 2023 funding level, improving compliance rates will remain a top priority. TTB plans to continue risk-based reviews of taxpayer accounts, with a focus on continued enhancements to analytic tools and expanding analysis into additional taxpayer segments. Over the next several years, TTB also plans to improve its education and outreach strategies to drive compliant behavior across TTB taxpayers, using compliance data to direct its annual outreach plan as well as to prioritize the development of new online tax guidance. These strategies will prove critical to supporting and increasing compliance by the thousands of small businesses that TTB regulates.



Overall compliance trended down in the first part of the past decade – from 94% in FY 13 to 90% in FY 17. Recent enforcement efforts have increased overall taxpayer compliance to 93% in FY 21. Sustaining these improvements requires enhanced technology and guidance to support voluntary compliance by the increased number of TTB taxpayers.



Compliance with tax payment remains high; however, lower compliance scores for required tax returns and operational reports pose challenges to verifying the taxes paid. In addition to IT and guidance, TTB plans to issue rulemaking to streamline its tax requirements to minimize filing burden and support voluntary compliance.

TTB will also focus on increasing tax compliance by developing an improved and integrated online taxpayer experience, supported by the FY 2023 budget request. Today, 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.

Electronic filing rates for tax returns and operational reports trended positively in FY 2020, but remain low compared to other TTB e-filing systems. T TB ended the year at 48 percent of tax returns and 53 percent of operational reports submitted electronically, nearing or just over the annual target of 50 percent. These low rates impede TTB's ability to timely and effectively detect and address non-compliance and add costs to making the data available for routine reconciliation or advanced analytics. Additional Pay.gov promotion is planned in FY 2022, and may improve e-filing rates; however, more significant tax system modernization is likely required for TTB to achieve its FY 2023 target of 65 percent, as well as its long-term target of 80 percent.

At the FY 2023 funding level, and as part of its IT modernization efforts, TTB intends to implement phased releases to its tax system. Planned enhancements include a custom external interface to improve taxpayer options for electronic filing and enable online account management, as well as streamlined internal workflows to support TTB tax administration. In FY 2021, TTB continued to focus its IT development efforts on claims, completing the deployment of a new internal claims processing module to improve service times for issuing refunds on claims for manufacturers of nonbeverage products – filling a critical need for businesses potentially experiencing cash flow issues during the pandemic. In addition, TTB enhanced the web form for industry to file claims online, including improved security features, building on the interim solution deployed at the pandemic onset. TTB also continued critical identity management work, laying the groundwork for a single and secure industry member login across TTB's online systems.

These releases provide a foundation for the new integrated "myTTB" system, and prepare TTB to implement its new import claims jurisdiction. Starting in January 2023, TTB will be responsible for administering refund claims to importers eligible for reduced tax rates and credits under CBMA. These claims are currently administered by CBP; the Taxpayer Certainty and Disaster Tax Relief Act of 2020 transferred jurisdiction to Treasury as of January 1, 2023. Treasury delegated this authority to TTB. With FY 2023 funding, TTB will develop and implement two new IT systems modules – Foreign Producer Registration and Import Claims Submission/Processing. These modules are critical to TTB's plans to implement the CBMA import refund claims program beginning in 2023, and include the associated security and data enhancements to facilitate implementation of the statute. TTB is adding a new measure of *Claims Processed within Service Standard* to monitor its ability to timely issue refund claims across all claims types. 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.

Effective tax administration also requires modernized IT systems to facilitate TTB's data-informed approach to monitoring compliance and timely identifying potential tax evasion – which is even more critical in light of recent tax reforms. At present, resource-intensive manual analysis and reconciliation of multiple reports and returns by specialists, auditors, and investigators, in combination with other data sources, are required to detect and address high-risk activity. In the years ahead, and at the requested funding level, TTB plans to enhance its IT systems and analytics tools to facilitate TTB's use of tax information to more effectively target its limited resources to suspected fraud or tax evasion schemes.

At the FY 2023 funding level, TTB also plans to continue pursuing regulatory remedies to improve tax administration and industry compliance. TTB recognizes that a number of current tax-related reporting requirements are burdensome on industry and, in some cases, require significant TTB resources to administer. To address these issues, and to ensure that TTB's tax requirements are commensurate with revenue risk, TTB completed a broad-based review of its tax return and operational report filing requirements.

