

## Alcohol and Tobacco Tax and Trade Bureau

### Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2022	FY 2023	FY 2024	FY 2023 to FY 20234	
	Operating Plan <sup>1</sup>	Operating Plan <sup>1</sup>	Request	\$ Change	% Change
Collect the Revenue	\$59,252	\$76,895	\$80,847	\$3,951	5.14%
Protect the Public	\$68,815	\$71,968	\$74,757	\$2,790	3.88%
<b>Subtotal, TTB</b>	<b>\$128,067</b>	<b>\$148,863</b>	<b>\$155,604</b>	<b>\$6,741</b>	<b>9.01%</b>
Reimbursable and Offsetting Collections <sup>2</sup>	\$8,533	\$9,690	\$9,690	\$13,482	139.13%
Unobligated Balances from Prior Years <sup>3</sup>	\$4,850	\$4,450	\$4,450	\$23,013	517.13%
Transfers In/Out <sup>4</sup>	\$821	\$0	\$0	\$43,236	NA
<b>Total Program Operating Level</b>	<b>\$14,204</b>	<b>\$14,140</b>	<b>\$14,140</b>	<b>\$79,730</b>	<b>656.26%</b>
<b>Total Budgetary Resources</b>	<b>\$142,271</b>	<b>\$163,003</b>	<b>\$169,744</b>	<b>\$86,471</b>	<b>665.27%</b>
Direct FTE	479	548	551	3	0.55%
Reimbursable FTE	12	11	11	0	0.00%
<b>Total Full-time Equivalents (FTE)</b>	<b>491</b>	<b>559</b>	<b>562</b>	<b>3</b>	<b>0.55%</b>

1/ FY 2022 New Appropriated Resources by Budget Activity reflect levels appropriated in P.L. 117-103, the Consolidated Appropriations Act, 2022. FY 2022 Other Resources and Full-time Equivalents (FTE) reflect actuals. FY 2023 New Appropriated Resources by Budget Activity & FTE reflect levels appropriated in P.L. 117-328, the Consolidated Appropriations Act, 2023.

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

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

4/ FY 2022 actual obligations include a transfer from TEOAF Strategic Support & Secretary's Enforcement Fund.

### Summary

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

At the FY 2024 funding level, and in support of the Administration's economic recovery and growth priorities, TTB plans to continue to focus on timely service levels and improving taxpayer experience by simplifying tax and regulatory requirements, modernizing online filing systems to improve the customer experience, and issuing clear and timely industry guidance to facilitate voluntary compliance.

Service remains a top priority, as delays to issuing permits or product approvals have financial consequences for the viability of businesses. At the FY 2024 funding level, TTB expects to maintain permit, label, and formula approval times within service standards. Further, TTB will ensure access to tax benefits available to alcohol producers and importers under the permanent craft beverage modernization tax provisions, including by issuing timely refunds on import claims. In FY 2024, TTB plans to take a data-driven and risk-based approach to administering the new import claims program. The budget request supports ongoing enhancements to new

online registration and filing systems, as well as the necessary tax administration and enforcement staff, to administer this program.

Complex or overly burdensome regulatory requirements do not serve the interests of taxpayers, consumers, or government effectiveness. In FY 2024, TTB plans to continue three major regulatory reform efforts in permitting, tax, and alcohol beverage labeling to consolidate, clarify, and simplify requirements and, where possible, minimize filing frequency. The revised requirements will ease burdens placed on new and existing businesses and make it easier to voluntarily comply. At the same time, TTB plans to tailor the requirements to improve data quality and better detect risk to direct enforcement efforts. Further, TTB will prioritize rulemaking to promote fair competition, including proposals that would expand information on alcohol beverage labels to provide greater transparency for consumers and alcohol producers.

At the FY 2024 funding level, TTB will also continue to make critical investments in its online filing systems as part of its information technology (IT) modernization strategy to develop an integrated online experience for all tax and regulatory transactions with TTB. By improving the ease and usability of its online platforms, TTB aims to increase electronic submissions, improve timely filings, and support taxpayer compliance. Investments planned in FY 2024 focus on the initial phases of implementing simplified tax filings for all wineries, breweries, and distilleries, a priority focus for TTB, in its efforts to make compliance clearer and easier while addressing the fact that the industry still submits roughly half of all tax filings on paper.