The review generated recommendations to significantly streamline requirements to decrease both the amount of information collected as well as the frequency with which it is collected. The review also incorporated changes to TTB requirements to address new risks to underreporting introduced by recent tax reforms. The net effect of these revisions would substantially reduce reporting and filing burdens for industry.

This multi-year initiative will require rulemaking to implement. TTB will work these efforts in tandem with the IT modernization efforts funded through FY 2023 to deliver these new requirements through its new tax system interface. As TTB implements these efforts, the bureau will continuously evaluate and refine its regulatory and statutory options to find solutions to gain efficiencies for industry and TTB, while also boosting overall tax compliance.

2.1.2 – Protect the Public Resources and Measures

Dollars in Thousands

Resource Level	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Annualized CR	FY 2023 Request
Appropriated Resources	$57,879	$57,879	$60,744	$60,744	$66,811	$66,811	*$73,042*
Reimbursable and Offsetting Collections	$2,637	$2,366	$2,666	$2,666	$3,418	$3,073	*$3,073*
Unobligated Balances from Prior Years	$125	$4,166	$4,865	$4,865	$4,534	$4,711	$4,325
Transfers In/Out	$0	$87	0	$0	$0	$419	*$0*
Budget Activity Total	**$60,641**	**$64,498**	**$68,275**	**$68,275**	**$74,763**	**$75,014**	***$80,441***
Full-time Equivalents (FTE)	**265**	**273**	**282**	**284**	**290**	**294**	***293***

The FY 2017 - FY 2021 appropriated resources level represents the approved operating plan; all other resources in FY 2017 - FY 2021 represent actual obligations.

Performance Measure	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2021 Target	FY 2022 Target	FY 2023 Target
Permit Applications Processed within Service Standards (75 days) (%)	48	71	58	84	92	85	85	85
Alcohol Beverage Label and Formula Applications Processed within Service Standards (15 days) (%) [1]	62	84	48	83	92	85	85	85
Initial Error Rate for Permit Applications (%)	82	78	71	62	67	25	25	25
Initial Error Rate for Label and Formula Applications (%)	43	40	37	34	31	25	25	25
Electronically Filed Permit Applications (%)	85	87	89	92	95	95	95	95
Electronically Filed Label and Formula Applications (%)	98	98	99	99	100	I	I	I
Customer Satisfaction Rate with eGov Systems - Permits Online (%)	68	77	68	78	79	80	80	80
Customer Satisfaction Rate with eGov Systems - COLAs Online (%)	82	81	77	80	83	80	80	80
Customer Satisfaction Rate with eGov Systems - Formulas Online (%) [2]	70	79	70	73	80	80	80	80

Key: I – Indicator

[1] 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.

[2] Results represent beverage alcohol filers only (nonbeverage alcohol formula submissions are excluded).

Protect the Public Budget and Performance
($73,042,000 from new direct appropriations, $4,325,000 from unobligated balances from the prior year, and $3,073,000 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 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.

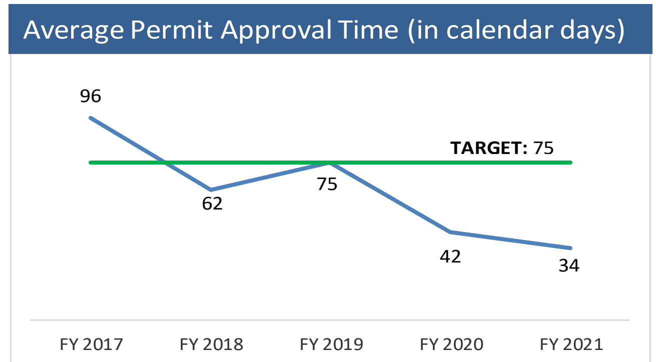
Other Resources……………………………………………………………………… $7,398,000
Unobligated Balances from the Prior Year………………………………………………….....$4,325,000
Offsetting Collections/Reimbursables…………………………………………………….…...$3,073,000
Other resources that support this budget activity include unobligated balances from the prior year appropriation; reimbursement for the operating costs of the TTB Puerto Rico field office, which are offset against the roughly $520 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and imported into the United States; reimbursement by CDFI for IT services provided by TTB; and funding from the TEOAF Mandatory Fund to cover investigative expenses, data systems, and training.

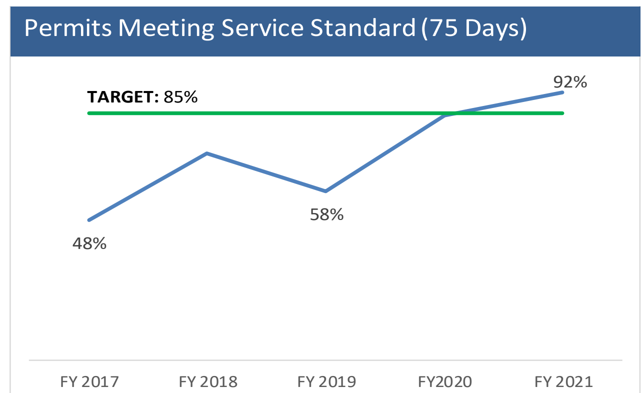
Description of Performance:
TTB uses a combination of measures to monitor the degree to which the bureau is improving industry services and customer experience through meeting its established service standards for permit, label, and formula applications; reducing error rates on applications to address processing delays caused by incomplete or non-compliant submissions; and increasing the user satisfaction rates with TTB's online systems. TTB's strategies to achieve its performance targets for these measures include a combination of improving internal processes, streamlining application requirements, modernizing IT systems, 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, had caused approval times to increase. Approval times spiked to an average of over 120 days in FY 2016 – and over 200 days for alcohol producer applications – delaying operations for these applicants, many of whom had already had made significant upfront investments. In response, TTB established a priority performance goal in FY 2018 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.

Under this priority goal, TTB has significantly improved its service levels for permitting and met both aspects of this goal for the first time in FY 2021. Average approval times are now down to 34 days, another 20 percent reduction compared to last year, and a reduction of 65 percent since this goal was established.





TTB also made substantial gains in the second part of its priority goal to improve the reliability of its service levels. In FY 2021, TTB exceeded its target to achieve the 75-day service standard for 85 percent of permit applicants, ending the year at 92 percent. After reaching historic highs last year, submission volume normalized in FY 2021 as new permit applications related to hand sanitizer production subsided, contributing to these results. TTB also made significant improvements to its management of in-process permit applications, using new dashboards that display key metrics on the status and age of applications to proactively identify and address any processing delays.

Sustaining these performance improvements in FY 2023 and beyond will require continued progress on several crosscutting initiatives. At the requested funding level, TTB will focus on achieving its performance target through ongoing process improvements, updates to its permit applications to simplify and streamline requirements, and IT modernization efforts to improve customer experience with Permits Online.

TTB will also continue to improve its procedures to screen permit applicants, refining the risk criteria, tools, and processes used to vet applicants for suitability to hold a Federal permit. TTB will 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 prior to TTB review and verification, 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 have reached over 80 percent. Error rates are highest for prospective breweries, wineries, and distilleries, which have more complex applications compared to non-manufacturers (i.e., wholesalers and importers). In FY 2021, TTB achieved an error rate on new permit applications of 67 percent, up from 62 percent in FY 2020, but still down significantly from 82 percent in FY 2017. This increase was anticipated following the expiration of expedited review policies employed last year for hand sanitizer-related applications. As operations normalized in FY 2021, error rates increased, but are staying below 70 percent, indicating that recent efforts to streamline applications and processes are resulting in sustained improvements. Notably, error rates on brewery applications, an area of focused policy and process updates, have declined by approximately 10 percent since FY 2017.

Going forward, TTB will continue to focus on reducing errors on permit applications that delay processing and frustrate applicants. The bureau expects significant progress in the next few years as it continues to simplify permit requirements and modernize IT systems to make filing easier. In FY 2021, TTB implemented a major IT system enhancement based on recommendations from a review of its process for returning permit applications for corrections. Previously, the Permits Online filing system did not allow an applicant to add or correct information on the application after it was submitted. Instead, it was handled via email exchange between the TTB specialist and applicant, creating processing inefficiencies and limiting effective oversight of in-process applications. As part of the IT modernization initiative, Permits Online now enables incomplete applications to be returned and corrected by the submitter within the system. Preliminary results indicate processing efficiencies as well as more effective communications with industry members that improve the user experience. The new functionality also provides TTB with better access to data on frequent errors to direct its system development efforts and improve online guidance.