***Budget Highlights***

Dollars in Thousands

	FTE	Amount
<b>FY 2023 Operating Plan</b>	<b>548</b>	<b>\$148,863</b>
<b>Changes to Base:</b>		
Maintaining Current Levels (MCLs):	0	5,770
Pay Annualization (2023 4.6% average pay raise)		1,038
Pay Raise (5.2% average pay raise)		3,560
Non-Pay		1,172
Subtotal Changes to Base	0	5,770
<b>FY 2024 Current Services</b>	<b>548</b>	<b>\$154,633</b>
<b>Program Changes:</b>		
Program Increases:	3	971
Taxpayer Experience & Administration	3	971
<b>Subtotal Program Changes</b>	<b>3</b>	<b>\$971</b>
<b>FY 2024 President’s Budget Request</b>	<b>551</b>	<b>\$155,604</b>

Note: In addition to the amounts requested above, a total of \$2.5 million from the Cybersecurity Enhancement Account will be allocated to support TTB’s Zero Trust Architecture.

***Budget Adjustments***

**Maintaining Current Level (MCLs).....+\$5,770,000 / +0 FTE**

**Pay Annualization (4.6%) +\$1,038,000 / +0 FTE**

Funds are requested for annualization of the January 2023 4.6% average pay raise.

Pay Raise (5.2% in FY 2024) +\$3,560,000 / +0 FTE  
 Funds are requested for a 5.2% average pay raise in January 2024.

Non-Pay (2.0% in FY 2024) +\$1,172,000 / +0 FTE  
 Funds are requested for non-labor expenses such as travel, contracts, rent, supplies, and equipment.

**Program Increases.....+\$971,000 / +3 FTE**

Taxpayer Experience & Administration, +\$971,000 / + 3 FTE

TTB is requesting \$971 thousand and 3 FTE to invest in improvements to transform the TTB taxpayer experience and tax administration through simplified tax filings. Through a combination of tax expertise and customer engagement, TTB plans to initiate implementation of redesigned tax returns, reporting requirements, and system enhancements to reduce compliance burden and to streamline and improve data collections. This investment will make it easier for taxpayers to comply, especially for the small businesses who comprise the vast majority of TTB taxpayers and cannot afford compliance staff to support their operations.

**Legislative Proposals**

TTB has no legislative proposals.

**Performance Highlights**

Budget Activity	Performance Measure	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
		Actuals	Actuals	Actuals	Target	Target
Collect the Revenue	Amount of Revenue Collected Per Program Dollar (\$) *	380	375	336	I	I
Collect the Revenue	Voluntary Compliance from Large Taxpayers - Overall (%)	91	93	93	95	95
Collect the Revenue	<i>By Payment</i>	99	99	99	-	-
Collect the Revenue	<i>By Tax Return</i>	84	87	87	-	-
Collect the Revenue	<i>By Operational Report</i>	83	87	86	-	-
Collect the Revenue	Electronically Filed Tax Returns - Pay.gov (%)	43	47	51	65	65
Collect the Revenue	Electronically Filed Operational Reports - Pay.gov (%)	50	53	56	65	65
Collect the Revenue	Claims Processed within Service Standard (30-45 days) (%) <sup>1</sup>	46	59	58	85	85
Protect the Public	Permit Applications Processed within Service Standards (75 days) (%)	84	92	91	85	85
Protect the Public	Alcohol Beverage Label and Formula Applications Processed within Service Standards (15 days) (%) <sup>2</sup>	83	92	93	85	85
Protect the Public	Initial Error Rate on Permit Applications	62	67	64	25	25
Protect the Public	Initial Error Rate for Label and Formula Applications	34	31	29	25	25
Protect the Public	Electronically Filed Permit Applications - Original (%)	92	95	95	95	95
Protect the Public	Electronically Filed Permit Applications - Amendments (%) (NEW) <sup>3</sup>	85	83	79	90	90

Protect the Public	Electronically Filed Label and Formula Applications (%) *	99	100	100	I	I
Protect the Public	Customer Satisfaction Rate with eGov Systems - Permits Online	78	79	78	80	80
Protect the Public	Customer Satisfaction Rate with eGov Systems - COLAs Online	80	83	83	80	80
Protect the Public	Customer Satisfaction Rate with eGov Systems - Formulas Online <sup>4</sup>	73	80	78	80	80

\*Performance indicators do not have a target

1/ Claims services standards are set annually and vary by type: Manufacturer of Non-beverage Products = 30 days; Other Claims = 45 days; CBMA Import Claims = TBD. Current standards account for when interest starts to accrue to the government, as defined by statute.

2/ Service standards are set annually based on TTB analysis of submission volume, error rates, and resource levels. In FY 2018, following a spike in submission volume, TTB set service standards of 15 days for both label and formula applications. TTB has maintained this standard through FY 2024.

3/ Results represent amendment submissions, with multiple permit amendment types often submitted on a single submission; the ability to submit multiple amendments via a single submission took effect in Q4 FY 2019.

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

### ***Description of Performance***

In FY 2022, TTB met or exceeded the performance targets for 6 of its 13 performance measures. TTB also monitored performance through several key indicators that support data-driven decision making across TTB's strategic goals. Despite falling short in seven performance goals in FY 2022, TTB made substantial improvements in many key service and operational measures. To meet its performance goals in FY 2024, TTB will implement an ambitious agenda that integrates policy updates, process improvements, modern technology, and data-driven outreach and enforcement.

TTB's Collect the Revenue budget activity includes all tax processing, verification, enforcement, and outreach efforts related to administering the Federal excise tax on alcohol, tobacco, firearms, and ammunition products. In ensuring a level playing field for those engaged in the trade of these regulated commodities, TTB takes appropriate enforcement action to detect and address tax evasion and fraud to ensure all alcohol and tobacco products sold in the marketplace are properly taxpaid.

In FY 2022, TTB collected excise taxes totaling \$19.6 billion from a tax base of nearly 39,000 taxpayers, comprised of \$10.1 billion for tobacco products, \$8.3 billion for alcohol beverage products, and \$1.2 billion for firearms and ammunition. The investments in the Collect the Revenue activity resulted in the following performance highlights and accomplishments during FY 2022:

- TTB returned \$336 for every dollar invested in its tax collection activities.
- Electronically filed tax returns and operational reports trended positively in FY 2022, with roughly half of TTB tax submissions submitted to TTB via Pay.gov, a Bureau of the Fiscal Service system that TTB relies on for the e-filing of tax returns, tax payments, and operational reports. Ongoing high rates of paper filings make compliance monitoring and fraud detection more difficult and costly, however, and have a higher environmental impact. As part of its IT modernization efforts and to increase electronic filing, TTB plans to implement phased releases to its tax system, including a custom external interface for the direct submission of tax filings with TTB (rather than via Pay.gov) and account management capabilities, as well as enhanced internal workflows to support TTB tax administration. At the FY 2024 funding level, efforts will focus on implementing redesigned tax filing requirements to reduce compliance burden and to streamline and improve data collections.

This investment will also make it easier for taxpayers to comply by combining operational reports and tax returns into a single submission.

- Fostering voluntary compliance among taxpayers is a primary tax administration strategy for TTB. TTB evaluates voluntary compliance by measuring the percent of taxpayers who voluntarily file their required tax returns, operational reports, and payments on or before the scheduled due date. In recent years, the Bureau has made progress in reversing the declining filing compliance trend for its large taxpayers, defined as those with \$50,000 or more in annual tax liability. Given the revenue exposure, TTB set a high target for filing compliance for its largest taxpayers at 95 percent. In FY 2022, TTB achieved an overall compliance rate of 93 percent from its large taxpayers in meeting all tax filing requirements, sustaining progress achieved last year. Payment compliance rates remain high, at over 99 percent, indicating that the majority of reported liabilities were paid on time. Compliance rates for timely filed tax returns remained at 87 percent in FY 2022, and compliance rates for timely filed operational reports dipped slightly to 86 percent, warranting continued focus on these filing requirements in the year ahead. At the FY 2024 funding level, improving compliance rates will remain a priority for TTB. Strategies to advance them include continuing to review large taxpayer accounts based on compliance risk, implementing ongoing enhancements to analytics tools, and expanding compliance reviews into the next tier of taxpayer segments. To support taxpayers seeking to voluntarily comply, TTB plans to improve its education and outreach strategies across TTB taxpayers, using customer feedback, user testing, and compliance data to prioritize TTB outreach as well as 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.
- In FY 2022, TTB continued to focus IT development efforts on improving existing claims processes as well as developing new systems to administer the CBMA import claims program beginning in FY 2023. For the majority of claims types, TTB met the 45-day service standard for 69 percent of submissions; however, for claims submitted by manufacturers of non-beverage products (MNBP), the highest volume claim type, TTB met the 30-day standard for only 46 percent of submissions. TTB also deployed enhancements to its existing module to support timely processing of MNBP claims, helping to reduce backlogs. As a result, the percent of MNBP claims meeting the 30-day service standard increased from 30 percent or less in the first six months of FY 2022 to approximately 70 percent or more in the last six months of the year. In addition, TTB initiated development of a new module to enable industry to file claims online, which will replace the web form deployed as an interim solution at the pandemic onset. At the FY 2024 funding level, TTB will continue to deploy enhancements to its two CBMA import claims systems, including incorporating external data validations and adding usability enhancements to support effective claims processing. This is a key strategy to ensure that TTB maximizes its capacity to maintain timely service despite the influx of new import claims beginning in FY 2023, which TTB expects to nearly double the number of claims submitted to TTB.

TTB's Protect the Public budget activity funds the programs that ensure the integrity of alcohol beverage products and industry members in the marketplace; promote compliance with Federal laws and regulations by the more than 119,000 businesses that TTB regulates; facilitate fair and lawful domestic and international trade in the alcohol and tobacco commodities; and provide full

and accurate alcohol beverage product information to the public as a means to prevent consumer deception.