According to its measure of the *Percent of Electronically Filed Permit Applications*, which tracks the electronic filing rate for new business applications, TTB received 95 percent of permit applications via Permits Online in FY 2021. TTB attributes this ongoing increase to improvements in the Permits Online system, which provides improved guidance for first-time filers to navigate the application process. These system changes, combined with ongoing updates to online guidance available to industry, will continue to support TTB in achieving its FY 2023 targets to sustain electronic filing rates at or above 95 percent and reduce error rates on permit applications to 25 percent.

As part of its strategy to optimize 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 2021, system satisfaction rates increased to 79 percent, ending the year just short of the 80 percent target. Notably, satisfaction continues to rise in conjunction with improved permit approval times, demonstrating a strong correlation between service levels and system satisfaction.

TTB expects this positive trend to continue in line with improved service times, and as TTB implements broader system modernization efforts supported by FY 2023 funding to provide applicants with a single integrated online filing experience. Additionally, TTB will focus on improving the level of service at its call center for customers seeking live assistance with the permit application process. Going forward, and at the requested funding level, TTB will improve its use of call center data to understand customer pain points and support strategic system enhancements to improve customer satisfaction.

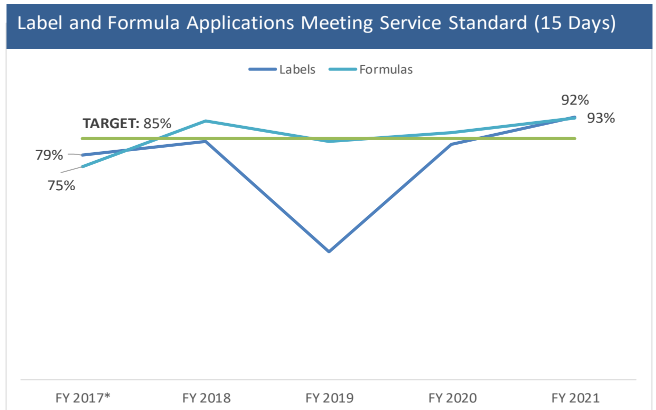
Broader changes to TTB's application requirements, some of which require rulemaking, are also underway. Using a zero-baseline approach in which no existing rule was taken for granted, TTB plans to modernize and streamline permit applications to minimize burden while meeting its statutory responsibilities and enforcement needs. The proposed changes are also informed by industry input on Treasury regulations that can be eliminated, modified, or streamlined to reduce burdens.

In early FY 2022, TTB published the first in a series of proposed rulemakings to simplify permit applications, starting with distilled spirits plants. The proposed changes should dramatically reduce open text fields and requirements to upload supporting documentation. In addition to reducing compliance burdens, the simplified requirements should also reduce the number of initial permit applications submitted with errors, which should contribute to improved approval times. The requested funding level supports TTB plans to publish similar notices for breweries and wineries by the end of FY 2023. These changes may need to be fully implemented before TTB can achieve and sustain its targeted performance levels for FY 2023, particularly as the alcohol beverage industry continues to grow.

In FY 2021, TTB received over 195,000 label and 28,000 formula applications for new alcohol beverage products. 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 the last five years, in line with industry expansion and product innovation, submission volume has increased 15 percent for labels and 100 percent for formulas. COVID-19 temporarily halted the growth in label applications in FY 2020. However, in FY 2021, submissions rebounded to near pre-pandemic levels, increasing 7 percent over FY 2020. Distilled spirits label applications continued to lead this trend, increasing more than 20 percent over last year and nearly 60 percent in the last five years, driven by ongoing product innovation. This innovation has also contributed to increased formula submission across all alcohol beverage commodities. Malt beverage formula submissions continue to increase at the fastest rate, up another 32 percent compared to last year, due to the use of novel ingredients and market trends toward flavored malt beverage products.

In light of customer expectations, and supported by funding again enacted in the FY 2021 budget to accelerate approval times, TTB maintained a 15-day service standard for alcohol beverage label and formula applications in FY 2021. TTB set a performance target to meet this service standard for 85 percent of applications. Even as submission volume increased to pre-COVID levels, label performance improved in FY 2021. TTB ended the year at 93 percent of label applications meeting the 15-day standard, exceeding its performance target. This was achieved through effective monitoring and management of the application backlog combined with strategic workforce management to efficiently deploy staff in response to submission fluctuations. B y 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 performance target. By year-end, label and formula applicants received approval in just 6 days on average, well below the 15-day standard, and a significant improvement over the 30 - 45 day standards that the bureau set and struggled to achieve in the past.



*Historic data adjusted to reflect the 15-day service standard for FY 2018 - 2021 to support trend analysis.