The investments in the Protect the Public activity resulted in the following performance highlights and accomplishments during FY 2022:

- Federal law prohibits the import or domestic bottling of an alcohol beverage without an approved Certificate of Label Approval (COLA), making this service integral to U.S. businesses and economic recovery priorities. In FY 2022, TTB received more than 193,000 label applications and 27,000 formula applications for new alcohol and beverage product approvals. While submission volume remains high, reflecting industry expansion and product innovation in recent years, signals of industry recovery slowed in FY 2022, with total label applications down roughly one percent. TTB ended the year at 93 percent of label applications meeting the 15-day service standard, exceeding the 85 percent target. This was achieved through effective monitoring and management of the application backlog combined with strategic workforce deployment in response to submission fluctuations. In terms of formula applications, after years of double-digit growth, applications decreased for the first time in FY 2022, down over five percent compared to last year. By employing similar strategies, TTB exceeded the targeted performance level, ending the year at 90 percent of formula applications meeting the 15-day standard, despite staffing shortages in the formulation office due to attrition.
- A TTB permit or registration is required before a business can lawfully operate in the alcohol and tobacco industries, and TTB ensures a fair and lawful marketplace by screening permit applicants to ensure only qualified persons engage in operations. In FY 2022, TTB received approximately 8,200 applications for a Federal permit or registration, and qualified approximately 6,400 new businesses, predominantly small businesses. Although the annual rate of growth has slowed, the overall application volume remains high compared to historic levels, particularly in some of the more complex permit application types related to producing alcohol beverage products. Despite these trends, TTB has achieved and sustained significant improvements in its service levels for permitting in recent years. Average approval times are now 36 days, sustaining progress achieved last year. Additionally, TTB surpassed its target to issue permits within the 75-day service standard for 85 percent of applicants, ending the year at 91 percent. TTB achieved these performance gains in part due to TTB's improved management of in-process permit applications and by continuing to cross-train specialists to allow management to redeploy staff as necessary to cover fluctuations in application types. Going forward, TTB plans to achieve its performance target through ongoing process improvements and updates to its permit applications to simplify and streamline requirements. At the FY 2024 requested funding level, TTB will also continue its IT modernization efforts to improve the customer experience with Permits Online, including enhanced guidance and self-service features to help applicants submit compliant applications.
- TTB continues to make progress in reducing the error rate on initial permit, label, and formula applications, a critical strategy to maintaining timely service across these programs. For each application type, the Bureau is targeting a 25 percent error rate in submissions to TTB. Although TTB has not yet achieved this target, the Bureau has made significant progress in each application area. For permit applications, the FY 2022 error rate was 64 percent, an improvement of approximately 15 percent over the past five years, indicating that

efforts to streamline applications and processes are resulting in sustained improvements. The Bureau expects additional progress in the next few years as it continues to simplify permit requirements and improve IT systems to make filing easier. TTB also continued to substantially reduce error rates for label and formula applications in FY 2022, with error rates at 29 percent and 28 percent, respectively. These gains demonstrate the ongoing effectiveness of prior year strategies that focused on reducing errors through targeted guidance, system validations, and analysis of high frequency errors. At the FY 2024 funding level, TTB plans to continue its data-driven strategy to better understand customer pain points to develop effective guidance and system enhancements that will improve the overall customer experience and reduce errors on TTB submissions.

- System enhancements to date have resulted in high rates of customer satisfaction with TTB's eGov systems. TTB monitors user satisfaction with the process of submitting an application through its eGov systems, collecting responses via e-mail survey to assess factors such as ease of access, guidance, and overall experience. In FY 2022, satisfaction rates held at 83 percent for COLAs Online users, exceeding the 80 percent performance target; however, satisfaction rates declined slightly from 80 percent to 78 percent for Formulas Online users and from 79 percent to 78 percent for Permits Online users. At the FY 2024 funding level, TTB expects system satisfaction rates to exceed the 80 percent target as the Bureau engages in broader modernization efforts to provide applicants with a single integrated online filing experience, including through the regular review of survey feedback.
- TTB also continues to sustain high electronic filing rates. In FY 2022, nearly 100 percent of all label and formula applications continued to be submitted via COLAs Online and Formulas Online, and 95 percent of permit applications were submitted via Permits Online. TTB attributes the high rates of electronic filing to continued system improvements as well as ongoing promotion at industry conferences and seminars. At the FY 2024 funding level, TTB is proposing to add a performance measure on the electronic filing rate of applications to amend a Federal permit or registration. The data will come from Permits Online, TTB's current online filing system for permit applications. This measure provides information on system use for this critical industry service and aids in monitoring the efficiency of program operations.