TTB expects performance to continue to trend positively at the FY 2023 requested funding level through continuous queue management and strategic resource alignment. As a result, TTB intends to maintain its 15-day service standard for label and formula applications. TTB will also work to sustain its progress in meeting this standard for at least 85 percent of applications in FY 2023 through initiatives to modernize IT systems and guidance, with particular focus on high frequency application errors that increase total workload and challenge timely processing.

Application errors are a key driver of label and formula processing times due to the additional review required for each resubmitted application. TTB uses 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 2021, approximately 31 percent of label and formula applications were submitted incomplete or with errors, demonstrating continued year-to-year progress toward the targeted performance level of 25 percent. TTB made gains across commodity and application types. Notably, TTB ended the fiscal year at target for wine formulas and just above target at 26 percent for wine labels, proving the effectiveness of prior year strategies that focused on this commodity.

In FY 2021, TTB continued to use a data-driven strategy to address the most frequent application errors, with the goal of increasing the number of applications that do not need to be returned for correction. TTB made progress in issuing improved guidance on TTB.gov for each alcohol beverage commodity. This includes 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 prior to filing a label – a high frequency error. Going forward, TTB intends to further reduce error rates by increasing and integrating industry guidance available on TTB.gov and its online systems. Once complete, TTB will have completely refreshed its core labeling guidance in an easy-to-read, user-friendly format to help improve compliant label submissions and reduce the burden of resubmissions on TTB and industry.

In addition, TTB continued its initiative to modernize Federal alcohol beverage labeling regulations to reflect current TTB policy and modern industry practices. When finalized, the updated regulations will facilitate industry compliance through simplified regulatory standards and reduce burdens where possible. In April 2020, TTB published the first final rule in its phased labeling modernization rulemaking, codifying a number of liberalizing proposals that received broad consensus and industry support. During FY 2021, TTB focused on updating industry guidance on TTB.gov so that industry could comply with and benefit from the new rules. Subsequent phases planned for fiscal years 2022 and 2023 will address specific labeling and advertising proposals for each alcohol beverage commodity, as well as crosscutting labeling issues. TTB will also indicate issues the bureau intends to close or reserve for future rulemaking. Through rulemaking, as well as policy guidance, TTB is seeking to equip industry with the information needed to submit more complete and accurate label and formula applications.

Sustaining service levels in FY 2023 will also be supported through ongoing enhancements to TTB's online systems. Over the last several years, TTB has deployed system enhancements to Certificate of Label Approvals (COLAs) Online and Formulas Online, focusing its efforts on compliance validations and embedded help features to address frequent application errors. These system releases have targeted both application errors (e.g., incomplete form fields) and label compliance errors (e.g., use of prohibited terms or images). FY 2021 results indicate that the changes implemented to date have proven effective, with error rates for label and formula applications ending the year at 31 percent, down 3 percent overall compared to last year, and 9 percent since FY 2018.

To be successful in this strategy, 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 nearly 100 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. In FY 2021, through its IT system modernization efforts, TTB expanded and improved system-based validations. These efforts included an enhancement to prevent the submission of label applications with low quality images. Problems with image legibility are among the top errors on label applications, and the system now flags low-resolution images so an applicant can address the error before they submit. Going forward, TTB plans to test the use of artificial intelligence to detect text and image errors on label applications, with the goal of alerting users to certain types of errors prior to submitting an application. As part of IT modernization, and at the FY 2023 funding level, TTB will also employ error data and user testing and feedback to make iterative enhancements to COLAs Online and Formulas Online to reduce application errors.

Through its measures of *Customer Satisfaction with COLAs Online and Formulas Online*, TTB monitors user satisfaction with the process of submitting an application through its electronic filing 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, meeting or exceeding the performance target for both systems. 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 system improvements funded at the FY 2023 request level, combined with regular review of survey feedback, will help TTB continue to exceed its user satisfaction target of 80 percent and attract users to its online systems to maintain its high electronic filing rates.

C – Changes in Performance Measures

Performance Measure or Indicator	Proposed Change and Justification
Claims Processed within Service Standard (30 - 45 days) (%)	TTB is proposing to add a performance measure on the percentage of claims that meet service standards, which will capture the different types of TTB claims (drawback and other claims as of FY 2022, and CBMA import claims as of FY 2023).

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 compliance with excise tax laws and 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 and equipment 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://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx.