Audit Report

OIG-22-024

FINANCIAL MANAGEMENT

Audit of the Alcohol and Tobacco Tax and Trade Bureau's Financial Statements for Fiscal Years 2021 and 2020

December 21, 2021

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 21, 2021

MEMORANDUM FOR MARY RYAN, ADMINISTRATOR
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

FROM: Ade Bankole /s/
Acting Director, Financial Statement Audits

SUBJECT: Audit of the Alcohol and Tobacco Tax and Trade Bureau's Financial Statements for Fiscal Years 2021 and 2020

We hereby transmit the attached subject report. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Alcohol and Tobacco Tax and Trade Bureau (TTB) as of September 30, 2021 and 2020, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements,* and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual.*

In its audit of TTB, KPMG found:

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no deficiencies in internal control over financial reporting that are considered material weaknesses; and
- no instances of reportable noncompliance with laws, regulations, and contracts tested.

KPMG also issued a management letter dated December 17, 2021, discussing certain matters that were identified during the audit but were not required to be included in the auditors' report. These matters involved inappropriate access granted in Integrated Revenue Information System application and insufficient controls in identifying criminal restitution receivables. This letter will be transmitted separately.

In connection with the contract, we reviewed KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on TTB's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for the attached auditors' report dated December 17, 2021, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 927-5329, or a member of your staff may contact Shiela Michel, Manager, Financial Statement Audits, at (202) 927-5407.

Attachment

Alcohol and Tobacco Tax and Trade Bureau

Annual Report

Fiscal Year 2021

Alcohol and Tobacco Tax and Trade Bureau

Annual Report

Fiscal Year 2021

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

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Introduction

Within its FY 2021 Annual Report, the U.S. Department of the Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) combines program performance with financial data to demonstrate how effectively the Bureau translates its program dollars into effective market protection and fair and efficient tax administration.

Each year, as part of the performance and budget cycle, TTB issues this report to inform its stakeholders of the Bureau's accomplishments and explain any challenges. The report defines the Bureau's mission, strategic goals, and major programs, and summarizes its progress in meeting the objectives outlined in the TTB strategic plan. TTB also presents financial information that depicts how TTB expends its budget according to its major programs and accounts for tax collections from the alcohol, tobacco, firearms, and ammunition industries.

This report presents this information in four parts:

▶ PART I – MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides an overview of the Bureau, including its mission and programs, and highlights of program performance and financial operations.

▶ PART II – ANNUAL PERFORMANCE REPORT

This section provides a discussion of mission results achieved by strategic goal and related strategic objectives according to TTB's Collect the Revenue and Protect the Public budget activities.

▶ PART III – FINANCIAL RESULTS, POSITION, CONDITION AND AUDITORS' REPORT

In this section, TTB presents audited balance sheets, statements of net cost, changes in net position, budgetary resources, and custodial activity as of and for the years ending September 30, 2021, and September 30, 2020, and the Independent Auditors' Report on these financial statements. Also included is a report on the Bureau's internal controls over financial reporting and a report on TTB's compliance with laws and regulations. This section also includes a discussion of TTB's budget activities by its seven major programs, as well as supplemental information that includes a history of Federal excise tax collections for the past decade.

▶ PART IV – APPENDICES

This section includes a list of TTB's principal officers and strategic plan information that demonstrates the relationship between TTB's plan and the Department of the Treasury's mission and goals.

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MESSAGE FROM THE ADMINISTRATOR

FY 2021 was a year that tested the resiliency of our nation. For TTB, it tested our endurance and creativity, and forced us to rethink how we operate, how we interact, and how we serve our customers.

Within the industries that TTB regulates, there are promising signs that these businesses not only survived the worst effects of the pandemic, but found ways to thrive despite challenges and setbacks. Revenue collections are up, and we are seeing historically high volumes of requests for new alcohol beverage product approvals.

As industry rebounds and the demand for our services continues to increase, we know that we must adapt and transform our mission and operations in response – and we are not thinking small. This year, even as we met and surpassed our service goals, we remained focused on broader modernization efforts to keep us on target as industry recovers and grows.

This year, we continued our multi-year initiatives to modernize Federal regulations in the permitting, taxation, and labeling of alcohol beverages. Using a zero baseline approach in which we took no existing rule for granted, we plan to fundamentally change what we require of businesses to qualify for a TTB permit, as well as what they must routinely file to meet their tax obligations. These efforts will lessen industry burdens, and also supply critical information that TTB needs to protect the revenue. Rulemaking to simplify our permit applications has already begun, informed by industry input on ways in which we can simplify or eliminate burdensome requirements, and more is underway for FY 2022.

We are also focused on improving TTB services, breaking down siloes to provide a seamless and integrated customer experience. These efforts hinge on modernizing our IT systems, replacing existing legacy applications with a new myTTB portal where industry members can complete all business interactions with TTB. This, combined with better online guidance and ongoing industry outreach, will help lighten the load for these businesses as they continue to recover.

TTB is also facing its own period of rebuilding. Like so many of the businesses we serve, the Bureau has experienced strain over the course of the last two years, and so we are also looking inward at necessary measures to improve our workforce readiness so we can preserve our long-term sustainability and maintain the hard won performance gains we've recently achieved.

In many respects, the year ahead will be equally challenging. The TTB mission is expanding in new and significant ways that will require the ingenuity and efforts of the entire Bureau, including establishing a new program to administer the import provisions of the Craft Beverage Modernization Act. To meet these challenges, we will continue to operate within our values – inviting stakeholders to inform our policies and programs, engaging in candid dialogue about issues, and always remaining focused on delivering results.

Mary G. Ryan
TTB Administrator

TTB validated the accuracy, completeness, and reliability of the financial and performance data in this report.

MISSION, VISION, AND VALUES

MISSION

Our mission is to:

- **COLLECT** the taxes on alcohol, tobacco, firearms, and ammunition;
- **PROTECT** the consumer 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.

VISION

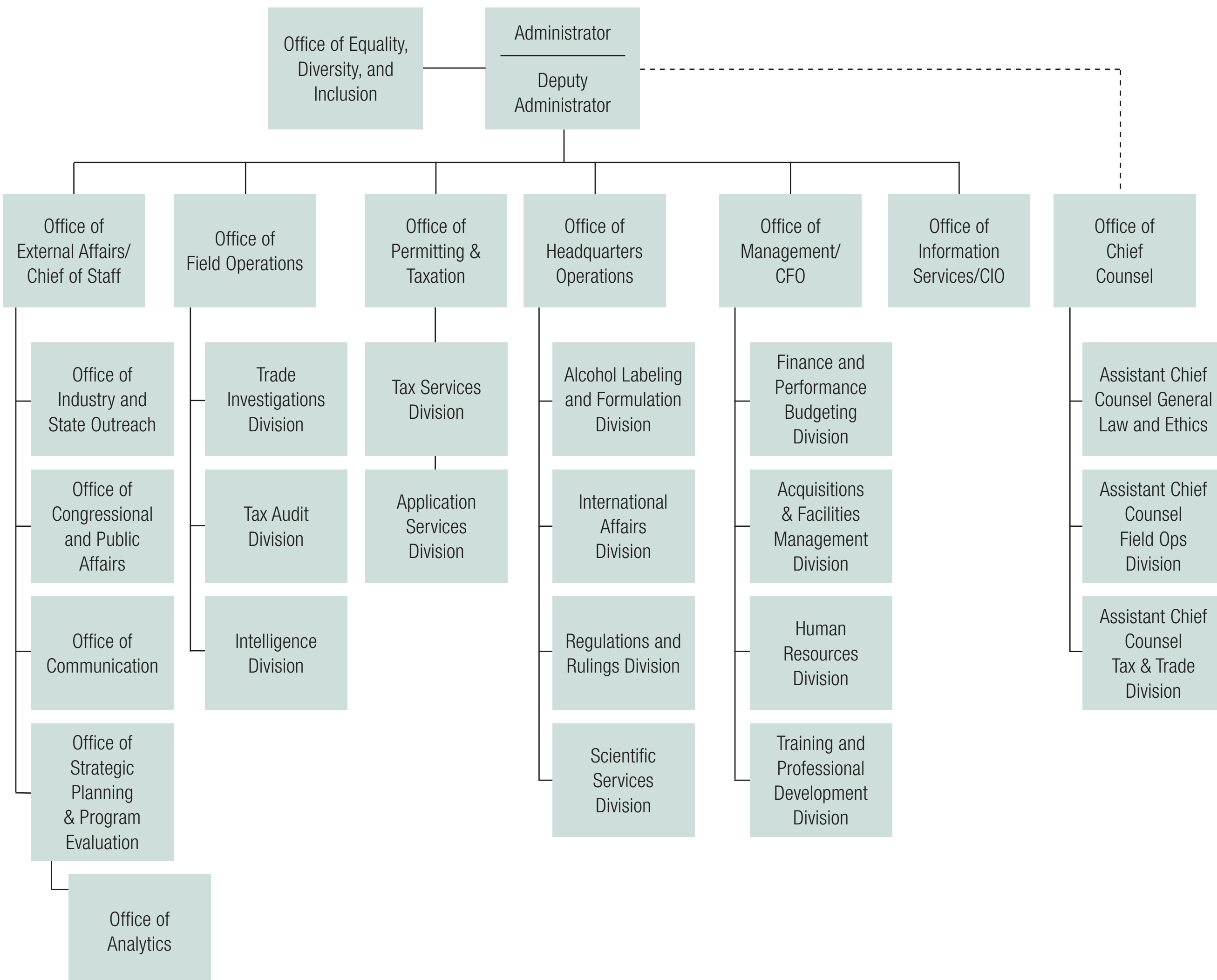
Our vision is to be a model for next generation government in the regulation, taxation, and science of alcohol and tobacco products.

VALUES

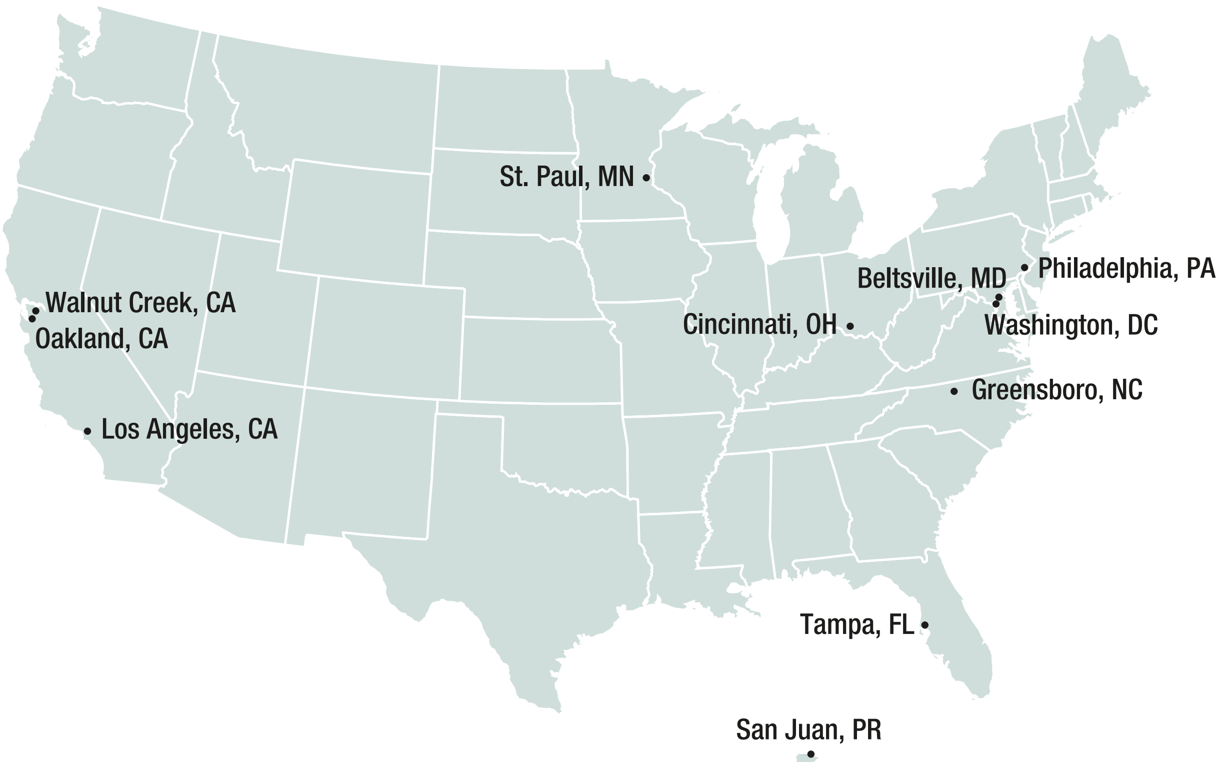
We value:

- **PEOPLE.** We support each other through teamwork and collaboration, leveraging diversity and inclusivity.
- **INTEGRITY.** We foster trust through honesty and transparency, conduct ourselves with professionalism and candor, and treat others with respect.
- **RESULTS.** We are accountable and committed to delivering meaningful results.
- **ACCESSIBILITY.** We are available to the public and our colleagues through communication and partnership.
- **INNOVATION.** We are creative and resourceful in achieving the mission, taking manageable risks and adapting based on results.

TTB ORGANIZATION



TTB OFFICE LOCATIONS



TTB at a Glance	FY 2020	FY 2021
Employees	521	520
Office Locations	11	11
Budget Authority	$119.6 Million	$124.3 Million
Revenue Collected	$20.0 Billion	$20.3 Billion

PART I
Management's Discussion and Analysis

1.1 PROFILE OF THE BUREAU

Supporting the nation's economic vitality is at the core of the Alcohol and Tobacco Tax and Trade Bureau (TTB) mission. The Bureau's role in permitting, regulating, and taxing the alcohol and tobacco industries ensures a fair marketplace, compliant commerce, and a level playing field for those engaged in the manufacture and trade of these commodities.

The Bureau was formed in January 2003, under the Homeland Security Act of 2002, but its history began more than 200 years ago as one of the earliest federal tax collection agencies. Today, TTB operates under the authorities of the Internal Revenue Code of 1986 (IRC),[1] the Federal Alcohol Administration Act (FAA Act),[2] the Alcoholic Beverage Labeling Act of 1988 (ABLA),[3] and the Webb-Kenyon Act.[4] These laws put in place strict requirements and controls related to alcohol and tobacco products and contain restrictions on who can make, sell, and distribute these commodities.

TTB is staffed with approximately 520 employees, most of whom report to either the headquarters office in Washington, D.C., or the National Revenue Center in Cincinnati, Ohio. For its auditors, investigators, and agents to most effectively operate in the field, TTB maintains a minimal physical footprint, with 7 field offices in cities across the United States, including Puerto Rico. These small, strategically located offices place the Bureau in close proximity to centers of trade and industry activity, and provide effective launch points for TTB's investigative and audit teams. Additionally, the Bureau has two laboratory facilities in Walnut Creek, California and Beltsville, Maryland.

TTB's jurisdiction and related budget activities to *Collect the Revenue* and *Protect the Public* both serve to support economic growth and stability by ensuring that the Federal government has the resources needed to fund national priorities and that lawful U.S. alcohol businesses are competitive and thriving in the global marketplace.

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1 Chapters 51 and 52 of the IRC provide for excise taxation and authorize operations of alcohol and tobacco product manufacturers and related industries, and IRC sections 4181 and 4182 provide for excise taxes for firearms and ammunition.

2 The FAA Act provides for regulation of those engaged in the alcohol beverage industry and for protection of consumers through certain requirements regarding the labeling and advertising of alcohol beverages. The FAA Act also includes provisions to preclude unfair trade practices that serve as barriers to competition and trade in the U.S. marketplace.

3 The ABLA mandates that a Government warning statement appear on all alcohol beverages offered for sale or distribution in the United States.

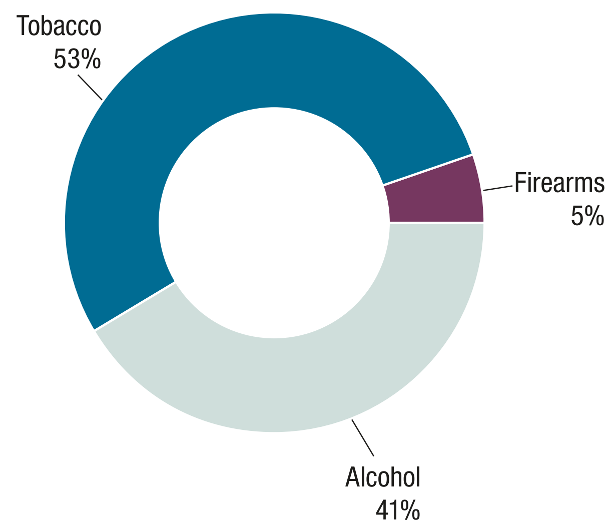
4 The Webb-Kenyon Act prohibits the shipment of alcohol beverages into a state in violation of that state's laws.

COLLECT THE REVENUE: KEY PROGRAMS

TTB is the third largest tax collection agency in the U.S. government, behind the Internal Revenue Service (IRS) and U.S. Customs and Border Protection (CBP). Annual revenues from the alcohol, tobacco, firearms, and ammunition industries are approximately $20.3 billion.

Excise tax collections have shifted over time, in line with statutory changes. In FY 2010, TTB excise tax collections reached an historic high of nearly $24 billion, principally due to increased receipts from the tobacco industry following significant tax rate increases for most tobacco products. Today, tobacco revenues comprise 53 percent of TTB's total tax collections. The Taxpayer Certainty and Disaster Tax Relief Act of 2020[5] made permanent certain provisions related to alcohol known as the Craft Beverage Modernization and Tax Reform Act (CBMA). The CBMA provisions reduce tax rates and expand eligibility for tax credits for alcohol beverages. After an initial decline, alcohol revenues increased in FY 2021 despite the reduced CBMA tax rates and the economic effects of the pandemic, representing approximately 41 percent of total TTB excise tax collections.

FY 2021 Total Tax Collections by Industry Type



TTB's mission includes various tax administration and enforcement programs to collect all alcohol, tobacco, firearms, and ammunition excise taxes rightfully due. TTB performs these functions under its Collect the Revenue budget activity across two main programs: 1) Alcohol and Tobacco Excise Tax, and 2) Firearms and Ammunition Excise Tax (FAET).

The tax rate on alcohol and tobacco products depends on a variety of factors, including product type (i.e., wine, distilled spirits, or beer) as well as characteristics of the products themselves, such as composition and weight. A critical first step in tax enforcement is the assignment of a tax class to alcohol and tobacco products based on Federal statutory and regulatory standards. TTB also conducts product evaluations to check for proper tax classification based on the characteristics of the product as defined by statute.

5 Division EE, Consolidated Appropriations Act, 2021 (Pub. L. No. 116-260)

In effecting its revenue mission, TTB uses a strategic risk-based approach to verify that industry members remit the excise taxes due on the alcohol, tobacco, firearms, and ammunition products sold to U.S. consumers. This strategy enables TTB to cover a wide universe of taxpayers and establish an identifiable enforcement presence to deter industry members and others from engaging in diversion and other forms of tax evasion. Through its data-driven analyses, TTB focuses on identifying the highest risk activity for audits and investigations. Continuous refinements to these analytics tools combined with sound intelligence enable TTB to efficiently deploy its enforcement resources to address the most serious revenue threats.

TTB also uses its criminal enforcement authority to address tax evasion by entities and individuals manufacturing or selling these products illegally. The diversion of products into domestic commerce without the payment of taxes threatens Federal revenues, undermines fair competition, and provides a source of funding for criminal enterprises.

PROTECT THE PUBLIC: KEY PROGRAMS

TTB's mission includes a wide range of activities that directly affect American consumers and the U.S. economy. TTB's role in regulating the trade of alcohol and tobacco products ensures not only consumer confidence in the products manufactured in the U.S., but also that businesses are operating on a level playing field—key outcomes that stimulate a strong economy. TTB's work in this mission area is performed under its Protect the Public budget activity across three main programs: 1) Permits and Business Assurance; 2) Alcohol Labeling & Advertising; and 3) Trade Facilitation.

Under its statutory authority, TTB evaluates permit applications prior to approval to ensure that only qualified persons operate within the TTB-regulated industries. Through this process and other activities under its Permits and Business Assurance Program, TTB protects Federal revenues by preventing persons likely to engage in illicit activity from commencing operations. Prompt approval times for permit applications are equally critical to enable those who are qualified to hold a Federal permit to timely begin their operations, facilitating U.S. economic growth in a fair marketplace.

Under its Alcohol Labeling & Advertising Program, TTB carries out provisions of the FAA Act that are intended to ensure that the labeling and advertising of alcohol beverages provide adequate information to consumers concerning the identity and quality of products. Before an alcohol beverage product subject to the FAA Act can be sold in interstate commerce in the United States, TTB reviews the product label to ensure that it contains all mandatory information and will not mislead the consumer. The approved label application is called a Certificate of Label Approval (COLA). Prior to label approval, TTB also evaluates the formulation of certain domestic and imported alcohol beverages to support accurate product labeling and tax classification.

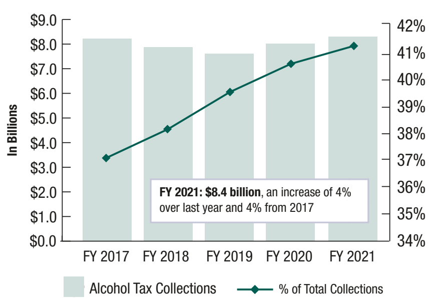
The FAA Act also calls for TTB to prevent misleading labeling or advertising that may result in consumer deception regarding alcohol beverage products. TTB confirms compliance with these regulations by reviewing production records through product integrity investigations and by conducting marketplace sampling to test products for formulation and label compliance.

TTB is also charged with ensuring that the alcohol marketplace is free from practices that would stifle competition and act as a barrier to trade. TTB meets this mandate through a variety of activities under its Trade Facilitation Program. TTB actively enforces the provisions of the FAA Act that prohibit unfair trade practices in alcohol beverage distribution. TTB also engages its foreign counterparts to keep the channels of commerce open and operating in compliance with U.S. and international laws. TTB serves as the principal technical expert for the Office of the United States Trade Representative (USTR) and other Federal agencies in the administration of U.S. alcohol laws, regulations, and policies. In any given year, a substantial portion of new barriers to trade relate to alcohol beverages, and TTB plays a crucial role in the early identification and resolution of these potential trade barriers for U.S. alcohol exporters. TTB also partners with other Federal agencies to negotiate international trade agreements related to alcohol beverages.

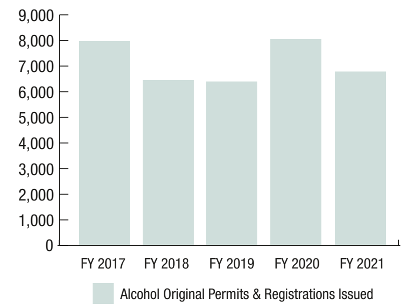
Across its programs, TTB promotes voluntary compliance by providing clear regulatory standards and guidance, encouraging use of its electronic filing systems, and supporting industry members through education and outreach efforts. TTB also provides industry members and states with direct assistance on specific needs as well as guidance on broader issues affecting TTB-regulated commodities.

Alcohol Industry Snapshot

Alcohol Tax Collections Trend

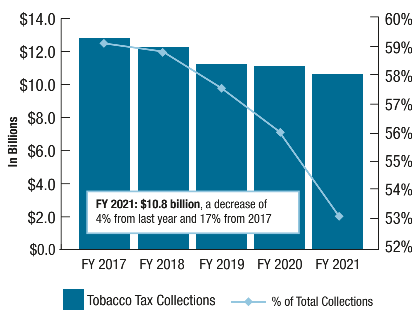


Alcohol Permits and Registrations Trend

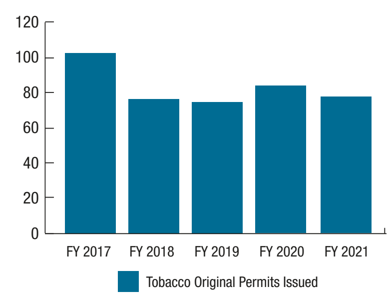


Tobacco Industry Snapshot

Tobacco Tax Collections Trend

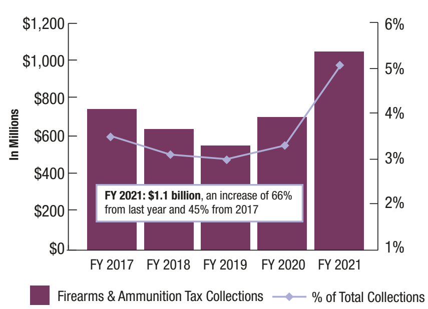


Tobacco Permits Trend

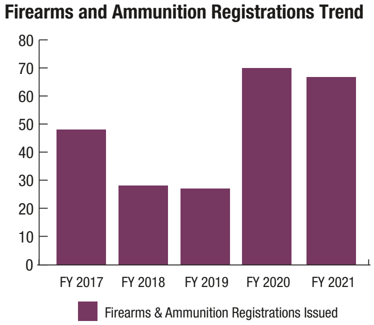


Firearms and Ammunition Industry Snapshot

Firearms and Ammunition Tax Collections Trend



Firearms and Ammunition Registrations Trend



1.2 ENTERPRISE RISKS AND CHALLENGES

TTB must effectively manage risks to achieve its strategic goals and objectives. TTB employs an enterprise risk management framework to identify and elevate crosscutting risks and develop effective mitigation strategies. TTB is also focused on establishing and fostering a culture that encourages open and transparent communication around potential risks and challenges to focus its annual and long-term planning.

TTB identified the following among its key strategic mission and operational risks in FY 2021.

- **CBMA Implementation.** The Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted in December 2020, made permanent Craft Beverage Modernization and Tax Reform Act (CBMA) provisions of the law known as the Tax Cuts and Jobs Act and made changes to previous CBMA provisions related to alcohol imports. TTB continues its tax administration and enforcement initiatives to mitigate CBMA revenue risks and to provide timely industry guidance, with rulemaking planned for FY 2022. Additionally, TTB faces challenges in standing up a new program to administer refund claims that will be filed by alcohol importers to receive CBMA tax benefits beginning in calendar year 2023 in lieu of paying reduced tax to CBP. Under the law, jurisdiction for administering CBMA import provisions will transfer from CBP to Treasury as of January 1, 2023. Treasury in its June 2021 Report to Congress announced that it intends for TTB to administer this new program.

- **Potential Tax Legislation.** Recent bills propose to expand TTB's mission, and include a proposal to place new regulatory requirements and taxes on nicotine, and multiple proposals to federally tax and regulate cannabis products. Each present budget and operational risks, and have the potential to significantly disrupt core mission operations.

- **Industry Growth and Compliance.** The alcohol beverage sector has grown significantly in recent years, particularly in the number of wineries, breweries, and distilleries, including through the pandemic. This growth presents challenges to maintaining timely service, facilitating voluntary compliance, and ensuring adequate enforcement. TTB will continue to manage workloads through targeted policy and process improvements and manage customer expectations through communicating its service standards to support industry members in their operational planning.

- **Workforce Readiness.** High retirement eligibility across the TTB workforce, particularly in key leadership positions, increases the Bureau's succession planning risk. TTB is addressing this risk by focusing on workforce planning and employee development. TTB is also employing a variety of human capital policies and programs to address hiring delays that exacerbate these risks, including use of special hiring authorities.

- **Legacy Technology.** TTB needs to modernize its outdated systems to enable further improvements to Bureau processes and filing requirements, which will reduce burden on industry and help to reverse a downward trend in voluntary compliance. Legacy systems also present challenges to obtaining reliable data for timely analysis and decision-making. TTB is engaged in a major IT modernization initiative to transform the Bureau's information technology architecture to enable the Bureau to increase the pace of delivery, streamline system maintenance processes, and provide an improved customer experience.

- **Evolving Cyber Threats.** Cyberattacks pose a significant risk to the sensitive tax and business information maintained on TTB systems, requiring the dedication of resources to cybersecurity to continually enhance TTB's cybersecurity tools and technologies. TTB continues to strengthen its cybersecurity posture through internal policies and various technological enhancements to provide a more secure environment.

1.3 TTB STRATEGIC MANAGEMENT FRAMEWORK

As part of the Government Performance and Results Act Modernization Act of 2010, TTB maintains a robust strategic management framework to achieve its FY 2018-2022 strategic goals and improve the efficacy of its programs. Using the Balanced Scorecard methodology, TTB developed its strategic objectives through a complete set of perspectives necessary for any organization, including customers and stakeholders, financial stewardship, internal processes, and people and tools. Each strategic objective has a set of performance goals, which are a combination of performance measures and targets. TTB then regularly monitors its performance through a dashboard, which provides actionable data to support management decisions on annual priorities and resources.

STRATEGIC GOALS

TTB established five-year strategic goals to set the long-term outcomes and direction for its programs. As a results-oriented culture, TTB also uses priority goals, which have quantified and time-bound outcomes to ensure interim progress and significant improvements in high-risk areas along the way. For more information on TTB's priority goals, visit TTB.gov - Priority Goals.

- **GOAL 1: Business Qualification**

  Streamline permit applications to reduce applicant burden and use technology to minimize application errors and improve processing times

  Priority Goal: *Maintain average approval times for alcohol and tobacco business permits of 75 days or less, and achieve the 75-day standard for 85 percent of applicants by September 30, 2021*

- **GOAL 2: Labeling Modernization**

  Provide timely and consistent service, reducing the burden of resubmissions on industry and TTB, and employ risk-based market sampling and investigations to ensure product integrity and fair competition

- **GOAL 3: Tax Compliance**

  Improve tax compliance through updated filings, processes, and technologies; enhanced analytics and other detection tools; and improved taxpayer education and outreach

- **GOAL 4: Cross-Border Tax Risk**

  Improve diversion detection and enforcement in the cross-border trade of alcohol and tobacco products through the full integration of advanced analytics tools into enforcement planning and processes

- **GOAL 5: Workforce Readiness**

  Sustain an innovative and inclusive workplace with an agile, skilled, and prepared workforce aligned to evolving mission needs

STRATEGIC OBJECTIVE ALIGNMENT

TTB developed a crosscutting strategy comprised of 16 strategic objectives to build its organizational capacity and deliver outcomes to elevate performance across all of its strategic goals. The table below indicates the primary strategic objectives driving improvement in each strategic goal.

Strategic Objectives	GOAL 1 Business Qualification	GOAL 2 Labeling Modernization	GOAL 3 Tax Compliance	GOAL 4 Cross-Border Tax Risk	GOAL 5 Workforce Readiness
Improve Reliable Service	X	X			X
Increase Voluntary Compliance	X	X	X		
Ensure Level Playing Field	X	X	X	X	
Reduce Illicit Trade				X	
Improve Strategic Resourcing	X	X	X	X	X
Maximize Resource Efficiency	X	X	X	X	X
Update Regulatory Requirements	X	X	X	X	
Improve Policies, Processes, & Documentation	X	X	X	X	X
Improve Internal Communication & Coordination	X		X	X	X
Enhance External Communication & Outreach	X	X	X		
Improve Data Driven Decision Making	X	X	X	X	X
Enhance Risk-Based Enforcement		X	X	X	
Enhance Professional Expertise	X	X	X	X	X
Improve Employee Engagement	X	X	X	X	X
Optimize Electronic Systems	X	X	X	X	X
Increase Data Quality & Analytical Capacity	X	X	X	X	X

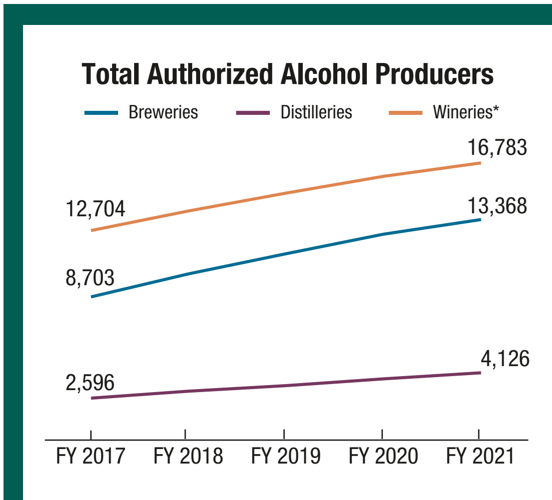
1.4 PERFORMANCE HIGHLIGHTS

TTB's diverse program activities support U.S. economic growth and financial stability. The *TTB Strategic Plan for FY 2018–2022* charts a course to fulfill the Bureau's mission in a manner that addresses critical risks and is responsive to key stakeholders. The following performance overview reflects TTB's accomplishments and challenges towards achieving the Bureau's strategic goals to facilitate commerce, improve tax compliance, address cross-border tax risk, and build its workforce readiness.

GOAL 1: BUSINESS QUALIFICATION

TTB facilitates growth in the U.S. economy by ensuring that qualified applicants enter business as an alcohol producer, wholesaler, importer, or as a tobacco product manufacturer, importer, or export warehouse proprietor. In all, TTB issues over 23 types of permits or registrations for the alcohol, tobacco, firearms, and ammunition industries. TTB uses risk-based background evaluations prior to approval to ensure that only qualified persons obtain a permit to operate. Given the tax liability associated with the commodities TTB regulates, this activity plays an important role in protecting Federal revenues.

In FY 2021, TTB received approximately 8,300 applications for a Federal permit or registration, and qualified approximately 7,100 new businesses. These are predominantly small businesses, which often lead the industry in product innovation and contribute to local job opportunities – critical as the nation emerges from the economic downturn precipitated by the COVID-19 pandemic. Today, TTB regulates over 111,600 authorized industry members.



*Includes bonded wine cellars

The number of businesses with a TTB permit, brewer's notice, or registration continues to increase, driven by the craft beverage boom with new breweries, distilleries, and wineries. Since FY 2017, the number of authorized wineries increased 32 percent. The growth rate for brewers and distillers is far greater, with breweries at 54 percent and distilleries at 60 percent.

Alcohol beverage industry growth in recent years has increased the number of TTB regulated industries, particularly new wineries, breweries, and distilleries. This growth in Federal permit applications and registrations had contributed to prolonged TTB approval times – peaking at an average of roughly 120 days in FY 2016 – so that new businesses often waited months to begin producing and selling their products.

Addressing delays in permitting these new businesses has been a priority for TTB. In FY 2021, TTB retained its priority goal to improve timely service in permitting. Building on progress achieved last year, TTB further reduced average approval times for new permits in FY 2021 and, for the first time, achieved its goal to issue permits within the 75-day service standard for 85 percent of applicants.

In FY 2021, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Improve Reliable Service
- Increase Voluntary Compliance
- Optimize Electronic Systems
- Enhance External Communication & Outreach
- Update Regulatory Requirements

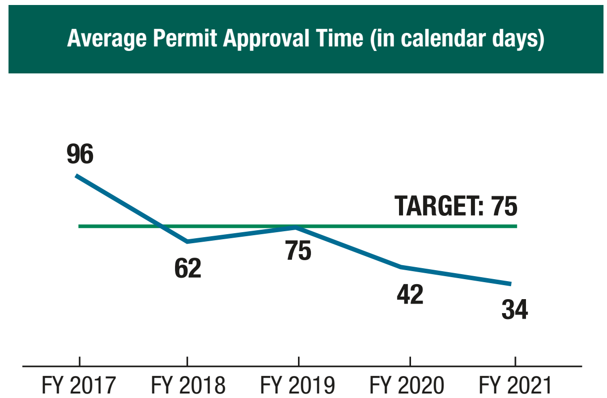
GOAL 1 PERFORMANCE HIGHLIGHTS

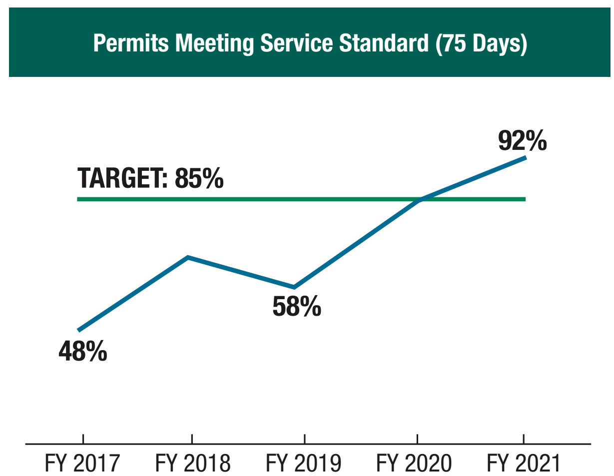
In FY 2021, TTB made significant advances in its goal to timely issue permits to qualified applicants. With submission volume down, and through continued process improvements, TTB was able to reduce backlogs and accelerate service levels. Across permit types, TTB reduced average approval times to 34 days in FY 2021, down 65 percent since TTB established its priority goal in FY 2018.

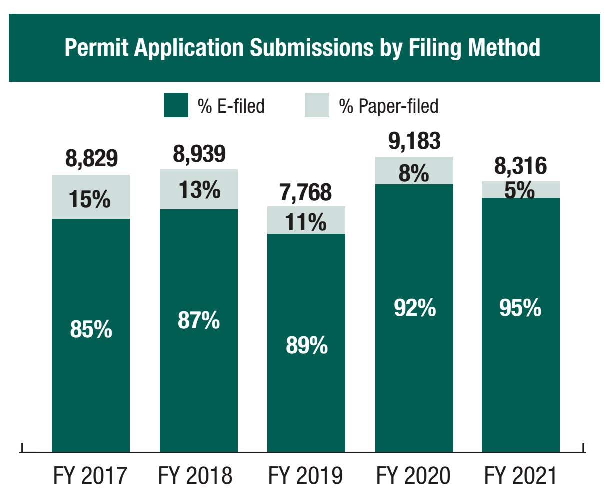
Building on progress achieved last year, TTB also surpassed its priority goal target to issue permits within the 75-day service standard for 85 percent of applicants, achieving 92 percent by year-end. TTB achieved these performance improvements using new analytics tools to support more effective workload management and oversight.

Even as TTB focused on achieving near-term improvements in service delivery, the Bureau continued its broader program improvements to sustain these performance levels in the future. These strategies include system, policy, and process improvements, as well as strategic workforce management.

TTB continued to achieve high electronic filing rates to support timely approvals, which trended positively in FY 2021 to 95 percent for new permit applications. The Permits Online system provides navigation and guidance to support industry members in filing complete and compliant applications the first time they submit.

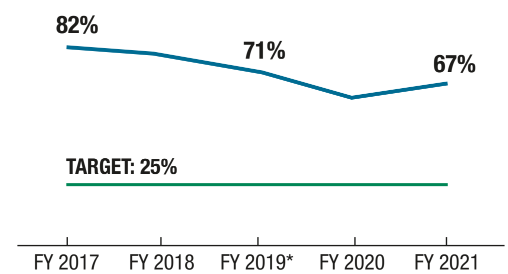






Reducing errors on applications is critical to improving timely service, as time spent working with applicants to make corrections or obtain additional supporting information adds to overall service times. Error rates trended up in FY 2021, from 62 percent last year to 67 percent, an anticipated uptick following the expiration of temporary policies TTB put in place to expedite hand sanitizer applications to address the COVID-19 pandemic. Importantly, despite the overall increase, TTB made progress in reducing error rates on brewer's notice applications, a focus of recent policy and system updates, down from as high as 98 percent last year to 82 percent at the close of FY 2021.

Permit Application Initial Error Rate



*Estimated result due to data quality issue identified in Q4

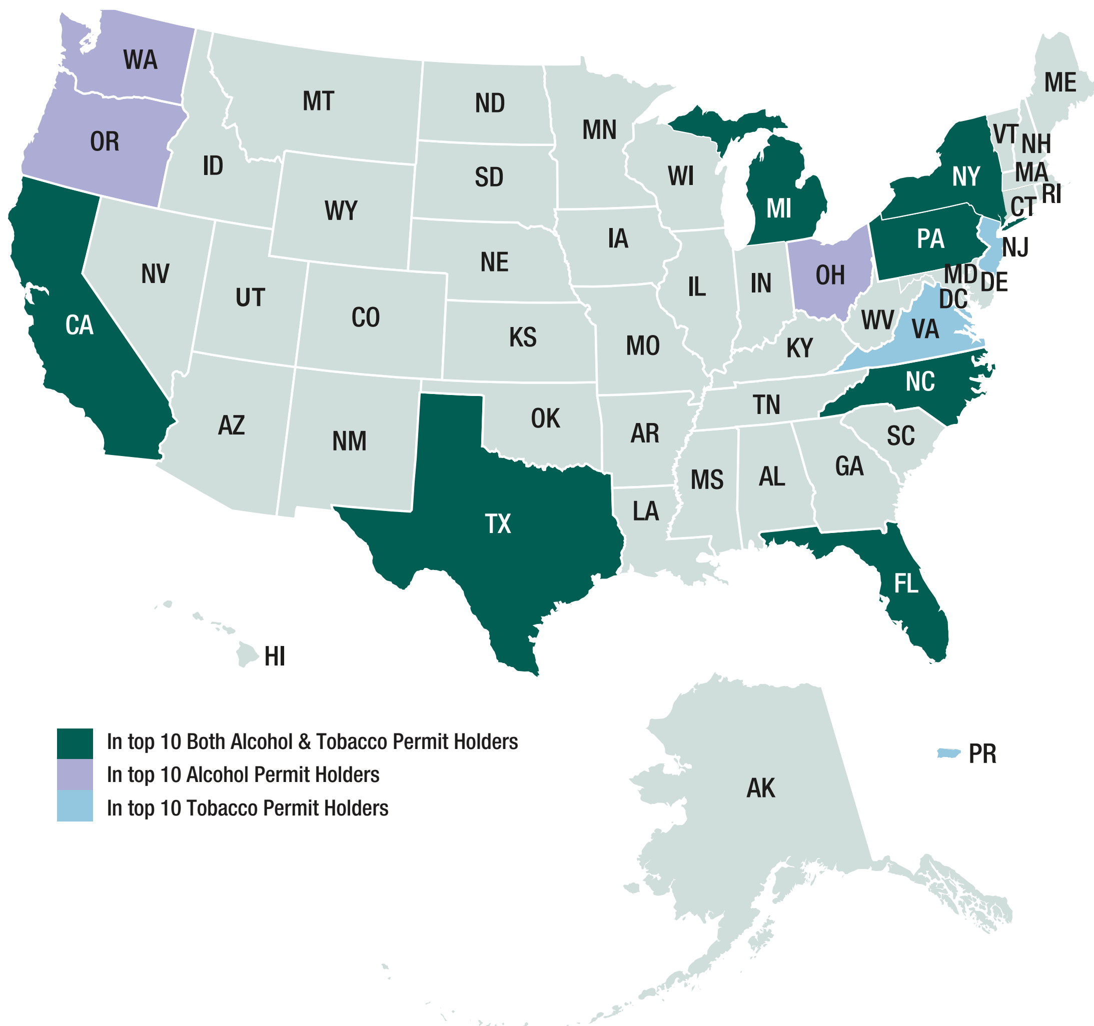
If error rates remain high, TTB will not be able to sustain timely service levels, as application volume is expected to increase in line with economic growth following the pandemic. Recognizing this trend, broader changes to TTB's permit application requirements, some of which require rulemaking, are also underway. The proposed changes, which incorporate industry input on areas to eliminate or simplify Treasury regulations, will reduce burdens related to permit applications for industry and TTB, as well as the likelihood of errors, and contribute to improved approval times. Early in FY 2022, TTB will publish the first in a series of proposed rulemakings to simplify permit applications, starting with distilled spirits plants. TTB aims to publish a similar notice for breweries to simplify the brewer's notice process later next fiscal year.

This year, in response to high error rates, TTB implemented a major enhancement to Permits Online to streamline internal processing and improve industry communication. The system now enables applications to be corrected directly in the online system rather than via email, addressing a significant customer pain point and giving TTB greater visibility to manage in-process applications.

In the years ahead, TTB plans to replace legacy systems like Permits Online through its myTTB IT modernization initiative, with the goal of providing an integrated online filing experience for industry members. The multi-year initiative, which is dependent on funding, will include incremental releases to eventually incorporate all business transactions related to permitting, tax, and labeling in a single, modern system to streamline filings and approvals and make compliance easier for industry.

In FY 2021, TTB also continued to refine its risk-based screening of permit applications. New procedures and analytics tools help to facilitate timely permit approvals while also ensuring that high-risk applications are flagged to receive additional review and potential field referral, allowing for more efficient application processing. Going forward, TTB will continue to make enhancements to support further improvements to both the quality and timeliness of TTB application approvals.

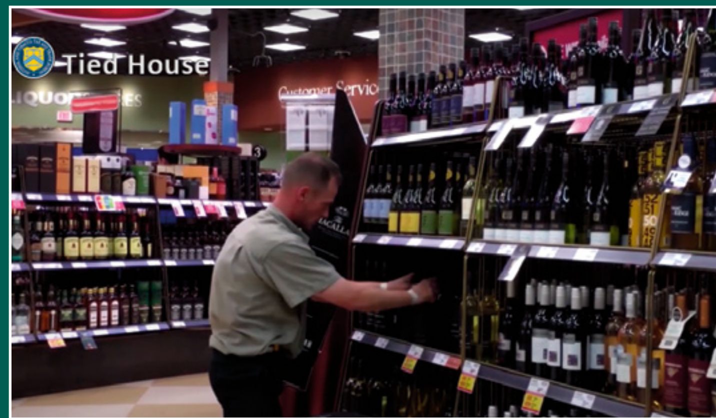
FY 2021 ALCOHOL & TOBACCO PERMIT HOLDERS BY STATE



Top 10 States by Number of Alcohol Producer Permits/Registrations	
State	**# Permit Holders**
California	9,539
New York	2,659
Texas	2,569
Washington	2,569
Pennsylvania	2,104
Michigan	1,954
Ohio	1,716
Oregon	1,700
Florida	1,502
North Carolina	1,406

Top 10 States by Number of Tobacco Permits	
State	**# Permit Holders**
Florida	175
California	83
New York	69
North Carolina	55
Texas	50
Virginia	34
New Jersey	25
Pennsylvania	24
Michigan	23
Puerto Rico	22

TTB TRADE PRACTICE PROGRAM



Unlawful trade practices threaten fair competition because they undermine equal access to the marketplace and limit consumer choices. TTB enforcement has never been more important to ensure a level playing field and fair competition within the marketplace, particularly following years of growth by new, small industry members who cannot afford to pay for market access.

Since 2017, TTB's enacted budget has included directed funding for the purpose of increasing trade practice enforcement. With these resources, TTB established an Office of Special Operations within its Trade Investigations Division, which includes dedicated investigators to increase trade practice enforcement.

TTB started FY 2021 with 14 open investigations and initiated two new investigations this year, including three National Response Team callouts. Due to their complexity, often involving multiple locations, crossing several jurisdictions, and requiring coordination with local and state authorities, trade practice cases can take several years to conclude. Travel restrictions put in place during the pandemic to protect TTB staff and industry members further complicated these investigations. In FY 2021, in the fifth year since receiving dedicated funding, TTB closed five trade practice cases, with 40 percent resulting in successful outcomes. These successful resolutions included two Offers-in-Compromise totaling $1.175 million. For more information on TTB's administrative actions to resolve willful violations of the FAA Act, see **www.ttb.gov/fo/administrative-cases**.

TTB is also committed to preventing anti-competitive conduct by increasing its industry outreach and education so that businesses understand their obligations and can voluntarily comply. TTB guidance is informed by actual cases to provide industry with specific examples of conduct that TTB has found to violate the trade practice rules. In FY 2021, TTB's outreach included two presentations to state alcohol beverage enforcement agencies in an effort to increase state and Federal coordination of joint trade practice enforcement operations. In the year ahead, TTB will continue these critical efforts to help industry members avoid practices that have the potential to stifle industry growth and undermine competition.

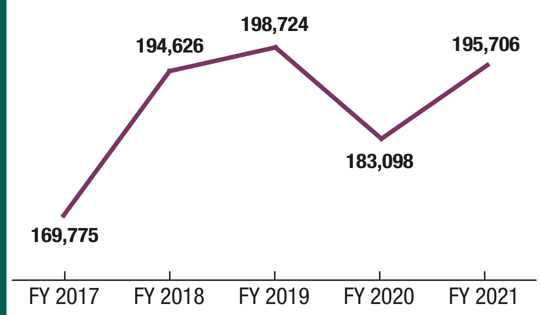
GOAL 2: LABELING MODERNIZATION

Consumer confidence is essential to ensuring that the U.S. economy recovers and performs at its full potential. TTB is responsible for carrying out provisions of the FAA Act to ensure that the labeling and advertising of alcohol beverages provide adequate information to consumers concerning the identity and quality of a product.

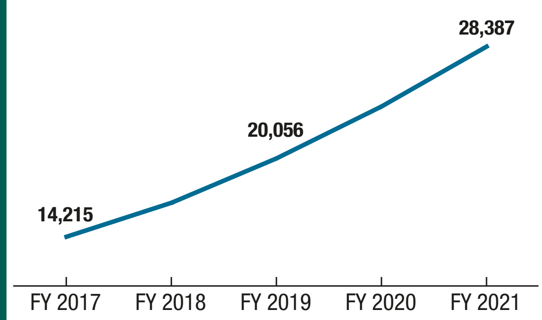
After alcohol beverages enter the marketplace, TTB monitors labeling compliance through its market sampling program and product integrity investigations. These efforts assist TTB in maintaining the integrity of alcohol beverage products in the U.S. market, both in the view of U.S. consumers and TTB's international counterparts, which is critical to gaining foreign market access for U.S. products.

Alcohol beverage industry growth and product innovation have significantly increased the volume of alcohol beverage label and formula applications submitted to TTB for approval. This year, TTB received over 195,000 label and 28,000 formula applications. TTB maintains a strategic focus on improving its ability to provide reliable and timely service to avoid the negative impact of service delays on U.S. businesses. This includes managing overall workload by reducing application errors that delay approvals as well as improving the consistency of application reviews.

Total Label Applications Received



Total Formula Applications Received



The increase in label and formula application submissions in FY 2021 indicates that the economic effects of the pandemic have not deterred product innovation by the alcohol beverage industries.

Over the last five years, the total number of label applications has increased 15 percent. These increases cut across all alcohol commodities and include both imported and domestic products. TTB's strategies to reduce filing requirements in certain low-risk areas have helped to reduce the rate of these increases. However, industry expansion and innovation, particularly in malt beverage and distilled spirits products, continue to outpace the impact of these measures. COVID-19 disrupted this trend in FY 2020, with the total volume of label applications down. However, in FY 2021, submissions rebounded to near pre-pandemic levels, largely driven by continued growth in distilled spirits.

Over the same period, the total number of alcohol beverage formula applications increased by 100 percent, with double digit growth each year since FY 2017. Current market trends that include flavored wine, hard cider, and malt-based cocktails have driven this increase in formula submissions, generally offsetting reductions TTB achieved through policy changes in prior years. Continued increases in formula submissions indicate that, even with operational challenges and setbacks related to the pandemic, industry members continue to innovate and create new product lines.

In FY 2021, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Improve Reliable Service
- Increase Voluntary Compliance
- Optimize Electronic Systems
- Enhance External Communication & Outreach
- Update Regulatory Requirements

GOAL 2 PERFORMANCE HIGHLIGHTS

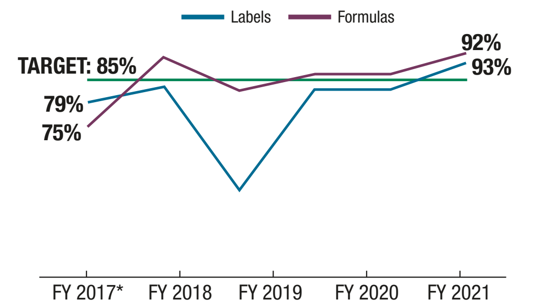
In FY 2021, TTB made substantial progress toward achieving near and long-term targets under its strategic goal to modernize its alcohol beverage labeling program.

TTB significantly reduced turnaround times for product label and formula approvals, with timely approvals critical for U.S. alcohol producers and importers to rebuild and maintain their businesses. TTB's performance goal is to issue these approvals within 15 days for 85 percent of applicants. This year, TTB built on progress made last year and exceeded its targeted performance level for both label and formula approvals, with 93 percent of label and 92 percent of formula applications approved within 15 days.

Certain alcohol beverage products also require lab analysis prior to applying for formula and label approval. For FY 2021, TTB also set a performance goal to complete lab analyses within 15 days for 85 percent of submissions. This year, TTB laboratories continued to operate under reduced capacity due to the pandemic. Even under these challenging circumstances, TTB came close to achieving its target, completing 79 percent of lab analyses within 15 days. Significantly, for products requiring lab analysis, formula approval, and label approval, TTB reduced total average review time from 31 days last year to 24 days in FY 2021.

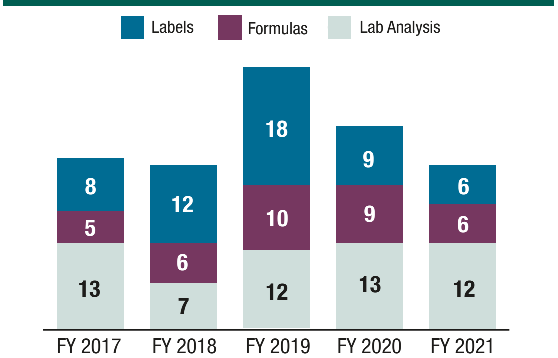
TTB continues to focus on sustaining timely service by using data-driven strategies to reduce high error rates on label and formula applications. Application errors are a key driver of processing times, as additional review is required for each resubmitted application. TTB's performance goal is to reduce error rates to 25 percent or less. Results indicate that guidance, system, and policy changes implemented in recent years are having a positive effect in reducing application error rates. Since FY 2017, TTB has reduced overall error rates by over 12 percent for label and formula applications, with both application types ending FY 2021 at 31 percent.

Labels and Formulas Meeting Service Standard (15 days)

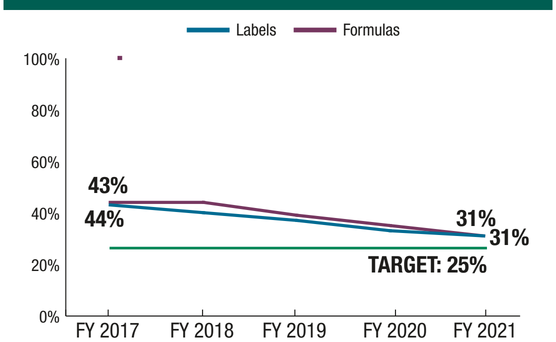


*Data adjusted to reflect the 15-day service standard to support trend analysis; see Part II, Goal 2 performance table for performance levels at annual service standards.

Total Average Review Time (calendar days)



Label and Formula Application Initial Error Rate



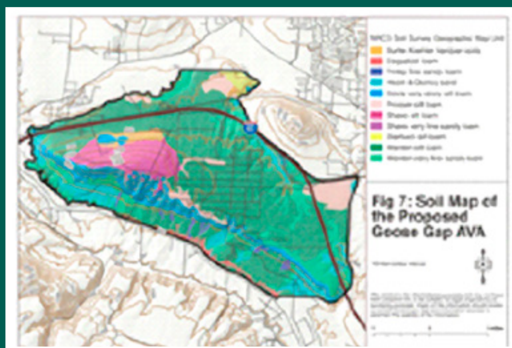
In FY 2021, TTB focused on reducing errors on malt beverage and distilled spirits applications, which have the highest error rates. TTB issued improved guidance on TTB.gov, publishing a new distilled spirits labeling home page, as well as interactive web-based tools to make it easier to understand labeling requirements. In FY 2022, TTB plans to finalize and publish similar enhancements to improve malt beverage guidance. User-friendly guidance is critical to helping industry submit compliant label submissions and reduce the burden of resubmissions on industry and TTB. This year, the Bureau also continued to enhance internal guidance and conduct additional staff training to improve processing quality, ensuring that determinations on applications are consistent with TTB policy and precedent.

Given the high rates of electronic applications, IT modernization efforts also remain a key strategy to achieving performance goals in the labeling program. System enhancements to COLAs Online and Formulas Online continue to focus on compliance validations and embedded help features to address frequent application errors. In FY 2021, TTB released an enhancement to prevent the submission of label applications with low quality images. A common error type, this system-based solution is expected to help TTB achieve its performance target in FY 2022. Moving forward, TTB will continue to incorporate customer feedback to prioritize and design new system features and functionality as part of its myTTB IT modernization initiative.

In addition, TTB continued to make progress on its multi-year plan to modernize Federal alcohol beverage labeling and advertising regulations. When finalized, the updated regulations will facilitate industry compliance by simplifying and clarifying regulatory standards and reduce burden on industry where possible. Last year, TTB published the first final rule in its phased labeling modernization rulemaking, addressing areas with broad consensus and industry support. In FY 2021, TTB focused on updating industry guidance on TTB.gov to implement the new rules and ensure industry realizes the benefits of these changes. In the year ahead, TTB expects to proceed with the next phase of this project, planning to publish a final rule to address distilled spirits, malt beverages, and certain crosscutting labeling issues. Subsequent phases will address wine and clarify the issues that will be reserved for future rulemaking.

Finally, in FY 2022, TTB will continue to focus on preserving a level playing field for all industry members. This includes conducting random and risk-based product sampling to detect where issues may exist in the marketplace as well as evaluate products that may have a higher likelihood of non-compliance. These results will inform decisions on enforcement actions, policies, and priorities to effectively direct investigative and regulatory resources going forward.

AMERICAN VITICULTURAL AREAS



Soils within the proposed Goose Gap AVA in Washington State.

An American Viticultural Area (AVA) is a delimited grape growing region having a name, a delineated boundary, and distinguishing features (defined in Part 9 of TTB regulations). Distinguishing features may include climate, geology, soils, physical features, and elevation.

An AVA designation allows vintners and consumers to attribute a quality, reputation, or other characteristic of wine made from grapes grown in an area to the wine's geographical origin. The establishment of an AVA allows vintners to more accurately describe the origin of their wines to consumers and helps consumers identify wines that they may purchase.

During FY 2021, TTB published 18 AVA-related rulemaking documents, including 10 proposed rules and 8 final rules. As a result of these final rules, at the end of FY 2021, TTB and its predecessor agency, the Bureau of Alcohol, Tobacco and Firearms, have established a total of 258 AVAs.

TTB provides public access to AVA information on TTB.gov through its AVA Reading Room. This online resource provides a collection of publicly available AVA documents, including petitions, proposed rules, final rules, and public comments for established and proposed AVAs.

Additionally, the AVA Map Explorer on TTB.gov is an interactive map tool that can be used to view the boundaries of all established and proposed AVAs. The Map Explorer has information about each AVA, including its state and county, when it was established, other AVAs it contains or is within, and a link to its codified official boundary description. This tool enables the public to view the boundaries of proposed AVAs during the public comment period.

FY 2021 Proposed Rulemakings

- **Mount Pisgah, Polk County, Oregon**, proposing a new AVA in Polk County in Oregon
- **San Luis Obispo Coast (SLO Coast)** proposing a new AVA in San Luis Obispo County in California
- **Virginia Peninsula**, proposing a new AVA in southeastern Virginia
- **Lower Long Tom**, proposing a new AVA covering portions of Lane and Benton Counties in Oregon
- **Goose Gap**, proposing a new AVA in Benton County in Washington
- **Ulupalakua**, proposing a new AVA on the island of Maui in Hawaii
- **Upper Lake Valley**, proposing a new AVA in Lake County in California (includes proposed boundary modifications to the Clear Lake AVA, also in Lake County in California)
- **Paulsell Valley**, proposing a new AVA in Stanislaus County in California
- **Rocky Reach**, proposing a new AVA covering portions of Chelan and Douglas Counties in Washington
- Proposed boundary modifications to the **Clarksburg** AVA, which covers portions of Sacramento, Solano, and Yolo Counties in California

FY 2021 Final Rules

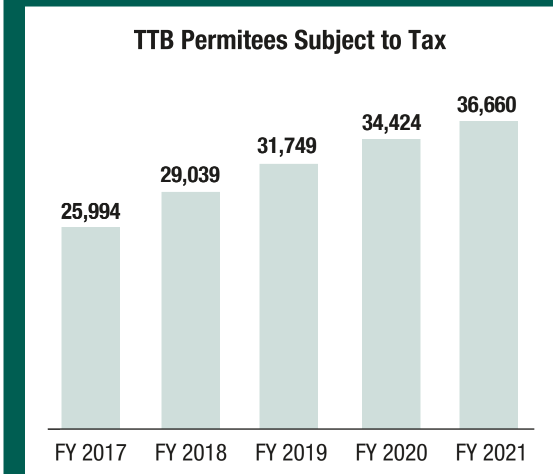
- **Tehachapi Mountains**, establishing a new AVA in Kern County in California
- **The Burn of Columbia Valley**, establishing a new AVA in Klickitat County in Washington
- **White Bluffs**, establishing a new AVA in Franklin County in Washington
- **Palos Verdes Peninsula**, establishing a new AVA in Los Angeles County in California
- **Goose Gap**, establishing a new AVA in Benton County in Washington
- **Ulupalakua**, establishing a new AVA on the island of Maui in Hawaii
- **Virginia Peninsul**a, establishing a new AVA in southeastern Virginia
- Modified the boundaries of **Santa Lucia Highlands** and **Arroyo Seco** AVAs, two adjacent AVAs in Monterey County in California

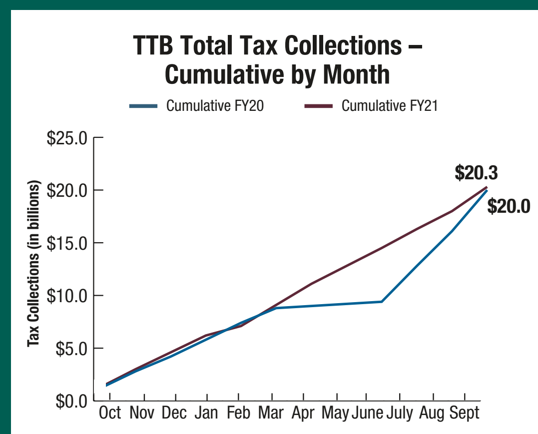
GOAL 3: TAX COMPLIANCE

In FY 2021, TTB collected $20.3 billion in revenue from the alcohol, tobacco, firearms, and ammunition industries. As the number of TTB permittees continues to expand, and market competition increases, TTB must continue to pursue innovative tax administration policies and processes to ensure that all taxpayers meet their tax obligations.

The economic impact of COVID-19 is still reverberating across U.S. communities, including the businesses that TTB regulates. TTB is committed to fair enforcement of tax laws so all have an equal opportunity to thrive, which is particularly critical in the current environment. TTB will continue efforts to facilitate voluntary compliance through education and outreach to support industry in navigating Federal tax requirements, supporting the recovery of thousands of small wineries, breweries, and distilleries.

TTB will also maintain a strategic focus on modernizing its filing requirements and tax systems to reduce burden on industry and improve TTB's ability to timely detect non-compliance. Through comprehensive updates to its filings, processes, and systems, TTB will be able to enhance the Bureau's use of advanced analytics for tax administration and fraud detection, a key strategy to maximize the reach of TTB's enforcement resources and protect Federal revenues.





TTB tax collections continued an upward trend from $20 billion in FY 2020 to $20.3 billion in FY 2021.

These strategic changes are especially critical in light of the now permanent CBMA provisions. These tax reform provisions included some of the most significant changes to the tax code relating to alcohol in almost 40 years. Among other things, the provisions altered the effective tax rates for all three alcohol commodities by introducing new reduced rates and credits. The law also made all domestic producers eligible for reduced rates and credits, and allowed imports to be eligible for reduced rates and credits for the first time.

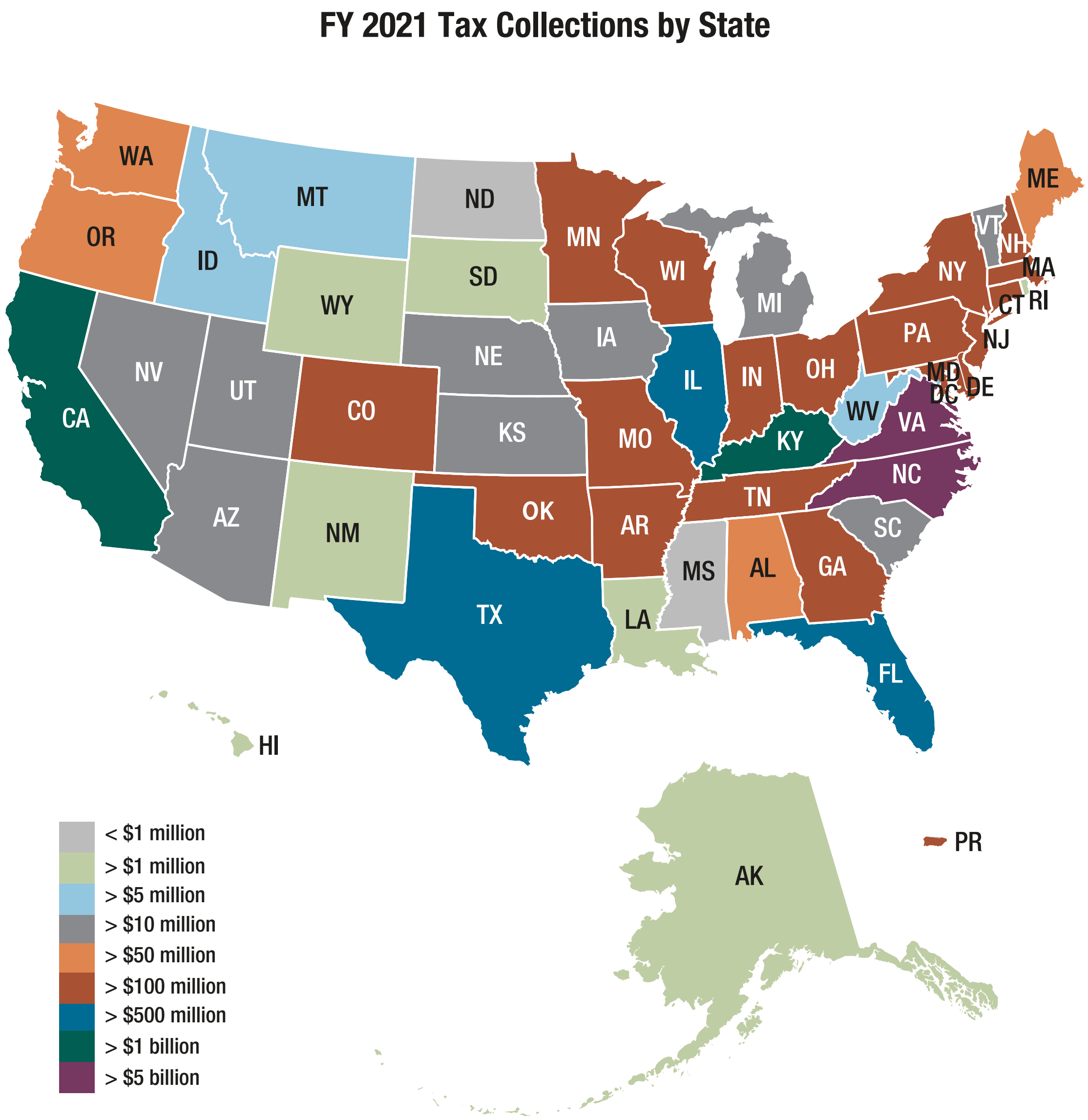
When these provisions first took effect in January 2018, annual alcohol collections initially declined. In the last two years, the trend reversed, and alcohol revenue increased another four percent over last year. TTB data indicates that the pandemic likely has had a disparate effect on TTB industry members, depending on commodity and other factors, including the industry member size and the diversity of products and businesses.

With the permanent enactment of these provisions, TTB will continue developing and implementing strategies that address compliance risks, including effective information sharing with enforcement partners, timely guidance to industry, and necessary rulemaking. In addition, in fiscal years 2022 and 2023, TTB will prioritize implementing a new import claims program to administer and enforce new CBMA import provisions, which were transferred from CBP to Treasury in December 2020. The new provisions take effect on January 1, 2023, and TTB will need to develop new system modules, regulations, guidance, and processes to stand up the program with adequate controls to protect the revenue.

In FY 2021, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Increase Voluntary Compliance
- Enhance External Communication & Outreach
- Improve Policies, Processes, & Documentation
- Optimize Electronic Systems
- Update Regulatory Requirements

FY 2021 TAX COLLECTIONS BY STATE



GOAL 3 PERFORMANCE HIGHLIGHTS

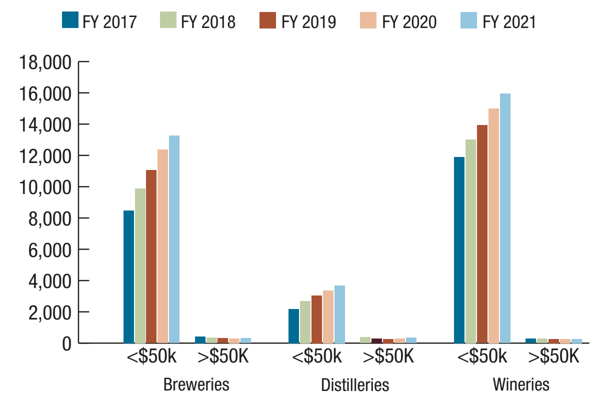
In FY 2021, TTB continued working towards its strategic goal to improve tax compliance in response to identified challenges in maintaining taxpayer filing compliance.

The industries TTB regulates have grown significantly in recent years, which has created tax administration and enforcement challenges, particularly in light of recent tax reforms. This growth has cut across industry types, with the most significant increases in small wineries, breweries, and distilleries. In the last five years, the TTB tax base has increased over 40 percent.

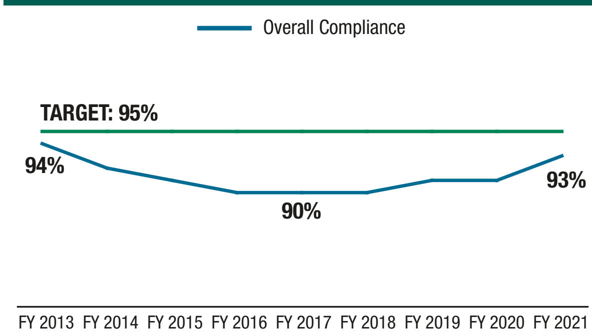
At the same time, filing compliance by TTB taxpayers has remained below target, hindering TTB's ability to timely detect underreporting or fraud due to missing or late filings. TTB calculates taxpayer compliance rates based on filing patterns for tax returns, operational reports, and payments. TTB uses this information to take a risk-driven enforcement approach based on revenue exposure as well as patterns of significant non-compliance with filing requirements.

In FY 2021, TTB continued to focus on reversing the declining filing compliance trend for 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. Through focused enforcement, TTB increased large taxpayer filing compliance from 90 percent in FY 2017 to 93 percent in FY 2021, putting TTB on track to meet its target in the year ahead.

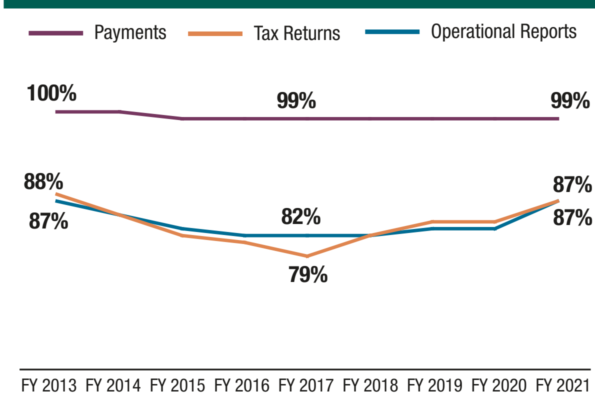
Number of Alcohol Producers – By Tax Liability



Large Taxpayer Filing Compliance Rate – Overall

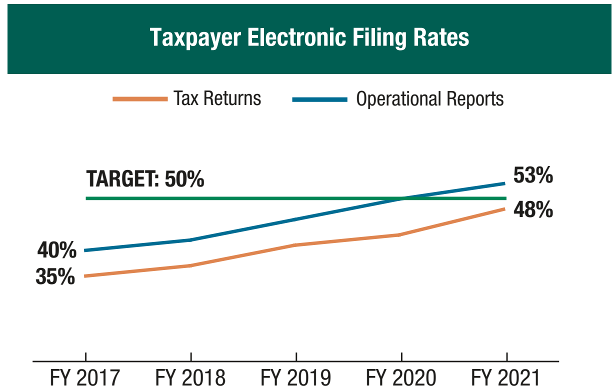


Large Taxpayer Filing Compliance Rate – By Filing Type



TTB continues to mitigate the overall revenue risk related to current large taxpayer noncompliance, as indicated by the 99 percent compliance rate for tax payments. In the year ahead, TTB will continue to focus on improving filing compliance for tax returns and operational reports. Together, these filings provide important information for tax verification and fraud detection. In FY 2021, filing compliance for both tax returns and operational reports increased to 87 percent.

TTB's ability to timely address delinquent filings is impeded by ongoing low electronic filing rates, with roughly half of TTB taxpayers submitting their tax filings through Pay.gov. Increasing electronic filing rates is critical to address inefficiencies and increase timely access to quality data for tax reconciliation or advanced analytics. In FY 2021, TTB exceeded its 50 percent target with electronically filed operational reports, achieving 53 percent. Although up compared to last year at 48 percent, TTB remains below target for electronically filed tax returns.



The gains achieved across these performance goals in FY 2021 indicate the effectiveness of TTB's multi-pronged strategy to improve filing compliance across all taxpayer segments. This year, TTB completed its pilot of new analytics tools and process improvements to timely detect non-compliance by its largest taxpayers. These efforts, combined with improved criteria and coordination for field referrals, have resulted in the identification of more than $135 million in tax liabilities and $32 million in collections to date.

In FY 2022, TTB will continue to integrate and expand the use of these tools and procedures, addressing non-compliance across additional taxpayer segments. TTB also expects to enhance its field presence to address and deter non-compliance, as operations normalize and enforcement restrictions put in place early in the pandemic to ensure TTB and industry safety are lifted.

With recent industry growth, TTB will also remain focused on strategies to increase and improve taxpayer guidance, recognizing the need to simplify and diversify communication channels to support businesses as they rebuild and recover. Education and outreach are critical to facilitating voluntary compliance for all TTB taxpayers. In FY 2021, TTB updated its guidance to help industry understand recent CBMA provisions and avoid unanticipated tax bills. TTB also plans to publish rulemaking in FY 2022 to more fully implement the CBMA provisions that were permanently enacted in December 2020.

In addition, TTB plans to significantly modernize tax filing requirements and processes to increase overall tax compliance. In FY 2022, TTB intends to initiate rulemaking to implement broad-based changes to its tax return and operational report filing requirements. Once complete, the updated requirements will lessen burden on industry while improving the information available to TTB for tax administration.

Finally, over the next several years, TTB also plans to modernize its tax system, which will include developing new external user interfaces as part of its myTTB initiative to enable the online submission and management of all TTB tax-related filings and payments. Although system enhancements are required for TTB to achieve its tax compliance performance goals, immediate plans to streamline tax filings and processing shifted for FY 2022, as TTB re-prioritized IT development efforts to develop the required online modules for CBMA import claims.

TTB OUTREACH PROGRAM

The Outreach Program plays a vital part in our strategy to assist our regulated industries in understanding TTB's compliance requirements. Historically, we conducted face-to-face outreach with thousands of industry members at conferences and other educational forums. At these outreach events, TTB experts present educational compliance seminars, answer industry members' questions, and even provide on-the-spot assistance with application issues.

Image courtesy of 2021 Oregon Wine Symposium

Due to the pandemic and the associated social distancing and travel restrictions, in FY 2021, we needed to adapt and switch to virtual outreach opportunities. By working with trade associations, conference organizers, and other industry stakeholders, TTB participated in 37 virtual outreach events — a 500 percent increase from virtual events held in FY 2020.

These virtual events were similar to our in-person outreach and covered all of TTB's regulated commodities — firearms, ammunition, tobacco, wine, beer, and distilled spirits. The Bureau also adapted its *TTB Boot Camp* compliance seminars to the online setting and hosted virtual booths at trade shows to provide the essentials of compliance to new and existing industry members.

In FY 2022, industry has indicated its plans to return to in-person events. TTB plans to be onsite for these engagement opportunities, and will also continue to leverage the new tools to conduct virtual outreach and maximize education opportunities for our industry members.

Please visit **www.ttb.gov/outreach/outreach-program** for a list of FY 2022 events.

GOAL 4: CROSS-BORDER TAX RISK

TTB is charged with preventing tax evasion by entities and individuals manufacturing or selling alcohol and tobacco products without the payment of all taxes rightfully due, including through diversion outside of the lawful distribution system. The diversion of these products without the payment of tax threatens Federal revenues, undermines fair competition, and provides a source of funding for criminal enterprises.

The cross-border trade in alcohol and tobacco products poses a particular revenue risk and enforcement challenge. TTB must partner with multiple agencies to regulate and enforce import and export activity, as well as effectively track the movement of imported and exported commodities. Exports pose a significant revenue threat because alcohol and tobacco products intended for export may be lawfully removed from a domestic producer's premises without payment of tax and placed in a customs-bonded warehouse, foreign trade zone, or tobacco export warehouse for subsequent exportation. Some tax evasion schemes involve the unlawful diversion of these products into domestic commerce.

Imports also present a revenue risk because products may be misclassified to CBP upon entry into the United States to evade alcohol and tobacco excise taxes. In addition, importers may attempt to evade paying the correct amount of excise tax at the time of entry by misrepresenting to CBP the quantities imported. The risk associated with tax evasion on imported alcohol products has further increased following the now-permanent CBMA legislation, with importers now able to claim reduced rates or tax credits on certain qualifying products. TTB audits its permitted importers to ensure their compliance with Federal law and TTB regulations, taking administrative action against TTB permits and making enforcement referrals to CBP where appropriate.

In FY 2021, TTB continued to use a strategic risk-based enforcement approach, which enables the Bureau to maintain oversight over a wide universe of taxpayers and establish an identifiable enforcement presence to deter the illicit trade of alcohol and tobacco products. This involves a combination of data analytics and sound intelligence to support the identification of the highest risk activity for audit or investigation. In particular, in FY 2021, TTB focused on improving its ability to identify company relationships and controlled groups, necessary information under current law to determine whether taxpayers are eligible to claim reduced rates and credits. Through this approach, TTB is able to deploy its resources to address the most serious revenue threats.

Addressing these revenue risks also requires TTB to work cooperatively with its interagency partners to maximize TTB's enforcement presence. To this end, TTB has continued its efforts to reduce the illicit trade in imported and exported alcohol and tobacco products by collaborating with law enforcement partners on audits, investigations, and criminal cases. TTB also continues to leverage transactional customs data available through the Automated Commercial Environment (ACE) to support efforts to timely detect tax evasion and identify potential diversion.

In FY 2021, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Reduce Illicit Trade
- Improve Data Driven Decision Making
- Increase Data Quality & Analytical Capacity
- Enhance Risk-Based Enforcement

GOAL 4 PERFORMANCE HIGHLIGHTS

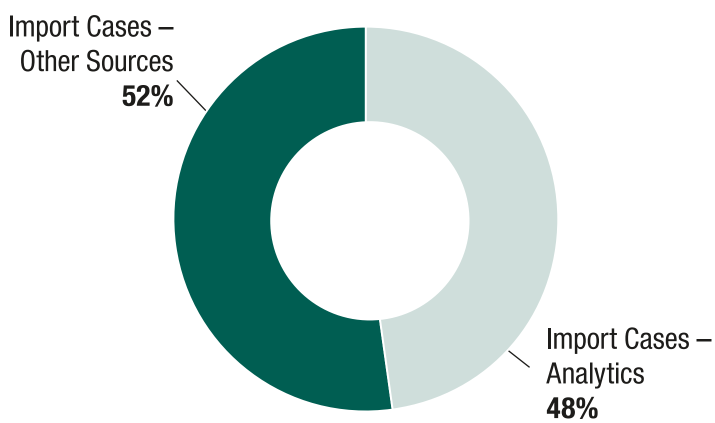
This year, TTB encountered new challenges to achieving its strategic goal to address cross-border tax risk due to the uncertain operating environment as well as new priorities and requirements. At the onset of the pandemic, with the safety of TTB employees and industry paramount, TTB modified its enforcement policies and plans, including in person investigations and audits involving import and export activity. TTB also continued to face competing enforcement priorities based on Congressional direction to increase trade practice enforcement, with funding for this purpose included in TTB's enacted appropriation each year since FY 2017.

Further, legislative changes in late 2020 made permanent most CBMA provisions, but also made significant changes to others. This included shifting responsibility for administering the import provisions of the law from CBP to Treasury starting in January 2023. Under the law, importers will no longer pay the reduced tax rates to CBP at the time of entry. Instead, importers will pay the full rate to CBP at entry and then file quarterly claims with TTB to receive CBMA tax benefits. These changes necessitated shifting resources from other priorities to prepare for implementing the import claims program by the statutory effective date.

Despite these challenges, TTB continued to focus in FY 2021 on improving its data-driven enforcement to address the tax risk associated with imported and exported products. This year, through these efforts, TTB exceeded its performance goal to integrate analytics in its enforcement practices. TTB set a target to generate at least 30 percent of its revenue cases through analytics. Across its revenue cases, TTB achieved a rate of 45 percent, maintaining the progress achieved in FY 2020.

TTB was particularly successful in using analytics to generate leads for revenue cases involving import activity. In FY 2021, TTB initiated 48 percent of these cases based on analytics. Overall, cases initiated through analytics are trending positively, and continue to result in a significantly higher success rate when compared to those that were not initiated through analytics. In addition, TTB continued to engage CBP, the agency responsible for collecting taxes on imports, to share information and generate joint enforcement opportunities.

TTB Revenue Cases Generated by Analytics - Imports



In FY 2021, TTB also worked to improve its enforcement of the “single taxpayer” and controlled group rules under CBMA. These rules limit the eligibility for reduced rates to the combined production of related parties and, in the case of controlled groups, extend across affiliated domestic and foreign producers. Enforcing these rules presents challenges, particularly where imported products are concerned. TTB’s lack of jurisdiction over foreign producers limits its ability to verify that the claimed tax due complies with the production caps in the statute.

To mitigate these risks, the Bureau continued to focus on improving its ability to monitor import activity and ensure TTB-permitted importers are operating in accordance with Federal law and TTB regulations. This year, TTB worked to add new data sources to identify company relationships. By integrating this data with TTB tax data, the Bureau is improving its ability to attribute products to a particular controlled group to determine whether the applicable reduced tax rate and credit limitations were exceeded. These efforts will prove critical to TTB’s administration and enforcement of the new import claims program in the years ahead, as TTB plans to take a data-driven approach consistent with this goal to prevent submission of erroneous or fraudulent claims and support risk targeting tools for field enforcement.

Going forward, TTB will also continue to leverage interagency partnerships, such as CBP’s Commercial Targeting and Analysis Center (CTAC), to improve the number and effectiveness of its analytics-driven cases. CTAC is an interagency center that provides access to a wide range of data sources about imports and exports, including real-time data on the cross-border trade of TTB-regulated products. TTB will continue to use data to identify potential tax evasion and flag shipments for inspection by CBP at the ports.

Over the longer term, TTB plans to improve the utility of export-related information currently reported to TTB by obtaining it in a standardized, electronic format that can be integrated into analytics tools and models. This will include updating TTB reporting requirements to improve the Bureau’s ability to timely reconcile export-related data reported to TTB with other data sources to verify that products were actually exported.

VALUE OF U.S. ALCOHOL IMPORTS AND EXPORTS

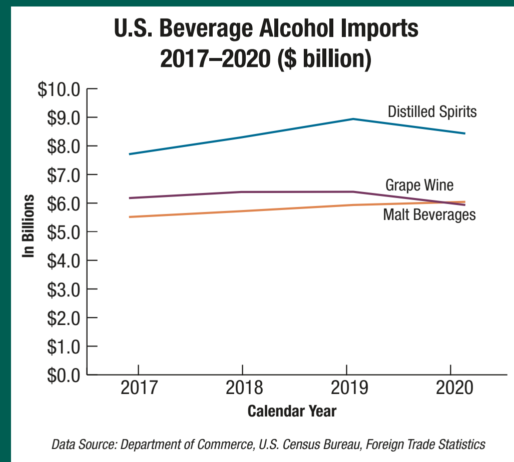
TTB actively engages with U.S. trade officials to facilitate fair and open alcohol beverage trade to support new and continuing opportunities for U.S. businesses in overseas markets.

These efforts include providing technical advice for trade agreements, educating industry and foreign officials on U.S. import and export-related requirements, and monitoring foreign trade measures that have the potential to adversely affect U.S. exports.

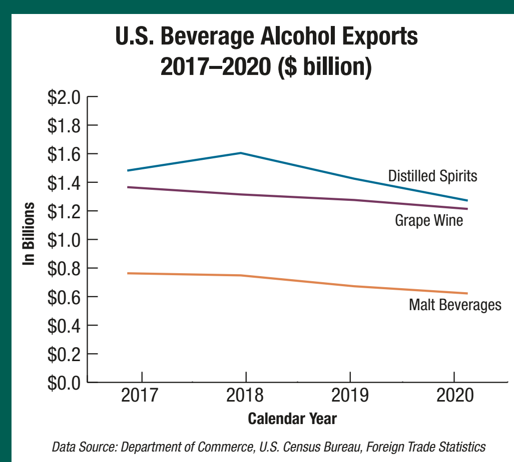
In FY 2021, TTB successfully prevented or addressed trade barriers in Thailand and Colombia related to burdensome product testing and duplicative certification requirements. The value of U.S. exports to Thailand and Colombia had declined in the years following these proposals, and these efforts provide new certainty to U.S. exporters who may expand into these potential growth markets.

This fiscal year, TTB facilitated alcohol beverage exports through the issuance of over 15,000 export certificates to accompany U.S. alcohol beverage shipments, which are required in certain foreign markets. To aid exporters, TTB enhanced online guidance and outreach to reduce common export certificate submission errors and improve processing times, which averaged 4 days in FY 2021. TTB also continued its efforts to consolidate foreign certification requirements, with Thailand the latest country to agree to accept a single multi-purpose certificate currently used throughout the Asia-Pacific region in place of multiple certificate requirements.

In the year ahead, TTB will continue to work with other Federal agencies and international entities to ensure a level playing field in the global alcohol marketplace. TTB will also continue its work in other multilateral settings to advance issues of mutual interest in international trade in wine, including participating in the World Wine Trade Group, which the U.S. will chair in 2022.



The value of U.S. import trade in 2020, the most recent full year of data available, decreased five percent over 2019 due to pandemic related challenges, reaching a total of $20.1 billion. Following several years of significant growth across all three commodities, wine and distilled spirits, experienced moderate decreases, while malt beverages showed a minor year-over-year increase. The five-year trend indicates continued U.S. demand for imported products.



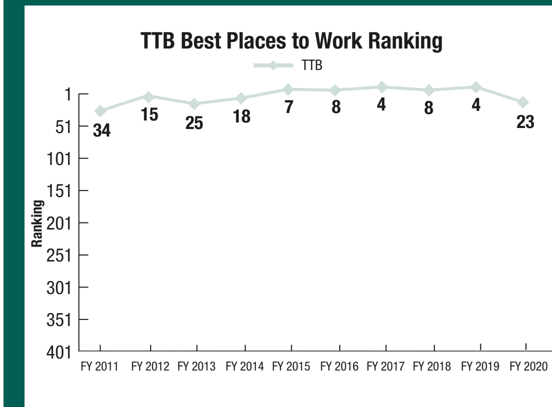
Overseas demand for the products TTB regulates declined once again in 2020 due to pandemic and tariff-related challenges. The total value of U.S. exports for all alcohol beverages decreased 10 percent to approximately $3.1 billion in 2020, compared to the prior year. Distilled spirits exports reflected the most marked decline, with a 13 percent decrease, followed by malt beverage exports at 11 percent.

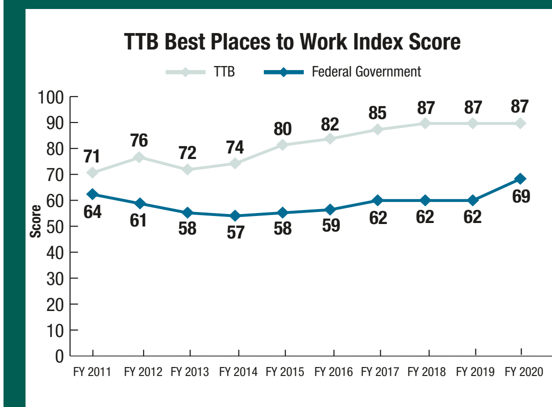
GOAL 5: WORKFORCE READINESS

To accomplish its mission, TTB must have the technical expertise and leadership skills necessary to meet the mission challenges of today and prepare the workforce for tomorrow. In FY 2021, TTB continued its efforts to improve the quality, relevance, and delivery of training to equip employees with critical job knowledge so they can develop in their careers as well as increase the quality of work across the Bureau.

Significantly, like many government agencies, TTB is facing a substantial retirement wave, with close to 40 percent of TTB's workforce eligible to retire within the next five years. High retirement eligibility elevated training and professional development as a high-risk area in need of strategic attention. Further, TTB's enterprise risk assessment identified succession planning as a key risk due to a high number of potential retirements in critical positions. Addressing this mission risk requires that TTB use a variety of human capital policies and programs. In FY 2021, TTB worked to expand its strategic goal to include additional strategies to increase overall workforce readiness.

TTB also continues to rely on employee feedback provided in the annual Employee Viewpoint Survey (EVS) to set the direction for this strategic goal. Administered annually by the Office of Personnel Management, the EVS provides important insights into areas for improvement. Based on these scores, TTB has maintained a high ranking in the Partnership for Public Service's Best Places to Work in the Federal Government, demonstrating TTB's responsive and effective solutions to the concerns raised by its workforce.





The reported scores indicate the average of three survey items related to job and organization satisfaction that identify overall employee satisfaction. Due to delays in OPM's release and administration of the 2021 EVS survey, the 2020 results are the most current available. Detailed results are available at **www.bestplacestowork.org**.

Going forward, under its redefined strategic goal, TTB intends to remain focused on effectively recruiting, training, and retaining a highly skilled and diverse workforce to maintain its status as an employer of choice in the Federal government.

In FY 2021, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Enhance Professional Expertise
- Improve Employee Engagement
- Improve Strategic Resourcing

GOAL 5 PERFORMANCE HIGHLIGHTS

In FY 2021, to revitalize its training programs, TTB continued to employ a variety of strategies to encourage and promote the professional development of its employees. This year, recognizing the broader scope of workforce challenges, TTB updated this strategic goal to incorporate other critical risks to building the capacity and resiliency of its workforce. The Bureau will move forward in FY 2022 focused on overall workforce readiness to meet evolving mission needs.

Recognizing that the workplace has permanently shifted in response to the pandemic, and to maintain mission performance, TTB is focused on building a productive and positive hybrid work environment. Nearly all TTB employees continue to work remotely at least part-time, which requires creative strategies to continually improve the efficiency and effectiveness of onboarding and technical training for employees. Going forward, TTB plans to improve its online training in priority areas, including by modifying existing course content, as needed, for an online setting.

This year, TTB continued to focus on addressing crosscutting technical skill gaps. Based on its annual assessment of training needs, TTB delivered information mapping training to support the development of clear and effective policies, procedures, and reports. TTB also delivered prioritized training in the critical area of project management, including training specifically targeted to IT product owners to support the Bureau's IT modernization efforts.

TTB also recognizes the need to grow leaders for the succession pipeline. In FY 2021, TTB continued to make progress on its efforts to establish effective leadership development programs for those seeking leadership positions. TTB is developing a tiered framework to ensure that the Bureau is identifying and engaging emerging leaders, supporting the development of existing high-potential employees, and fostering potential senior leaders through the completion of a Senior Executive Service Candidate Development Program.

Further, to support employee development, TTB also continued its initiative to develop career ladder assessments to establish clear standards for advancement within each TTB job series. To date, TTB has developed these assessments for its chemists and auditors; in the year ahead, TTB will focus on developing similar assessments for label and formula specialists. TTB also plans to continue refining the tools and procedures to perform these assessments across all mission-critical occupations.

Finally, under its expanded strategic goal, TTB continued data-driven workforce planning efforts to ensure the Bureau is structured and staffed to meet the expanding mission. Based on urgent needs in the Office of Permitting and Taxation, which comprises nearly one-third of the Bureau, TTB continued its workforce planning pilot in FY 2021. TTB analyzed key programs, tasks, and staffing levels within the directorate to complete a gap analysis and develop recommendations for staffing needs across programs, including positions necessary to address high risk areas. In FY 2022, TTB will test the new workforce planning processes with the goal of applying them across all directorates.

1.5 FINANCIAL HIGHLIGHTS

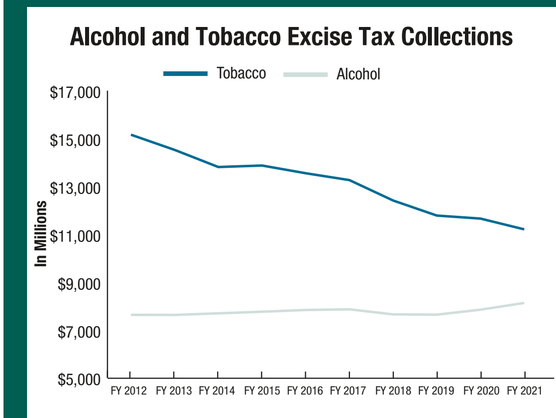
FEDERAL EXCISE TAX COLLECTIONS

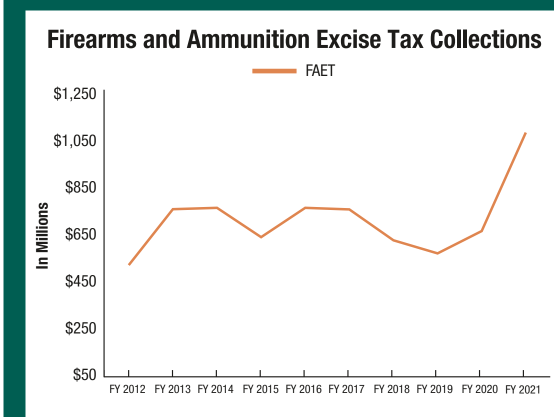
During FY 2021, TTB collected $20.3 billion in taxes, interest, and other revenues from the alcohol, tobacco, firearms, and ammunition industries. The tax for imported alcohol and tobacco products is collected by CBP.

As forecasted, tobacco revenues have generally declined since FY 2010, the first full year of collections following the 2009 Federal tobacco tax rate increase. Higher prices on tobacco products have historically resulted in decreased consumption and increased illicit trade. Further, recent analysis of tobacco collections has shown significant market shifts for tobacco products since 2009. The 2009 tax rate change introduced large Federal excise tax disparities among tobacco products, which created opportunities for tax avoidance and led manufacturers and price-sensitive consumers to shift toward lower-taxed products. The growing popularity of electronic nicotine products, such as e-cigarettes, which are not currently subject to Federal excise tax unless they contain tobacco, may also contribute to declining tobacco revenue.

The alcohol industry accounts for approximately 41 percent of the excise tax revenue collected by TTB. In FY 2021, TTB collected nearly $8.4 billion in revenue from U.S. wineries, breweries, and distilleries. Alcohol collections are increasing after a downturn due to the lower tax rates beginning in 2018 as a result of the initial enactment of the CBMA provisions of the Tax Cuts and Jobs Act of 2017 (Public Law 115-97).

TTB also collects the Federal excise taxes on firearms and ammunition. These taxes are remitted to the Fish and Wildlife Restoration Fund for wildlife restoration and research and hunter education programs. Firearms and ammunition excise tax (FAET) collections have increased from $514.6 million in FY 2012 to $1.1 billion in FY 2021, an increase of $588.1 million over the past decade, or a 114 percent growth in tax revenue. FAET revenue generally correlates with increases or decreases in sales.





Most of the taxes collected by TTB are remitted to the Department of the Treasury General Fund. The firearms and ammunition excise taxes are an exception. This revenue is remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937. The U.S. Fish and Wildlife Service, which oversees the fund, apportions the money to state governments for wildlife restoration and research, and hunter education programs.

FY 2021 Excise Tax Collections:

Alcohol	$	8,390,351,000
Tobacco	$	10,756,326,000
FAET	$	1,102,734,000
Special Occupational Tax	$	212,000
Floor Stocks Tax	$	-
Other	$	1,235,000
Total	**$**	**20,250,858,000**

Refund, Cover-Over, and Drawback Payments

During FY 2021, TTB issued $973.9 million in tax refunds, cover-over payments, and drawback payments on taxes paid by manufacturers of nonbeverage products (MNBPs).

Cover-over Payments

Federal excise taxes are collected under the Internal Revenue Code of 1986 on certain articles produced in Puerto Rico and the U.S. Virgin Islands (USVI) that are brought or imported into the United States. In accordance with 26 U.S.C. 7652, taxes collected on rum imported into the U.S. are "covered over," or paid into, the treasuries of Puerto Rico and USVI, less the collection expenses incurred by TTB.

Additionally, as a result of the Caribbean Basin Economic Recovery Act, taxes collected on rum imported into the United States from other than Puerto Rico or USVI ("other rum") are also covered into the treasuries of Puerto Rico and USVI. The USVI also receives direct reimbursement through the Department of the Interior for rum it produces and transports to the U.S.[6]

During FY 2021, cover-over payments totaled $528.5 million, with $519.7 million paid to Puerto Rico and $8.8 million paid to USVI. Year-to-year, cover-over payments can vary depending on the rate of payments, which is established by statute.

In Puerto Rico, TTB conducts annual audits and investigations of industry members regarding the collection of revenue, application processing, and product integrity. These examinations are integral to TTB's fulfillment of its obligations to verify tax compliance and ensure the payment of all cover-over amounts due to the government of Puerto Rico.

Drawback Payments

Under current law (26 U.S.C. 5114), MNBPs may be eligible to claim a refund of taxes paid on distilled spirits used in their products. During FY 2021, these drawback payments totaled $402.1 million.

For distilled spirits on which the tax has been paid or determined, a drawback is allowed on each proof gallon at the rate of $1 less than the rate at which the distilled spirits tax had been paid or determined. The refund is due upon the claimant providing evidence that the distilled spirits on which the tax has been paid or determined is unfit for beverage purposes or was used in the manufacture of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfume. The claimant must submit a product formula to TTB for analysis prior to approval of the nonbeverage claim.

FY 2021 Refund, Cover-Over, and Drawback Payments:

Alcohol, Tobacco & Firearms Excise Tax Refunds	$	42,758,000
Cover-over Payments, Puerto Rico	$	519,682,000
Cover-over Payments, Virgin Islands	$	8,787,000
Drawbacks on MNBP Claims	$	402,129,000
Interest and Other Payments	$	587,000
Total	**$**	**973,943,000**

6 The cover-over payments made to Puerto Rico and USVI based on taxes collected on "other rum" are distributed between the territories based on a formula set forth in 27 CFR 26.31.

Financial Statement Highlights

The following overview of the TTB financial statements highlights certain aspects of the financial statements for the fiscal year ended September 30, 2021.

- The Balance Sheet shows the assets, liabilities, and net position as of a point in time, in this case, as of September 30, 2021.
  - The total assets were reported as $113.1 million at the close of the fiscal year. Of this amount, $55.0 million is classified as the fund balance with Treasury. The fund balance account is the undisbursed account balance with the Treasury, primarily resulting from undisbursed appropriations.
  - The total liabilities amount reported is $81.3 million, of which total intragovernmental liabilities amount to $47.0 million. The other liabilities are classified by type, such as accrued tax refunds, payables, and other liabilities.
- The Statement of Net Cost for fiscal year ended September 30, 2021 shows the total net cost of operations at $125.7 million for the Bureau to administer its two budget activities.
  - The total net cost reported as program costs under the Collect the Revenue program was $49.5 million.
  - The total net cost reported as program costs under the Protect the Public program was $76.2 million.
- The Statement of Change in Net Position for the fiscal year ended September 30, 2021 shows a total net position balance of $31.8 million. That amount represents the unexpended appropriations from both prior periods and from the current operating cycle in addition to Cumulative Results of Operations.
- The Statement of Budgetary Resources for the fiscal year ended September 30, 2021 shows the budgetary resources received and the status of those resources. For TTB, the resources are primarily annual appropriations received in the amount of $124.3 million, in addition to spending authority from collections. The offsetting collections amount was $8.2 million. Of that amount, $3.7 million is from the recovery of costs for maintaining enforcement operations in Puerto Rico.
- The Statement of Custodial Activity for the fiscal year ended September 30, 2021 shows the amount of revenue received during FY 2021 compared with FY 2020, along with tax refunds, drawback on MNBP claims, and cover-over payments. The amount displayed shows that the total Federal excise tax revenues collected from alcohol, tobacco, firearms, and ammunition amounted to $20.3 billion. Within this total, the Bureau processed tax refunds, drawback claims, and cover-over payments in the amount of $ 973.9 million.
  - **Drawback claims** of $402.1 million were processed based on claims filed from MNBPs. Under current law, a drawback claim is allowed when distilled spirits on which the tax has been paid were used in the production of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfumes, which are unfit for beverage purposes.

- **Tax refunds** and other adjustments (e.g., interest) were processed in the amount of $42.8 million.
- **Cover-over payments** were returned to Puerto Rico and the Virgin Islands in the amount of $528.5 million. Such taxes collected on rum imported in the United States are “covered-over,” or paid into, the treasuries of Puerto Rico and the Virgin Islands.
- **The disposition of the custodial revenue**, after refunds, claims, and cover-over payments, nets to $19.8 billion. The vast majority was provided to the U.S. Treasury to fund the Federal government, with the exception of the firearms and ammunition Federal excise taxes. Those revenues, in the amount of $1.1 billion, were remitted to the Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

Limitations of Financial Statements

The principal statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. For fiscal years 2021 and 2020, all financial statements and notes have been audited.

TTB in Relation to Treasury’s Annual Financial Statements

The Department of the Treasury is one of 24 Federal agencies that are required by law to produce annual audited financial statements. TTB’s financial activities are an integral part of the information reported by Treasury.

The Department of the Treasury received an unmodified audit opinion on its FY 2021 financial statements. The financial activities of the Bureau are an integral part of the information reported by the Department of the Treasury. This unmodified audit opinion means that the financial information presented by Treasury, which includes TTB’s financial activities, was presented fairly and in conformity with GAAP of the United States.

TTB’s Annual Report includes audited FY 2021 financial statements. The Independent Auditors’ Report addresses these financial statements and reports on the Bureau’s internal controls over financial reporting and compliance with laws and regulations.

1.6 FY 2021 BUREAU BUDGET

BUDGET HIGHLIGHTS BY FUND SOURCE

This section highlights TTB program activity in FY 2021 by funding source. The Bureau's financial statements include all financial transactions in both the current year accounts and the expired accounts for the previous five years.

FY 2021 Salaries and Expenses	
Fund Source:	
Salaries and Expenses FY 2021 One-Year Appropriation (P.L. 116-93 Consolidated Appropriations Act, 2021)[1]	**$ 119,337,000**
Obligations Incurred in FY 2021 from Current Year Appropriations	*$ 118,983,920*
Salaries and Expenses FY 2021/22 Two-Year Appropriation (P.L. 116-93 Consolidated Appropriations Act, 2020)[2]	**$ 5,000,000**
Obligations Incurred in FY 2021 from Current Year Appropriations	*$ 426,252*
Salaries and Expenses FY 2020/21 Two-Year Appropriation (P.L. 116-6 Consolidated Appropriations Act, 2019)[2]	**$ 4,441,498**
Obligations Incurred in FY 2021 from Current Year Appropriations	*$ 4,431,101*
Salaries and Expenses FY 2020/21 (50% Prior Year Recovery)[3]	**$ 180,000**
Obligations Incurred in FY 2021 from Current Year Appropriations	*$ 180,000*
Transfer in From Other Appropriations (TEOAF Strategic Support and Secretary's Enforcement Funds)	**$ 1,087,000**
Obligations Incurred in FY 2021 from Current Year Appropriations	*$ 1,086,587*
Reimbursable Authority (Various Customers)	**$ 7,649,426**
Obligations Incurred in FY 2021 from Current Year Appropriations	*$ 7,072,136*

1 The 2021 Consolidated Appropriations Act included $5 million in one-year direct funding for TTB to use for the costs of accelerating the processing of formula and label applications.

2 Both the 2020 and 2021 Consolidated Appropriations Acts included $5 million in two-year direct funding for TTB to enforce trade practice provisions of the FAA Act.

3 General Provisions of the appropriations bill provide that 50 percent of the unobligated balances remaining available at the end of Fiscal Year 2020 shall remain available through September 30, 2021.

In FY 2021, TTB received $124.3 million in discretionary appropriations under the FY 2021 Consolidated Appropriations Act (Public Law 116-260) and an authorized staffing level of 508 full-time equivalent (FTE) positions. Of this amount, $119.3 million was one-year funding, of which $5 million was set aside to accelerate the processing of label and formula applications. The remaining $5 million was two-year funding (available until September 30, 2022) to enforce the trade practice provisions of the FAA Act. TTB also carried over $4.4 million in two-year funding from the prior year appropriation (FY 2020/2021) for trade practice enforcement. Additionally, TTB recovered $180 thousand in funding from 50 percent of the prior year (FY 2020) unobligated balances to replace outdated IT equipment.

In FY 2021, the Bureau obligated or expended more than 99.7 percent of the $119.3 million of discretionary funding from its one-year Salaries and Expenses appropriation. TTB obligated or expended 99.8 percent of the $4.4 million in two-year Salaries and Expenses funding carried over from the prior year (FY 2020/2021), and 100 percent of the 50 percent recovery of the prior year FY 2020 unobligated balance. The Bureau obligated 8.5 percent of the $5 million from its FY 2021 two-year Salaries and Expenses appropriation, with the year-end balance of $4.6 million being available for FY 2022 program spending.

Anticipated Collections, Reimbursements, and Other

During FY 2021, TTB had $9.3 million in current year spending authority from offsetting collections, reimbursable activity, and transfers from other agencies. Of that amount, TTB incurred obligations and expenditures of $8.2 million. The funds originated from multiple sources, including:

- Puerto Rico Cover-Over Operations and Enforcement Activities represent the recoveries from the operation of the cover-over program and other enforcement activities in Puerto Rico;
- Reimbursement from the Community Development Financial Institutions Fund (CDFI) for information technology support services;
- Reimbursement from the Department of the Treasury's Executive Office for Asset Forfeiture (TEOAF) mandatory account to cover investigative expenses and a transfer of funds from the Secretary's Enforcement Fund to cover lab equipment; and
- Reimbursement from Treasury Departmental Offices for detailees provided by TTB to assist in the implementation of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

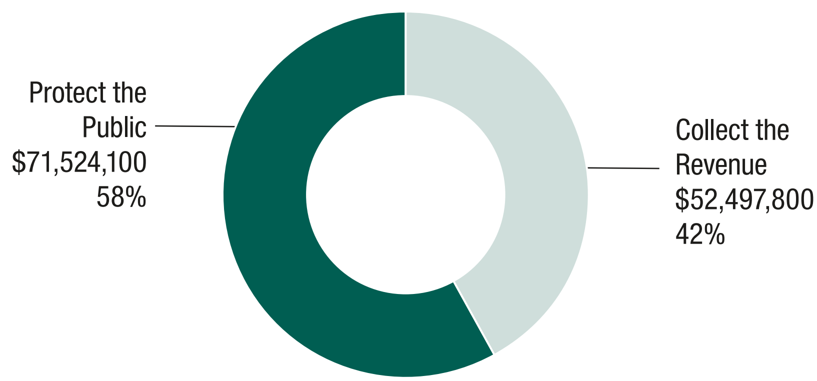
Budget Fiscal Year 2021 Anticipated Offsetting Collections, Reimbursements, and Other

	Apportioned Authority	Obligations and Expenditures
Puerto Rico Cover Over Operations and Enforcement Activities (Offsetting Collections)	$ 3,700,000	$ 3,682,915
Community Development Financial Institutions Fund (CDFI) (Reimbursable)	$ 3,000,000	$ 2,377,726
Treasury Executive Office for Asset Forfeiture – Mandatory Account (Reimbursable)	$ 1,075,000	$ 548,050
Treasury Departmental Offices (DO) (Reimbursable)	$ 431,700	$ 463,445
TEOAF – Strategic Support and Secretary's Enforcement Funds (Other/Transfer)	$ 1,087,000	$ 1,086,587
Budget Fiscal Year 2021 Totals	**$ 9,293,700**	**$ 8,158,723**

Linking Budget and Program Spending

TTB has two primary budget activities that directly align to its mission and strategic goals: Collect the Revenue and Protect the Public. TTB uses an account code structure that provides a direct link from the Bureau budget to specific programs and project activities. To ascertain the full costs of each of these budget activities, overhead costs were allocated and combined with the direct program costs.

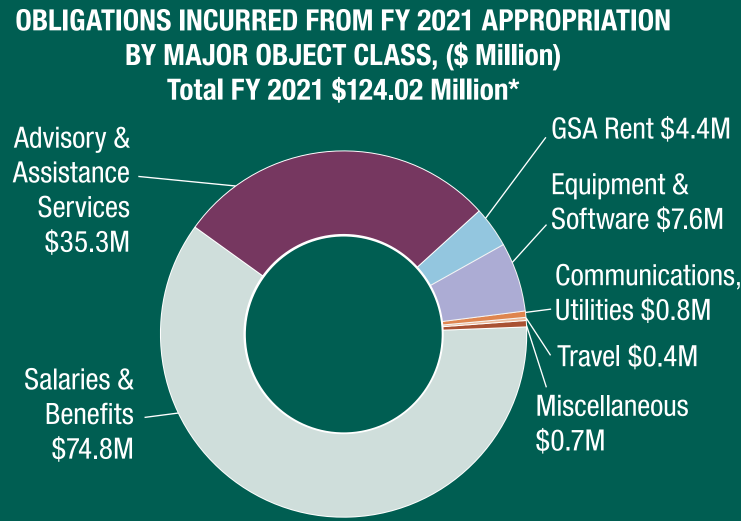
An analysis of the FY 2021 data stemming from the account code structure shows that TTB incurred obligations of $124,021,900 of its salaries and expenses appropriation, of which 42 percent was spent on the Collect the Revenue budget activity and 58 percent was spent on Protect the Public budget activity.



Obligations Incurred *
$124,021,900

*Amounts include obligations incurred in FY 2021 from the FY 2021 annual appropriation; obligations incurred in FY 2021 from two-year funding (FY 20/21 and FY 21/22); and 50 percent of the prior year FY 2020 recovery. For presentation purposes, indirect costs are allocated from direct costs.

Spending by Major Object Class



**Amounts include obligations incurred in FY 2021 from the FY 2021 annual appropriation; obligations incurred in FY 2021 from two-year funding (FY 20/21 and FY 21/22); and 50 percent of the prior year FY 2020 recoveries.*

TTB presents its obligations incurred by budget activity and program to explain the cost of delivering the services that support TTB's mission. TTB also presents specific data regarding the purchase of goods and services by major object class that support its program activities. The majority of TTB's incurred obligations (89 percent) fall into two principal major object classes: Salaries & Benefits and Advisory & Assistance Services (Contracts).

Salaries & Benefits comprise 60 percent of total obligations incurred by object class, and cover the cost of TTB's roughly 480 onboard positions at the end FY 2021. The Advisory & Assistance Services object class constitutes 29 percent of FY 2021 incurred obligations, and covers the cost of both commercial and intra-governmental services. The commercial contracts category is predominantly IT contracts in support of engineering, infrastructure, and support services. This category includes other commercial contracts for services such as scanning and imaging of paper submissions, lab maintenance, and web site development.

Intra-governmental services include administrative support services provided by TTB's shared service provider for human resources, accounting, travel, and procurement. Other intra-governmental services include budget items such as the costs for special agent support, background investigations, and Federal Protective Services and Departmental franchise services.

In FY 2021, the Bureau's travel costs were in support of core mission activities for audits and investigations. The remaining object classes that cover the FY 2021 obligations incurred include cost categories for rent, communications, equipment, and other miscellaneous categories.

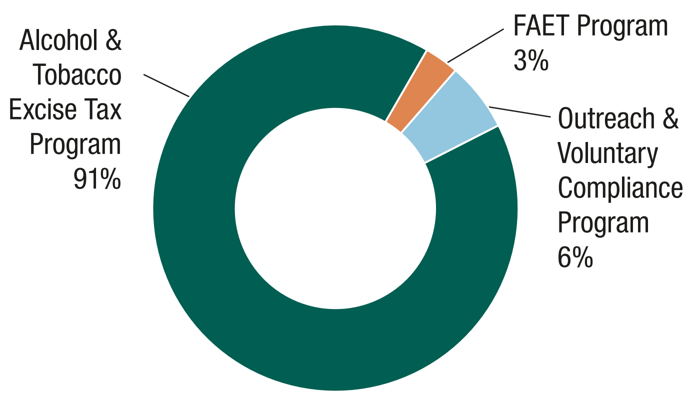
Obligations Incurred from FY 2021 Appropriations by Budget Activity

Collect the Revenue.....$52,497,800

The Collect the Revenue budget activity encompasses TTB's strategies to provide the most effective and efficient system for tax administration and enforcement. It is designed to facilitate voluntary compliance by providing high-quality service while minimizing regulatory burden. It is also designed to prevent tax evasion and other criminal conduct to ensure the collection of all revenue that is rightfully due.

TTB administers three programs under the Collect the Revenue budget activity: 1) Alcohol and Tobacco Excise Tax; 2) Firearms and Ammunitions Excise Tax (FAET); and 3) Outreach and Voluntary Compliance.

FY 2021 Collect the Revenue
Cost Allocation



TOTAL: $52,497,800

In FY 2021, TTB expended 91 percent of its Collect the Revenue resources in collecting Federal excise taxes from the alcohol and tobacco industries and 3 percent in collecting FAET. These costs include activities relating to the processing of tax returns and operational reports at the National Revenue Center and the audits and investigations conducted on alcohol, tobacco, and firearms and ammunition industry members.

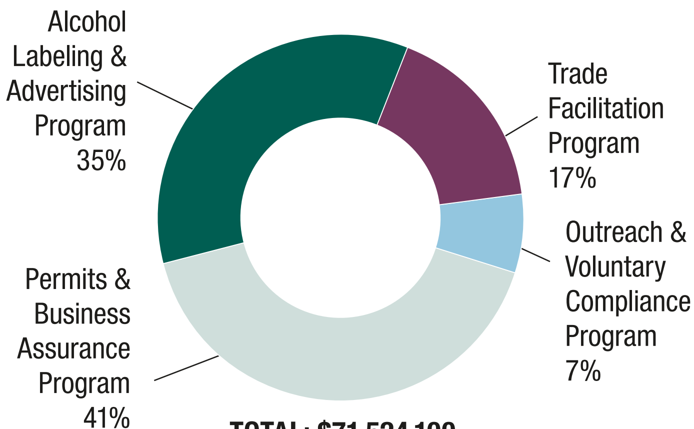
Costs for the Outreach and Voluntary Compliance Program totaled 6 percent of Collect the Revenue resources. These resources supported efforts to educate and train industry members regarding their tax compliance obligations.

Protect the Public.....$71,524,100

The Protect the Public budget activity encompasses TTB's strategy to ensure industry compliance with laws and regulations designed to protect the alcohol beverage market, which TTB accomplishes by ensuring the integrity of these businesses, of the products themselves, and of the marketplace in which they are traded.

TTB administers four programs under the Protect the Public budget activity: 1) Permits and Business Assurance; 2) Alcohol Labeling & Advertising; 3) Trade Facilitation; and 4) Outreach and Voluntary Compliance.

FY 2021 Protect the Public
Cost Allocation



TOTAL: $71,524,100

In FY 2021, TTB expended 76 percent of its Protect the Public resources on two programs: Permits and Business Assurance (41 percent) and Alcohol Labeling & Advertising (35 percent).

The Permits and Business Assurance Program is designed to determine the eligibility of persons wishing to enter any of the businesses TTB regulates and to process applications new and amended permits. These activities may include a field investigation. A TTB-issued permit or brewer's notice is necessary to conduct operations in the regulated industries.

The Alcohol Labeling & Advertising Program includes activities designed to ensure that beverage alcohol labels fully and accurately describe the products on which they appear and are not misleading. It also encompasses activities relating to verifying that alcohol advertisements contain all mandatory information and do not mislead consumers. The Product Safety component involves all investigative and laboratory activities related to product integrity, including domestic and imported product analyses.

The remainder of the Protect the Public resources were divided between the Trade Facilitation Program (17 percent) and the Outreach and Voluntary Compliance Program (7 percent). TTB's Trade Facilitation Program includes identifying and addressing barriers to trade in the domestic and international marketplace. The Outreach and Voluntary Compliance Program promotes compliance by providing regulatory standards and guidance and supporting industry members through outreach and education efforts.

1.7 MANAGEMENT ASSURANCES, SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

TTB provides reasonable assurance that the Bureau's financial management systems and internal controls support reliable financial reporting, effective and efficient programmatic operations, and compliance with applicable laws and regulations, including all applicable Federal accounting standards promulgated by FASAB, and the U.S. Standard General Ledger (USSGL) at the transaction level. This overall determination is based on past and current practices, an improved internal controls environment, scrutiny by external audit sources, internal evaluations, and administrative and fiscal accounting system enhancements.

During FY 2021, TTB also applied its custom risk management tools to its Revenue Accounting Section to identify risks in the accounting and tracking of TTB's annual Federal excise tax collections and to the Office of Permitting and Taxation, located at the National Revenue Center, with a focus on its key business processes. Based on these tools, TTB has determined that adequate internal controls are in place to mitigate risk to those operations, and the overall risk of fraud, waste, and abuse is "low."

TTB received an unmodified audit opinion following the independent, full-scope financial statement audit that was conducted for FY 2021. That report is included on pages 70 to 72. Additionally, the independent auditor's report on internal control over financial reporting identified no significant or material weaknesses in TTB's internal controls.

Accounting Systems and Controls

During FY 2021, TTB contracted with the Bureau of the Fiscal Service's Administrative Resource Center (ARC) to handle its administrative, human resources, procurement, travel, and financial functions. The ARC accounting system, known as Oracle Federal Financials, is certified by the Financial Systems Integration Office (FSIO) requirements and is in full compliance with Treasury reporting requirements; it also meets requirements under the Federal Financial Management Improvement Act (FFMIA).

The FY 2021 audit of Treasury's consolidated financial statements, which covered the financial management systems of our service provider, ARC, did not identify any instances in which ARC's financial management systems did not substantially comply with FFMIA. Specifically, no instances were identified in which ARC's financial management systems did not substantially comply with: 1) Federal financial management systems requirements, 2) applicable Federal accounting standards, and 3) the United States Government Standard General Ledger at the transaction level.

The Bureau successfully met the Department of the Treasury's reporting requirements and has maintained accurate and reliable financial information on TTB's program activities. The various administrative modules integrated with the TTB financial system have proven to accurately capture Bureau financial data and provide reliable information to management to inform decision-making.

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

FMFIA requires Federal agencies to perform ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes. To perform this, the Secretary of the Treasury depends on information from component heads regarding their management controls. TTB relies on each office to maintain a cost-effective system of controls to provide reasonable assurance that Government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation.

The Bureau continues to strengthen and improve the execution of its mission through the application of sound internal controls over financial reporting. In response to OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, the Bureau, in concert with Treasury, developed and implemented an extensive testing and assessment methodology that identified and documented internal controls over financial reporting on our revenue accounting activities.

This increased emphasis on management controls has had a positive impact on programs and enabled the Bureau to achieve the intended results. The process also ensures that the utilization of resources is consistent with mission priorities and that program and resources are being used without waste, fraud, or mismanagement. Also, in addition to the A-123 review, TTB conducted a series of office reviews during FY 2021 that included an extensive review of administrative and internal controls.

1.8 BUREAU CHALLENGES

As part of effective risk management, TTB maintains an internal controls program to ensure that TTB's tax collection activities comply with laws and regulations and ensure reliable financial reporting. Each year, TTB monitors the internal controls over tax collections. TTB plans to revisit and revise these risk management tools, as appropriate, to ensure they reflect the key business processes in operation within the Office of Permitting and Taxation. As systems and business processes change, in line with strategic improvements implemented through TTB's strategic and annual business plans, the Bureau must continuously track and update the tools used to monitor its tax processing activities to maintain sound internal controls.

PART II
Annual Performance Results

2.1 PERFORMANCE OVERVIEW

Through its suite of key performance measures and indicators, TTB demonstrates its ability to effectively administer the tax code and facilitate commerce through prompt, reliable service delivery for required Federal approvals and claims. In this report, TTB presents its performance information by mission area and strategic goal, and details it according to the key strategic objectives that represent the Bureau's FY 2021 continuous improvement efforts.

In FY 2021, TTB met or exceeded its performance targets for 10 of its 15 performance measures. TTB also monitored its performance through several indicators that support data-informed decision making across TTB's strategic goals. Despite falling short in five performance goals in FY 2021, TTB made substantial improvements in many key service and operational measures this year. Performance generally trended in a positive direction this year, demonstrating that TTB effectively calibrated its plans and priorities and successfully adapted its operations in response to COVID-19.

Based on external factors and the results achieved this fiscal year, TTB reviewed its performance goals and set FY 2022 targets that reflect workload projections, resource levels, planned business process improvements, and anticipated impacts from technology enhancements.

To meet its performance goals in FY 2022, TTB will implement an aggressive strategic agenda that integrates modern technology, policy updates, and process improvements as well as data-informed outreach and enforcement. Further, TTB continues efforts to develop an improved suite of measures to more effectively monitor the Bureau's progress toward its strategic and priority goals.

All performance results are subject to internal management review and periodic audit by the Department of the Treasury. TTB also continues to improve its data reporting platform, as well as data governance policies and procedures, which will enable TTB to more timely detect and address data quality issues across its critical data sets. As part of these efforts, additional data validation will continue; any necessary updates to TTB's performance measures or indicators will be reported in FY 2022.

FY 2021 Performance Measure Status	
Performance Targets Met	10
Performance Targets Not Met	5
Total Performance Measures	15

2.2 PROTECT THE PUBLIC PERFORMANCE

In FY 2021, TTB met six of its nine annual targets for the performance measures under its Protect the Public mission. TTB uses these measures to monitor progress toward meeting strategic and priority goals to facilitate lawful commerce for the protection of U.S. businesses and consumers. These measures also help TTB monitor the extent to which it is meeting established service standards for permit, label, and formula applications; the error rate on applications; the usage rate of TTB's online systems; and the level of satisfaction that users have with these online systems.

GOAL 1: BUSINESS QUALIFICATION

TTB protects Federal revenues and U.S. consumers by screening permit applications and registrations to ensure only qualified persons engage in the alcohol and tobacco industries. TTB's strategic goal to improve its business qualification program calls for TTB to streamline permit applications to reduce applicant burden and make effective use of technology to minimize application errors and improve processing times.

Performance Discussion by Strategic Objective

Improve Reliable Service

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. This year, 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 surpassed 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 this year 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 2022 and beyond will require continued progress on several crosscutting initiatives. In FY 2022, 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.

Increase Voluntary Compliance

TTB measures the *Initial Error Rate on Permit Applications*, which tracks how many applications are submitted either incomplete or with errors, to develop 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 and verified, 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.

To meet its permitting performance goals, 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 the TTB continues to simplify permit requirements and improve 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. Prior to this year, 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. This process improvement was successfully deployed in FY 2021, and preliminary results are showing efficiencies in turnaround times as well as more effective communications with industry members to improve the user experience. The new functionality will also provide TTB with better access to data on frequent errors to direct efforts to improve online guidance and system support. TTB will continue monitoring this new process and related customer feedback in FY 2022 to support ongoing enhancements.

Optimize Electronic Systems

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 2022 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 email 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 service level improvements, and as TTB initiates broader system modernization efforts in FY 2022 to provide applicants with a single integrated online filing experience. Additionally, TTB's call center will focus on improving the level of service provided to customers seeking live assistance with the permit application process. Going forward, TTB will use call center data to understand customer pain points to support strategic system enhancements and improve customer satisfaction.

Update Regulatory Requirements

Broader changes to TTB's permit application requirements, some of which require rulemaking, are underway. The proposed changes are informed by industry input on Treasury regulations that can be eliminated, modified, or streamlined to reduce burdens. These changes may need to be fully implemented before TTB can achieve and sustain its targeted performance levels for this goal, particularly as the alcohol beverage industry continues to grow.

In FY 2021, TTB made significant progress in its regulatory modernization efforts and will publish the first in a series of proposed rulemakings to simplify permit applications in early FY 2022, starting with distilled spirits plants. TTB aims to publish a similar notice for breweries to simplify the brewer's notice process later in the fiscal year. The proposed changes should dramatically reduce open text fields and requirements to upload supporting documentation.

In addition to reducing compliance burdens, simplifying and clarifying TTB's regulatory requirements should also reduce errors on permit applications, which would contribute to improved approval times.

Ensure Level Playing Field

TTB protects tax revenues and U.S. consumers by screening applicants before issuing a Federal permit. This includes performing investigations into high-risk applicants. In FY 2021, TTB completed its pilot of new procedures to screen permit applicants. The new procedures employ refined risk indicators to flag applications that warrant further review and potential field referral. Going forward, TTB will continue implementing process improvements to its risk-based screening to help manage workloads and improve service delivery.

GOAL 1 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021		Result vs Target
		Actual	Actual	Actual	Actual	Actual	Target	
Percentage of Permit Applications Processed within Service Standards (75 days)	SO 1	48%	71%	58%	84%	**92%**	85%	Met
Initial Error Rate for Permit Applications[1]	SO 2	82%	78%	71%	62%	**67%**	25%	Unmet
Percent of Electronically Filed Permit Applications	SO 15	85%	87%	89%	92%	**95%**	90%	Met
Customer Satisfaction Rate with TTB Permitting Process	SO 15	80%	83%	DISC	DISC	**DISC**	DISC	N/A
Customer Satisfaction Rate with eGov Systems – Permits Online	SO 15	68%	77%	68%	78%	**79%**	80%	Unmet

Key: DISC – Discontinued

1 Historic data updated to reflect data quality corrections

GOAL 2: LABELING MODERNIZATION

TTB protects U.S. consumers by ensuring that alcohol beverage products sold are properly labeled and comply with Federal regulatory standards. TTB's strategic goal to modernize its labeling program calls for the Bureau to provide timely and consistent service, reducing the burden of resubmissions on industry and TTB, and to employ risk-based market sampling and investigations to ensure product integrity and fair competition.

Performance Discussion by Strategic Objective

Improve Reliable Service

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. 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 the target of 85 percent. 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. By employing similar strategies, TTB was also able to overcome significant increases in formula submissions to exceed the targeted performance level, ending the year at 92 percent of formula applications meeting the 15-day standard. 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.

TTB expects performance to continue to trend positively in FY 2022 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 in the coming year. TTB will also work toward its FY 2022 target of meeting this standard for 85 percent of applications through initiatives to modernize IT systems and guidance, with particular focus on reducing errors on applications that increase total workload and challenge timely processing.

Increase Voluntary Compliance

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 and, notably, 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 reducing wine label and formula errors.

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. This year, TTB made progress in issuing improved guidance on TTB.gov. This included publishing a new home page for distilled spirits labeling guidance, which added detailed topic pages that cover all mandatory label information. The new guidance also includes interactive examples of compliant submissions to make it easier to understand labeling requirements.

In FY 2022, TTB plans to update its web-based tool to assist distilled spirits producers and importers in determining whether their products require formula approval, a high-frequency error. The Bureau also plans to complete similar updates to its malt beverage label and formula guidance. 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.

Update Regulatory Requirements

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 temporarily reduced the volume of label and formula submissions; however, industry growth combined with market trends toward products that require formula approval have resulted in increased submissions that offset these reductions. Going forward, TTB will continue to focus on its strategy to reduce total workload volume by addressing errors on label and formula applications, as these errors require TTB to re-review submissions and delay timely approvals.

In FY 2021, TTB also made further progress on 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 by simplifying and clarifying regulatory standards, incorporating guidance documents and other current policies into the regulations, and reducing regulatory burden on industry members where possible.

Last year, TTB published the first final rule in its phased labeling modernization rulemaking, addressing areas with broad consensus and industry support. In FY 2021, TTB focused on updating industry guidance on TTB.gov to implement the new regulatory requirements and aid industry compliance. With the new rules, TTB also plans to continue prioritizing internal training to improve the quality of its reviews and ensure determinations on label and formula applications are consistent with current policy.

In the year ahead, TTB expects to publish a second final rule, which will address distilled spirits, malt beverages, and certain crosscutting labeling issues. In FY 2022, TTB also plans to initiate the last final rule to address wine-specific issues and advertising for all commodities. With this final phase, TTB will also make clear which topics will be reserved for future rulemaking and close other issues that we do not plan to pursue.

Additionally, TTB continues to pursue regulatory modernization that will further stimulate trade and industry recovery. In December 2020, TTB published a final rule that, among other things, amended TTB's regulations that govern wine and distilled spirits containers by adding seven new standards of fill for wine and distilled spirits. TTB took this action to provide bottlers with greater flexibility in bottle sizes, and facilitate domestic and international commerce.

TTB's regulatory plans can be viewed as part of Treasury's Unified Agenda on RegInfo.gov.

Optimize Electronic Systems

Sustaining service levels will also be supported through ongoing enhancements to TTB's eGov systems. Over the last several years, TTB has deployed system enhancements to 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 down 3 percent overall compared to last year, and over 12 percent since FY 2017.

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. In FY 2022, TTB will continue testing artificial intelligence techniques 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. Going forward, as part of the myTTB initiative, TTB will also employ 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 eGov systems, collecting responses via e-mail survey to assess factors such as ease of access, guidance, and overall experience. In FY 2021, satisfaction rates increased from 80 percent to 83 percent for COLAs Online users, and 73 percent to 80 percent for Formulas Online users, meeting or exceeding the performance target for both systems. TTB attributes these increases to reduced processing times and anticipates that performance will continue to improve through FY 2022 in line with timely service levels. Further, TTB expects that planned system improvements and regular review of survey feedback in FY 2022 will help TTB continue to exceed its user satisfaction target of 80 percent and attract users to its online systems to maintain electronic filing rates above its target of 95 percent.

Enhance Risk-Based Enforcement

After alcohol beverages enter the marketplace, TTB surveys products to evaluate compliance and determine where issues may exist. TTB checks for all required label information and determines if there is a valid COLA. TTB also sends the products to its laboratories to undergo chemical analyses to evaluate whether the label information accurately reflects the content of the container.

In most cases, TTB notifies the industry member about a violation and works with them to bring the product into compliance. For more significant violations, TTB conducts field investigations and ensures that corrective action is taken by the industry member. The most frequent violations in FY 2021 related to disparities between the actual alcohol content of certain wine, spirits, and malt beverage products and the alcohol content stated on the label of those products, as well as discrepancies between the approved label and the label on the bottle.

In FY 2022, TTB's market sampling program will continue to include both a random and risk-based sample. The risk-based sample will allow TTB to evaluate products that may have a higher probability of being non-compliant based on certain risk factors. These results will be used to help inform decisions on enforcement actions, priorities, and guidance and allow the Bureau to employ its investigative resources in a more efficient and effective manner.

GOAL 2 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021		Result vs Target
		Actual	Actual	Actual	Actual	Actual	Target	
Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards (15 days)[2]	SO 1	62%	84%	48%	83%	**92%**	85%	Met
Initial Error Rate for Label and Formula Applications	SO 2	43%	40%	37%	34%	**31%**	25%	Unmet
Percent of Electronically Filed Label and Formula Applications	SO 15	98%	98%	99%	99%	**100%**	95%	Met
Customer Satisfaction Rate with eGov Systems – COLAs Online	SO 15	82%	81%	77%	80%	**83%**	80%	Met
Customer Satisfaction Rate with eGov Systems – Formulas Online[3]	SO 15	70%	79%	70%	73%	**80%**	80%	Met

2 Service standards are set annually based on TTB analysis of submission volume, error rates, and resource levels. In FY 2016, the service standards were 30 days for labels and 45 days for formulas. In FY 2017, TTB set the service standards at 10 days for both labels and formulas, after receiving dedicated funding to support accelerated processing times. In FY 2018, following a spike in submission volume, TTB established new service standards of 15 days for both labels and formulas. TTB has maintained this standard through FY 2021.

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

2.3 COLLECT THE REVENUE PERFORMANCE

In FY 2021, TTB met three of its five annual targets for its performance measures under the Collect the Revenue mission. 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 its field enforcement efforts to address critical threats to Federal revenues.

GOAL 3: TAX COMPLIANCE

High voluntary compliance results in more efficient revenue collection and supports effective industry regulation. TTB's strategic goal to improve tax compliance calls for the Bureau to update its tax filings, processes, and technologies; enhance its capacity to identify and address non-compliance through analytics and other detection tools; and continue to improve its taxpayer education and outreach.

Performance Discussion by Strategic Objective

Increase Voluntary Compliance

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, indicating that continued focus on these filing requirements is necessary in the year ahead.

As the taxpayer universe grows, and workloads increase, TTB has faced resource challenges in maintaining industry compliance. Over time, with limited resources, TTB outreach efforts to educate industry members on tax requirements have also decreased. More recently, 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 analytics tools and internal procedures to address identified non-compliance. By partnering its tax experts with its analytics team, TTB continued to enhance new dashboard views of taxpayer compliance scores, including summary and detailed information about each compliance factor (i.e., late/missing returns, late/missing reports, late payments, and underpayments). Based on these scores, 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 resulted in identified tax liabilities of $135 million and $32 million collections to date.

In FY 2022, improving compliance rates will remain a priority for TTB. Plans over the next year include continuing TTB's risk-based reviews of taxpayer accounts, with a focus on continued enhancements to analytics 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.

Enhance External Communication & Outreach

TTB continues to emphasize external communication strategies to improve tax compliance. Given that TTB.gov remains the Bureau's primary industry resource for tax guidance, improvements to online tax resources continue to be a priority.

In FY 2021, TTB continued to expand its virtual outreach efforts and opportunities, delivering a number of presentations and training sessions remotely, including commodity-focused *Boot Camps* to improve industry compliance with tax and regulatory requirements. TTB also staffed virtual booths at several trade conferences, providing real-time answers to electronically submitted questions from industry members. This year, TTB also supported some of the first in-person conferences this year since the onset of the pandemic. In FY 2022, TTB will continue to maximize virtual options to conduct industry training and outreach, along with in-person conference attendance.

In the year ahead, TTB plans to focus on strategic communications, using customer feedback and user testing to help prioritize and design effective web guidance and industry educational materials. TTB also plans to increase and improve tax guidance on TTB.gov, including additional information on financial relief options available to eligible taxpayers. Further, with the permanent enactment of the CBMA provisions, TTB will continue to update its online guidance to provide current information on rules and requirements. As TTB prepares to implement the new CBMA import provisions, these efforts will expand to include outreach to foreign producers to support understanding and compliance with new requirements.

Improve Policies, Processes, & Documentation

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, down slightly from FY 2020.

In FY 2021, Federal tax revenue from the alcohol, tobacco, and firearms and ammunition industries increased year-to-year, with alcohol collections up 4 percent, and FAET 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 plans to revisit these restrictions in FY 2022, guided by direction from the Administration and public health officials on COVID-19 safety measures, and keeping the health and safety of TTB's workforce and industry members paramount.

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 duration and impact of the COVID-19 pandemic on TTB-regulated industries.

Optimize Electronic Systems

TTB will also focus on improving tax compliance through IT modernization. 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 tax filings.

E-filing rates for tax returns and operational reports trended positively in FY 2020, but remain low compared to other TTB e-filing systems. TTB 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. Even though TTB exceeded target on operational reports, 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 may improve e-filing rates, although more significant tax system modernization is likely required for TTB to achieve its long-term target of 80 percent.

Going forward, as part of its IT modernization efforts, TTB intends to implement phased releases to its tax system, including a custom external interface for electronic tax filings and account management, as well as enhanced internal workflows to support TTB tax administration. However, the pace and scale of system modernization efforts are dependent on TTB funding levels and competing TTB priorities, including statutory implementation efforts.

In FY 2021, TTB continued to focus its IT development efforts on claims, completing the deployment of a new module to support timely processing of claims for manunfacturers of nonbeverage products. This year, TTB also enhanced the web form for industry to file claims online, including improved security features, building on the interim solution deployed at the pandemic onset. In the year ahead, this work will be directed to initiating development of two CBMA modules – Foreign Producer Registration and Import Claims Submission/Processing – through which TTB plans to implement the CBMA importer refund program beginning in 2023, including the associated security and data enhancements to facilitate implementation of the statute.

Effective tax administration also requires modernized 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, 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 evasion schemes.

Update Regulatory Requirements

TTB continues to explore regulatory changes 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, which TTB will continue in FY 2022, will require rulemaking to fully implement. TTB will work these efforts in tandem with IT modernization efforts to deliver these new requirements through its new tax system interface. As TTB initiates 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.

GOAL 3 KEY SUCCESS INDICATORS

Measure/ Indicator	Strategic Objective Alignment	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021		Result vs Target
		Actual	Actual	Actual	Actual	Actual	Actual	Target	
Amount of Revenue Collected Per Program Dollar	SO 5	$414	$406	$369	$339	$380	**$375**	N/A	N/A
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns/ Payments Timely (by taxpayer)[3]	SO 2	–	60%	69%	69%	DISC	**DISC**	DISC	N/A
Percent of Voluntary Compliance from Large Taxpayers in Filing Operational Reports Timely (by taxpayer)[4]	SO 2	–	66%	74%	76%	DISC	**DISC**	DISC	N/A
Percent of Voluntary Compliance from Large Taxpayers – Overall[3]	SO 2	90%	90%	90%	91%	91%	**93%**	95%	Unmet
By Payment	SO 2	99%	99%	99%	99%	99%	**99%**	–	–
By Tax Return	SO 2	81%	79%	82%	84%	84%	**87%**	–	–
By Operational Report	SO 2	82%	82%	82%	83%	83%	**87%**	–	–
Percent of Electronically Filed Tax Returns – Pay.gov	SO 15	33%	35%	37%	41%	43%	**48%**	50%	Unmet
Percent of Electronically Filed Operational Reports – Pay.gov	SO 15	39%	40%	42%	46%	50%	**53%**	50%	Met

Key: DISC – Discontinued

4 TTB revised its measure of taxpayer compliance for FY 2020, enabling more accurate and timely analysis of compliance trends by taxpayers; the new method also supports separate reporting of compliance rates by payments, tax returns, and operational reports.

GOAL 4: CROSS-BORDER TAX RISK

The cross-border trade in alcohol and tobacco products poses a significant risk to Federal revenues. Mitigating this risk requires extensive coordination with multiple agencies that have responsibilities for the regulation and enforcement of import and export activity. This strategic goal calls for TTB to improve the detection and enforcement of diversion and other tax evasion in the cross-border trade of alcohol and tobacco products by leveraging interagency and other data sources to enhance and further integrate analytics tools into the Bureau's enforcement planning and processes.

Performance Discussion by Strategic Objective

Improve Data Driven Decision Making

Given the amount of import-related data available to TTB in electronic format through CBP's Automated Commercial Environment (ACE) – and the near-term revenue risk posed by the import-related provisions of the recent tax reform legislation – TTB focused its data-driven enforcement efforts in FY 2021 on imported alcohol and tobacco products. TTB relies on two indicators – the *Percent of Revenue Cases Initiated through Analytics* and the *Success Rate of Closed Revenue Cases Initiated through Analytics* – to assess its ability to generate data-driven leads and enhance enforcement planning.

In FY 2021, TTB continued its efforts to mine import data and enhance its analytics tools to detect illicit activity, such as importers operating without a TTB permit and importers misclassifying or underreporting entries of alcohol and tobacco products to CBP to evade excise taxes. TTB also continued to enhance analytics tools to identify industry members at risk for exceeding the relevant reduced rate and credit thresholds under CBMA for subsequent field referral.

These tools enabled TTB to exceed its performance target to initiate 30 percent or more of its revenue cases based upon leads generated by analytics tools. Across all TTB revenue cases, approximately 45 percent of TTB's revenue cases were generated by analytics. TTB was particularly successful in using analytics to generate leads for revenue cases involving import activity, deriving the leads for 48 percent of these cases from analytics. The overall success rate of these cases increased from 48 percent last year to 75 percent, exceeding the annual target of 70 percent. Analytics-driven cases continue to compare favorably to the success rate of cases generated through other leads and intelligence sources.

In the years ahead, TTB will continue its efforts to improve import oversight and enforcement using ACE data, as well as the data available through CBP's Commercial Targeting and Analysis Center (CTAC), to detect and address the misclassification of imports to evade taxes. CTAC is an interagency center that provides access to a wide range of data sources about imports and exports, including real-time data on the cross-border trade of TTB-regulated products.

In FY 2022, TTB will also continue to coordinate with CBP, including to improve the exchange and use of data needed by both agencies to ensure that industry members are not improperly paying reduced tax rates or receiving credits on alcohol products in excess of the thresholds allowed by law. TTB is also collaborating with CBP to prepare for TTB to administer and enforce new CBMA import provisions, enacted in December 2020 with an effective date of

January 2023. At that time, importers will no longer take the reduced CBMA rates at the time of entry when paying tax to CBP, but instead file claims with TTB to receive the CBMA tax benefits. These are complex claims that will present a high potential for fraud, heightening the need for analytics-driven validation and risk monitoring tools. In the year ahead, TTB will focus on initiating rulemaking and guidance, designing new processes and systems, and coordinating data sharing and enforcement plans internally and with CBP to ensure that the Bureau can issue refund claims timely and mitigate fraud risk.

Increase Data Quality & Analytical Capacity

TTB also continued its efforts to improve data access to support risk-based analytics to effectively direct its enforcement resources. In FY 2021, TTB continued to improve the utility of its internal and external data sets to help address challenges posed by the "single taxpayer" and controlled group rules under CBMA, including specific issues related to confirming reduced tax rates and credits for imported products. The Bureau is working to improve its ability to monitor import activity and ensure TTB-permitted importers are operating in accordance with Federal law and TTB regulations. However, TTB's lack of jurisdiction over foreign producers limits its ability to verify that the claimed tax due by importers is consistent with the statutory reduced tax rate and credit limitations and any such allocations received from foreign producers.

By integrating external data sets with TTB data, TTB is improving its ability to attribute products to a broader controlled group to determine whether the applicable reduced tax rate and credit limitations were exceeded. These new tools are critical to improving TTB's ability to verify effective tax rates in audits and other taxpayer account reconciliations, and support risk determinations in TTB enforcement planning. In FY 2022, TTB plans to expand upon these efforts to focus on multinational controlled groups that are comprised of foreign producers.

Under this strategic goal, TTB also plans to improve the use of export-related information currently reported to TTB and, over the longer term, to update TTB's reporting requirements to improve the Bureau's ability to detect diversion. Export information is currently reported to TTB in formats that are not conducive for use in analytics tools. TTB had to significantly curtail these efforts in FY 2021 due to competing priorities but plans to pursue these improvements in the coming years.

Going forward, TTB will continue to evaluate how current or new data sources could be used to address the critical risks associated with imported and exported alcohol and tobacco products, particularly in light of the CBMA import provisions that TTB will administer starting in January 2023. In FY 2022, TTB plans to improve its ability to identify controlled groups to verify eligibility for reduced tax rates and credits, including through potential information sharing with the IRS. Further, as TTB undertakes its overarching initiative to simplify tax filing requirements, improving the form and format for industry to report export-related information will remain an area of focus.

Enhance Risk-Based Enforcement

Addressing the revenue risk from the import and export trade requires TTB to increase interagency partnerships to maximize TTB's enforcement presence. In FY 2021, TTB continued to coordinate with CBP to support implementation of the import-related provisions of the tax reform legislation, which included coordinating data and information sharing needs and identifying opportunities for joint enforcement.

In the year ahead, TTB will continue to improve cooperation and information sharing with CBP, as well as other law enforcement partners, to effectively combat revenue risks. TTB will also continue to leverage interagency partnerships, such as CTAC, to improve the number and effectiveness of its analytics-driven cases, using data to signal the potential evasion of excise taxes and flag shipments for additional inspection by CBP at the ports.

Reduce Illicit Trade

TTB criminal enforcement efforts to date have uncovered various and widespread schemes to evade Federal excise taxes involving imported and exported alcohol and tobacco products. Some tax evasion schemes involve diversion of non-taxpaid product marked or otherwise intended for export back into domestic commerce to evade Federal excise taxes. Imports also present a revenue risk because importers may misclassify or underreport products to CBP upon entry into the U.S. to evade alcohol and tobacco excise taxes. Import risk increased under the craft beverage modernization provisions due to the availability of reduced tax rates and credits for imports.

TTB's criminal cases reflect the risk posed by the illicit trade in these products. TTB continues to monitor its effective case selection and management through its indicator of *Percentage of Criminal Cases Resolved with Successful Outcomes*, which tracks TTB's completed cases that result in a conviction, plea, seizure or forfeiture, or restitution. In FY 2021, TTB successfully resolved 80 percent of its criminal cases, 8 out of 10 cases, including several related to tobacco products illicitly trafficked in interstate commerce. TTB assessments and forfeitures resulting from its civil and criminal diversion cases totaled more than $15.2 million. TTB expects to close several open cases in FY 2022 with significant potential Federal excise tax liabilities. Additional information on TTB actions to resolve willful violations of alcohol and tobacco laws is on TTB.gov – Administrative Actions.

Going forward, as the operating environment normalizes post-pandemic, TTB intends to continue to deploy its National Response Teams to address high-risk activity identified through analytics and intelligence. An effective investigative technique, National Response Teams employ a team-based approach to TTB cases, leveraging the skill sets across TTB's enforcement functions. This approach allows TTB to effectively plan and execute major investigations, which are often nationwide in scope and typically involve multiple locations. TTB measures its capacity to use this enforcement approach through its measure of the *Number of National Response Team investigations*. In FY 2021, due to pandemic-related travel restrictions, TTB initiated only two National Response Team investigations.

In recent years, the number and type of National Response Team investigations has shifted in response to shifting enforcement priorities and resource constraints. With continued emphasis on trade practice enforcement, and within current resources, TTB will need to continue to balance its enforcement priorities in FY 2022 to maintain its enforcement presence across TTB's key risk areas.

GOAL 4 KEY SUCCESS INDICATORS

Measure/ Indicator	Strategic Objective Alignment	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021		Result vs Target
							Actual	Target	
Number of National Response Team Investigations	SO 12	10	12	8	8	2	**2**	N/A	N/A
Percent of Criminal Cases Resolved with Successful Outcomes[5]	SO 4	72%	87%	88%	61%	100%	**80%**	N/A	N/A
Percent of Revenue Cases Initiated though Analytics[6]	SO 11	–	–	–	32%	45%	**45%**	30%	Met
Success Rate of Closed Revenue Cases Initiated through Analytics[5]	SO 11	–	–	–	54%	48%	**75%**	70%	Met

5 Result based on 10 criminal cases resolved in FY 2021

6 Based on revised provisions of the tax code, and current enforcement policy, TTB is evaluating a methodology revision to account for controlled groups.

GOAL 5: WORKFORCE READINESS

TTB's strategic goal to improve workforce readiness underpins its success in the other four strategic goals. TTB's small size, breadth of program responsibilities, and evolving mission requirements require a workforce that is diverse, engaged, and driven. Through this goal, TTB aims to prepare the TTB workforce to meet mission challenges through continuously assessing individual and organizational training needs and effectively addressing critical skill gaps. In FY 2021, TTB worked to expand the scope of this goal to emphasize other critical aspects of workforce readiness, including workforce planning, to ensure that TTB is properly structured and staffed to address evolving mission requirements. In Part III of this report, the resources dedicated to this goal are prorated to the Collect the Revenue and Protect the Public major programs.

Performance Discussion by Strategic Objective

Enhance Professional Expertise

TTB continues to identify high retirement eligibility, particularly in critical positions, as one of the Bureau's top risks. In the next five years, close to 40 percent of TTB employees will be eligible to retire. TTB intends to continue its proactive approach to addressing mission risk related to this retirement wave by strategically employing a variety of human capital policies and programs, with specific emphasis on enhancing the technical knowledge and leadership skills of its workforce. In FY 2021, TTB continued its efforts to align workforce training and development needs with the strategic direction of the Bureau, taking into account the areas that employees have identified as most in need of improvement in recent years through the annual Employee Viewpoint Survey (EVS).

TTB measures the *Positive Response Rate on Training Items in the Federal Employee Viewpoint Survey* to monitor its performance in assessing and delivering quality training to the workforce. Generally, TTB has improved employee satisfaction since establishing this strategic goal, with overall positive perceptions of training increasing from 76 percent in FY 2017 to 87 percent in FY 2020. FY 2021 results were not available at the time of this report due to the Office of Personnel Management's (OPM) delay in administering the survey. Further, in FY 2020 OPM modified the survey to account for new questions related to organizational response and workforce reaction to COVID-19, which affected the survey questions TTB uses in calculating this measure. TTB accounted for these revisions in its FY 2020 results and expects similar changes to impact the FY 2021 survey.

Progress in this area has been driven by improved annual processes to ensure that TTB's priority training needs are identified and met. This year, TTB completed its annual Bureau-wide training needs assessment, which informed the FY 2021 TTB training plan. TTB also actively managed its training plans through quarterly reviews. Despite competing demands on programs and personnel to respond to COVID-related priorities, TTB delivered on the critical aspects of the FY 2021 training plan, including information mapping, project management, and product owner management to support TTB's IT modernization efforts. Through regular engagement with each directorate, TTB also ensures that the Bureau better leverages internal training opportunities as well as those available across Treasury. For example, in FY 2021, TTB continued to participate in Lean Six Sigma training opportunities offered by Treasury's Office of Strategic Planning and Process Improvement to build capacity in continuous process improvement.

TTB also continued a multi-year initiative to develop career ladder assessments to define the required competencies and proficiency levels for all mission-critical occupations. Based on resources, TTB is phasing these efforts and, to date, has completed assessments for the chemist and auditor job series (21 percent of the workforce). In FY 2022, TTB plans to focus on the specialist job series (35 percent of workforce). Once complete, these tools will provide transparent and clear expectations on the capabilities employees must demonstrate to advance by job series and grade, and are an important part of TTB plans to prepare candidates for leadership positions.

TTB remains focused on developing its next generation of leaders, with ongoing efforts to improve succession planning to enhance practical leadership capabilities and the Bureau's leadership pipeline. In FY 2021, TTB completed its framework for a three-tiered approach to leadership development and initiated pilots to evaluate the new programs. Under this approach, TTB refined its existing program geared toward identifying and engaging emerging leaders, developed a new program designed to support the development of existing high-potential employees, and adopted a program to foster potential senior leaders through participation in a Senior Executive Service Candidate Development Program (SES CDP). In FY 2021, TTB participated in a Treasury-wide pilot of an SES CDP, which should provide economies of scale in offering expanded opportunities to TTB employees seeking certification of their Executive Core Qualifications.

Improve Employee Engagement

Employee engagement and satisfaction are critical to developing and sustaining a productive workforce. Each year, OPM administers the EVS to measure the satisfaction of the Federal workforce. Based on this survey data, the Partnership for Public Service determines rankings for Federal agencies. TTB uses these results to develop an annual Employee Engagement Action Plan to target areas for improvement, with these efforts resulting in a positive performance trend in recent years.

TTB has successfully improved its workforce satisfaction over the past five years, remaining above government-wide performance, and achieving a *Best Places to Work Engagement Index Score* of 87 percent in FY 2020 (the most current ranking available at the time of the report).

TTB's Employee Engagement Action Plan for FY 2021 focused on improving training and internal communications, two areas with opportunities for improvement across TTB divisions. Specifically, in addition to the above additions to TTB's training programs, TTB continued to focus on improving the experience of new hires through its onboarding program. In the years ahead, like many agencies, TTB will need to develop additional adaptions to effectively onboard staff and maintain employee engagement in the expanded hybrid work environment.

Further, in the area of communications, TTB continued to promote training opportunities through its online training calendar, a central resource for capturing and sharing information on TTB training offerings. Moving forward, TTB is evaluating strategies to ensure COVID-19 does not disrupt training priorities. This includes options for leveraging online training courses provided in Treasury's Integrated Talent Management System and building an online catalog of training materials in specialized program areas.

Improve Strategic Resourcing

As part of the revised strategic goal, TTB is focusing on workforce planning to ensure that the Bureau is appropriately structured and adequately resourced to meet current and future mission requirements. The Bureau started with the Office of Permitting & Taxation, recognizing the need for action in this directorate to address immediate risks posed by the loss of key leadership and technical expertise, and due to elevated attrition risk (nearly 50 percent of staff in this directorate are retirement eligible within five years).

This year, TTB continued data-informed workforce planning efforts by analyzing key programs, tasks, and staffing levels to complete a gap analysis and identify staffing needs overall and in high-risk areas. In FY 2022, the Bureau plans to test the new workforce planning process with the goal of applying it across all TTB directorates in the future.

GOAL 5 KEY SUCCESS INDICATORS

Measure/ Indicator	Strategic Objective Alignment	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021		Result vs Target
		Actual	Actual	Actual	Actual	Actual	Actual	Target	
Best Places to Work Engagement Index Score[6]	SO 14	82	85	87	87	**87**	–	N/A	N/A
Positive Response Rate on Training Items in Federal Employee Viewpoint Survey[7,8]	SO 13	75	76	80	82	**87**	–	85	Met

7 The 2021 results for OPM'S Employee Viewpoint Survey (EVS) were not available at the time of this report. TTB is meeting its target for this measure based on 2020 results. Latest results are posted on www.bestplacestowork.org.

8 OPM modified 2020 EVS to add questions related to COVID-19, eliminating 3 of the 6 questions used in this measure. Prior year results reflect all 6 questions.

PART III
Financial Results, Position, Condition, and Auditors' Reports

3.1 MESSAGE FROM THE CHIEF FINANCIAL OFFICER

TTB is committed to strong internal controls and sound financial management practices to ensure the collection and verification of approximately $20 billion in annual excise tax collections from the alcohol, tobacco, firearms, and ammunition industries.

In FY 2021, for the twelfth consecutive year, TTB obtained an unmodified (clean) audit opinion on its financial statements from an independent Certified Public Accounting firm, demonstrating our dedication to financial reporting excellence. This audit provides reasonable assurance that TTB's financial statements are free from material misstatement and that we prepared them in accordance with generally accepted accounting principles.

This year, we continued to navigate the ongoing COVID-19 pandemic, always keeping the health and safety of our workforce paramount. For us, the transition to a remote work environment was fairly seamless due to strong technology and longstanding policies that enabled widespread telework, even before the pandemic. With these flexibilities, our dedicated and resilient workforce was able to address critical workload backlogs and improve service levels across the Bureau, key to mitigating the economic impact of the pandemic on our industry members.

Even in the midst of these challenges, TTB ranked highly in the Federal Employee Viewpoint Survey, demonstrating our values of putting people first. On this front, we continue to focus on workforce planning and leadership development to ensure that the Bureau is structured and skilled to meet current and future mission needs. In FY 2021, we successfully piloted several new aspects of a multi-tiered leadership development program to ensure a strong talent pipeline. With our new work environment, we also see significant opportunities to diversify our team, reaching into new talent pools to keep the bureau innovative and effective.

Additionally, we continued to make progress toward realizing our vision for a new myTTB system – a personalized "one-stop shop" to help industry members efficiently conduct business online with TTB. In FY 2021, we added the first of several new features to streamline tax processing, focusing in the claims area to improve the timely and accurate refunds relied on by our industries. We also implemented the new myTTB portal page, which is the first step in introducing the one-stop experience.

We will carry this momentum into the new fiscal year, leaning on and building capacity within our exceptional workforce to successfully face the challenges that lie ahead. We will also continue to integrate our strategic plan with our management and investment decisions to ensure that we remain focused and deliver on our mission and serve the public.

Cheri D. Mitchell
Assistant Administrator, Management/CFO

3.2 AUDITORS' REPORTS, FINANCIAL STATEMENTS, AND ACCOMPANYING NOTES

KPMG

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Washington, DC 20006

Independent Auditors' Report

Deputy Inspector General
Department of the Treasury

Administrator
Alcohol and Tobacco Tax and Trade Bureau:

Report on the Financial Statements

We have audited the accompanying financial statements of the Alcohol and Tobacco Tax and Trade Bureau (TTB), which comprise the balance sheets as of September 30, 2021 and 2020, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alcohol and Tobacco Tax and Trade Bureau as of September 30, 2021 and 2020, and its net

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costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the TTB Annual Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Other Accompanying Information (1) Table of Contents; (2) Introduction; (3) Message from the Administrator; (4) Mission, Vision, and Values; (5) TTB Organization; (6) TTB Office Locations; (7) Part II: Annual Performance Results; (8) Message from the Chief Financial Officer; (9) Other Accompanying Information; and (10) Part IV: Appendices are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2021, we considered the TTB's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TTB's internal control. Accordingly, we do not express an opinion on the effectiveness of the TTB's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TTB's financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 21-04.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the TTB's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
December 17, 2021

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
BALANCE SHEETS
As of September 30, 2021 and 2020
(In Thousands)

	2021	2020
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 54,970	$ 46,985
Accounts Receivable (Note 3)	1,509	1,308
Due from the General Fund (Notes 5 and 8)	493	256
Total Intragovernmental Assets	56,972	48,549
Accounts Receivable (Note 3)	532	541
Tax and Trade Receivables, Net (Notes 4 and 8)	44,465	15,498
Property, Plant and Equipment, Net (Note 6)	11,050	10,538
Advances (Note 7)	39	89
TOTAL ASSETS (Note 8)	$ 113,058	$ 75,215
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$ 1,514	$ 1,530
Payroll Benefits	972	861
FECA Liabilities	21	22
Due to the General Fund (Notes 4 and 5)	40,408	8,543
Due to the Wildlife Restoration Fund (Notes 4 and 5)	4,056	6,955
Total Intragovernmental Liabilities	46,971	17,911
Accounts Payable	3,486	2,847
Payroll Benefits	3,151	2,913
FECA Actuarial Liability	82	59
Refunds Payable	493	256
Unfunded Leave	5,685	5,906
Cash Bond Liabilities	14,028	14,374
Other Liabilities (Note 9)	7,367	2,453
TOTAL LIABILITIES	81,263	46,719
Commitments and Contingencies (Note 19)		
NET POSITION		
Unexpended Appropriations - Other Funds	25,534	23,590
Cumulative Results of Operations - Other Funds	6,261	4,906
TOTAL NET POSITION - OTHER FUNDS	31,795	28,496
TOTAL LIABILITIES AND NET POSITION	$ 113,058	$ 75,215

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF NET COST
For the Years Ended September 30, 2021 and 2020
(In Thousands)

	2021	2020
COLLECT THE REVENUE		
Program Costs		
Gross Costs	$ 54,669	$ 56,242
Less: Earned Revenue	(5,142)	(5,139)
Total Net Program Cost	49,527	51,103
PROTECT THE PUBLIC		
Program Costs		
Gross Costs	77,651	72,052
Less: Earned Revenue	(1,499)	(1,412)
Total Net Program Cost	76,152	70,640
NET COST OF OPERATIONS (Note 13)	$ 125,679	$ 121,743

The accompanying notes are an integral part of these statements.

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ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2021 and 2020
(In Thousands)

	2021	2020
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 23,590	$ 22,875
Budgetary Financing Sources		
Appropriations Received	124,337	119,600
Other Adjustments	(568)	(637)
Appropriations Used	(121,825)	(118,248)
Total Budgetary Financing Sources	1,944	715
Total Unexpended Appropriations	25,534	23,590
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	4,906	4,308
Budgetary Financing Sources		
Appropriations Used	121,825	118,248
Transfers-in without reimbursement	1,087	350
Other Financing Sources (Non-exchange)		
Imputed Financing from Costs Absorbed by Others (Note 12)	4,125	3,746
Transfers out to the General Fund and Other	(3)	(3)
Total Financing Sources	127,034	122,341
Net Cost of Operations (Note 13)	(125,679)	(121,743)
Net Change	1,355	598
Cumulative Results of Operations	6,261	4,906
TOTAL NET POSITION	$ 31,795	$ 28,496

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2021 and 2020
(In Thousands)

	2021	2020
BUDGETARY RESOURCES (Note 14)		
Unobligated Balance from Prior Year Budget Authority, Net	$ 8,529	$ 7,558
Appropriations (discretionary and mandatory)	124,337	119,600
Spending Authority from Offsetting Collections (discretionary and mandatory)	8,190	7,032
TOTAL BUDGETARY RESOURCES	$ 141,056	$ 134,190
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Note 15)	$ 134,560	$ 127,502
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	4,938	4,895
Unexpired Unobligated Balance, End of Year	4,938	4,895
Expired Unobligated Balance, End of Year	1,558	1,793
Unobligated Balance, End of Year	6,496	6,688
TOTAL STATUS OF BUDGETARY RESOURCES	$ 141,056	$ 134,190
AGENCY OUTLAYS, NET		
Outlays, Gross (discretionary and mandatory)	$ 127,996	$ 126,261
Actual Offsetting Collections (discretionary and mandatory)	(7,645)	(6,572)
Outlays, Net (discretionary and mandatory)	120,351	119,689
Distributed Offsetting Receipts	(2)	(4)
AGENCY OUTLAYS, NET (discretionary and mandatory)	$ 120,349	$ 119,685

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2021 and 2020
(In Thousands)

	2021	2020
SOURCES OF CUSTODIAL REVENUE		
Revenue Received		
Excise Taxes (Note 16)	$ 20,243,950	$ 19,997,669
Interest, Fines and Penalties	6,908	2,192
Other Custodial Revenue	-	2
Total Revenue Received (Note 17)	20,250,858	19,999,863
Less Refunds and Drawbacks (Note 16)	(445,474)	(419,697)
Net Revenue Received	19,805,384	19,580,166
Accrual Adjustment	28,729	14,241
Total Sources of Custodial Revenue	19,834,113	19,594,407
Amounts Provided to:		
General Fund	18,174,337	18,436,809
Wildlife Restoration Fund	1,102,578	665,378
Amounts Provided to Fund the Federal Government (Note 17)	19,276,915	19,102,187
Amounts Provided to Non-Federal Entities (Note 16)	528,469	477,979
Increase/(Decrease) in Amounts Yet to be Provided:		
General Fund	31,865	(2,956)
Wildlife Restoration Fund	(2,899)	1,076
(Increase)/Decrease in Accrued Refunds	(237)	16,121
Total Disposition of Custodial Revenue	19,834,113	19,594,407
NET CUSTODIAL REVENUE ACTIVITY	$ -	$ -

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. *Reporting Entity*

The Alcohol and Tobacco Tax and Trade Bureau (TTB or Bureau) was established on January 24, 2003, as a result of the Homeland Security Act of 2002. The Act transferred firearms, explosives, and arson functions of the Bureau of Alcohol, Tobacco and Firearms (ATF) to the Department of Justice and retained the tax collection and consumer protection provisions of the Internal Revenue Code (IRC) and Federal Alcohol Administration Act in TTB within the Department of the Treasury. The history of TTB's regulatory responsibility dates back to the creation of the Department of the Treasury and the first Federal taxes levied on distilled spirits in 1791. TTB has two primary programs: Collect the Revenue and Protect the Public. Under the Collect the Revenue program, TTB collects alcohol, tobacco, firearms, and ammunition excise taxes, and under its Protect the Public program, TTB protects the consumer by ensuring that alcohol beverages are labeled, advertised, and marketed in accordance with the law, and facilitates trade in beverage and industrial alcohols.

B. *Basis of Presentation*

The financial statements were prepared to report the assets, liabilities, and net cost of operations, changes in net position, budgetary resources, and custodial activities of TTB. The financial statements have been prepared from the books and records of TTB in conformity with generally accepted accounting principles (GAAP) in the United States, and form and content guidance for entity financial statements issued by the Office of Management and Budget (OMB) in OMB Circular A-136. TTB's accounting policies are summarized in this note. GAAP for Federal entities is prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. These standards allow certain presentations and disclosure to be modified, if needed, to prevent the disclosure of classified information.

C. *Basis of Accounting*

Transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. However, under the budgetary basis, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary statements may not equal similar lines on the budgetary financial statements.

The Statement of Custodial Activity is presented on the modified cash basis. The related activity is detailed in Note 1.E.

D. *Revenue and Financing Sources*

(1) Exchange Revenue

Exchange Revenues are inflows of resources to a Government entity that the entity has earned by providing something of value to the public or another Government entity at a price. The majority of the Exchange Revenues earned by the Bureau result from providing services to the Government of Puerto Rico, as well as other federal entities.

(2) Financing Sources

Financing Sources provide inflows of resources during the reporting period and include appropriations used and imputed financing. Unexpended appropriations are recognized separately in determining net position, but are not financing sources until used. Imputed financing sources are the result of other Federal entities financing costs on behalf of TTB.

TTB receives the majority of the funding needed to support the Bureau through congressional appropriations. The appropriations received are annual and multi-year funding that may be used, within statutory limits, for operating and capital expenditures.

(3) Imputed Financing Sources

Imputed Financing Sources are the result of Federal entities financing costs on behalf of TTB. Those entities pay future benefits for health insurance, life insurance, and pension benefits for TTB employees.

E. *Custodial Revenue*

For TTB, most Custodial Revenues result from collecting taxes on alcohol and tobacco products, which are transferred to the General Fund, and recognized as a nonexchange revenue on the Federal government's consolidated financial statements. The excise taxes collected by TTB come from businesses, and the taxes are imposed and collected at the producer and importer levels of operations. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. These taxes are recorded in the records on a modified cash basis of accounting. The Statement of Custodial Activity is also presented on a modified cash basis.

F. *Fund Balance with Treasury*

The Fund Balance with Treasury is the undisbursed account balance with the Treasury, primarily resulting from undisbursed appropriations. The balance is available within statutory limits to pay current liabilities and finance authorized purchase obligations. The Fund Balance also includes a non-entity balance, primarily the result of custodial activities related to collecting escrow payments designed to finance Offers-in-Compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

G. *Accounts Receivable*

Intragovernmental Accounts Receivable consist of amounts due under reimbursable agreements with Federal entities for services provided by TTB. Public Accounts Receivable consist of taxes, penalties, and interest that have been assessed but unpaid at year end.

Receivables due from Federal agencies are considered to be fully collectible. An allowance for doubtful accounts is established for public receivables primarily based on specific identification.

H. *Property, Plant, and Equipment*

Property, Plant, and Equipment purchased with a cost greater than or equal to $25,000 per unit and a useful life of two years or more, is capitalized and depreciated. Normal repairs and maintenance are charged to expense as incurred.

TTB also capitalizes internal use software when the unit cost or development costs are greater than or equal to $25,000. The same threshold also applies to enhancements that add significant functionality to the software. TTB will amortize this software based on its classification. The classifications are as follows: 1) Enterprise and other business software (five years), and 2) Personal productivity and desktop operating software (three years).

Additionally, TTB also capitalizes like assets purchased in bulk when the unit price is greater than or equal to $5,000 and less than $25,000, with the aggregated purchase amount greater than or equal to $250,000.

Assets are depreciated on a straight-line basis beginning the month the asset was put in to use.

I. *Advances*

Advances are payments made to cover certain periodic expenses before those expenses are incurred. Advances generally consist of prepaid services agreements for support or maintenance.

J. *Non-entity Assets*

Non-entity Assets consist primarily of cash and receivables for excise taxes and fees that are to be distributed to the Treasury, other Federal agencies, and other governments. Non-entity assets are not considered a financing source (revenue) available to offset the operating expenses of TTB.

K. *Liabilities*

Liabilities represent the amount of monies, or other resources, that are likely to be paid by TTB as the result of a transaction or event that has already occurred. However, no liability can be paid by TTB absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is uncertainty an appropriation will be enacted, are classified as a liability not covered by budgetary resources. Also, the Government, acting in its sovereign capacity, can abrogate liabilities of TTB that arise from other than contracts.

Intragovernmental liabilities consist of amounts payable to the Treasury for collections of excise tax, fees receivable, payments to other Federal agencies, and accrued Federal Employees' Compensation Act (FECA) charges. Liabilities also include amounts due to be refunded to taxpayers, as well as amounts held in escrow for Offers-in-Compromise and cash bonds held in guaranteeing payment of taxes.

L. *Litigation Contingencies and Settlements*

Probable and estimable litigation and claims against TTB are recognized as a liability and expense for the full amount of the expected loss. Expected litigation and claim losses include settlements to be paid from the Treasury Judgment Fund (Judgment Fund) on behalf of TTB and settlements to be paid from Bureau appropriations. The Judgment Fund pays Bivens-type tort claims. Settlements paid from the Judgment Fund for TTB are recognized as an expense and imputed financing source.

M. *Annual, Sick, and Other Leave*

Annual and Compensatory Leave earned by TTB employees, but not yet used, is reported as an accrued liability. The accrued balance is adjusted annually to current pay rates. Any portions of the accrued leave, for which funding is not available, are recorded as an unfunded leave liability on the Balance Sheet. Sick and other leave are expensed as taken.

N. *Interest on Late Payments*

Pursuant to the Prompt Payment Act, 31 U.S.C. 3901-3907, Federal agencies must pay interest on payments for goods or services made to business concerns after their due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services.

O. *Retirement Plans*

Most employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS), and employees hired between January 1, 1984 and December 31, 1986 are covered under the CSRS Offset system, to which TTB contributes 7.0 percent of pay for employees covered by both. On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect. FERS is a three-tiered retirement system consisting of a Basic Benefit Plan, Thrift Savings Plan (TSP), and Social Security Benefits. For the FERS Basic Benefit Plan, TTB contributes between 15.5 to 17.3 percent of pay for regular employees. The Bureau has not employed any law enforcement employees. As such, the contribution rates associated with those types of employees are not applicable to TTB.

All employees are eligible to contribute to TSP, a 401(k)-type saving plan. For those employees participating in FERS, a TSP account is automatically established and TTB makes a mandatory 1 percent contribution to this account. In addition, TTB makes matching contributions, ranging from 1 to 4 percent of base pay, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. For most employees hired after December 31, 1983, the Bureau also contributes the employer's matching share for Social Security.

TTB recognized the full cost of providing future pension and other retirement benefits (ORB) for current employees as required. Full cost includes pension and ORB contributions paid out of Bureau appropriations and costs financed by OPM. Costs financed by OPM are reported in the accompanying financial statements as imputed costs, which are offset by imputed financing revenue sources. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of OPM.

P. *Federal Employees' Compensation Act*

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job and employees who have incurred a work-related injury or occupational disease. The future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses development method, which utilizes historical benefit patterns related to a specific incurred period to predict ultimate payments related to that period. The Department of Labor calculates Treasury's FECA actuarial liability. Treasury then allocates shares of the liability to its component organizations, including TTB.

Claims are paid for TTB employees by the Department of Labor (DOL) from the FECA Special Benefit fund, for which TTB reimburses DOL. The accrued liability represents claims paid by DOL for TTB employees, for which the fund has not been reimbursed. The actuarial liability is an estimate of future costs to be paid on claims made by TTB employees. The estimated future cost is not obligated against budgetary resources until the year in which the cost is billed to TTB.

Q. *Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent liabilities at the date of the financial statements, and the amount of revenues and costs reported during the period. Actual results could differ from those estimates.

R. *Tax Exempt Status*

As an agency of the Federal Government, TTB is exempt from all income taxes imposed by any governing body, whether it is a Federal, state, commonwealth, local, or foreign government.

S. *Changes in Presentation*

During fiscal 2021, presentation changes for two footnotes, Tax and Trade Receivables and the Reconciliation of Net Cost to Net Outlays, were made. Consequently, changes were made to the fiscal 2020 disclosures to conform with the new presentations.

T. *Subsequent Events*

Subsequent events and transaction occurring after September 30, 2021 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Fund Balances:		
General Funds	$ 33,576	$ 30,158
Other Funds	21,394	16,827
Total	$ 54,970	$ 46,985
Status of Fund Balances:		
Unobligated Balance - Available	$ 4,938	$ 4,895
Unobligated Balance - Unavailable	1,558	1,793
Obligated Balance Not Yet Disbursed	27,080	23,470
Subtotal	33,576	30,158
Adjustment for Non-Budgetary Funds	21,394	16,827
Total Status of Fund Balances	$ 54,970	$ 46,985

The other funds and non-budgetary fund balance primarily represents cash bonds, which are cash payments made to the Bureau by taxpayers, in lieu of obtaining corporate surety bonds, guaranteeing payment of taxes. It also includes Offers-in-Compromise (OIC). OICs are payments made to the Bureau, being held in escrow, to finance offers from taxpayers to settle their tax debt at less than the assessed amount.

The unobligated balance that is unavailable is the balance of prior years' expired appropriations.

Note 3. Accounts Receivable

Accounts Receivable as of September 30, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Intragovernmental Accounts Receivable:		
Due from Community Financial Development Institutions Fund	$ 385	$ 314
Due from Treasury Executive Office of Asset Forfeiture	1,112	870
Due from Treasury Departmental Offices	12	124
Total Intragovernmental Accounts Receivable	$ 1,509	$ 1,308
Due from the Government of Puerto Rico	$ 523	$ 540
Due from Employees	9	1
Total Accounts Receivable Due from the Public	$ 532	$ 541

No allowance for doubtful accounts has been recognized, nor have any accounts been written off in either FY2021 or FY2020. All intragovernmental accounts receivable are considered fully collectible. Additionally, other non-Federal receivables consist of a receivable from the government of Puerto Rico, which is collected via an offset to cover-over payments the Bureau remits to Puerto Rico, and employee accounts receivable, which can be collected via salary offsets.

Note 4. Tax and Trade Receivables, Net

Tax and Trade Receivables as of September 30, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Excise Tax Receivables	$225,105	$200,143
Interest Receivables	48,304	41,704
Penalties, Fines and Administrative Fees Receivables	98,705	90,549
Criminal Restitution Receivables	50,173	51,415
Total Tax and Trade Receivables	422,287	383,811
Allowance for Doubtful Accounts	(377,822)	(368,313)
Total Tax and Trade Receivables, Net	$ 44,465	$ 15,498

All tax and trade receivables are non-entity assets. An allowance for uncollectible amounts has been established based on: 1) an analysis of individual receivable balances and 2) the application of historical non-collection rates for similar types of receivables. Because current laws governing the collection period for these tax assessments, 26 U.S.C. 6502, stipulate taxes are collectible for 10 years from the date the taxes were assessed, a large amount of aged receivables that are not likely to be collected have been offset with an allowance, but not written off. Net Tax and Trade Receivables have offsetting liabilities reported as Due to the General Fund and Due to the Wildlife Restoration Fund.

Disclosed in the Tax and Trade Receivables is $50.2 million in criminal restitutions owned by the U.S. government. These receivables were recorded against the companies or their officers when TTB received restitution judgements and no previous assessed receivable existed. There are an additional $1.6 million of excise tax receivables, that were assessed by TTB through normal operations and determined to be restitution judgements as a result of subsequent legal actions. As these receivables were initially assessed as excise tax receivables, they remain classified as such and are not included in criminal restitutions. The corresponding allowance of $1.6 million for these receivables is included in the allowance for doubtful accounts.

Note 5. Due from the General Fund and Due to the General Fund

Due from the General Fund and Due to the General Fund as of September 30, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Due from the General Fund	$ 493	$ 256

In addition to collecting taxes from the alcohol and tobacco industries, the Bureau also is responsible for paying refunds, when applicable, to those same industry members. Amounts due from the General Fund represent a receivable from appropriations to cover the Bureau's accrued refund liability to alcohol and tobacco excise taxpayers.

	2021	2020
Due to the General Fund	$ 40,408	$ 8,543
Due to the Wildlife Restoration Fund	4,056	6,955
Total Custodial Liabilities	$ 44,464	$ 15,498

Amounts due to the General Fund primarily represent the balance of receivables related to Alcohol and Tobacco excise taxes. Similarly, receivables related to Firearms and Ammunition excise taxes equate to custodial liabilities payable to the Department of Interior's Wildlife Restoration Fund, as opposed to the General Fund.

Note 6. Property, Plant, and Equipment, Net (PP&E)

Property, Plant and Equipment as of September 30, 2021 and 2020 consisted of the following (in thousands):

2021	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$ 17,497	$ 14,191	$ 3,306
Equipment	4 - 6	12,985	11,010	1,975
Leasehold Improvements	2 - 5	3,220	2,839	381
Building	40	9,772	4,384	5,388
Total PP&E		$ 43,474	$ 32,424	$ 11,050

2020	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$ 16,083	$ 13,724	$ 2,359
Equipment	4 - 6	12,135	10,154	1,981
Leasehold Improvements	2 - 5	3,220	2,664	556
Building	40	9,772	4,130	5,642
Total PP&E		$ 41,210	$ 30,672	$ 10,538

Depreciation and amortization are calculated using the straight-line method.

The balance in the buildings account represents TTB's 13.2 percent equity interest in the National Laboratory Center facility in Beltsville, Maryland, which TTB co-owns with the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF).

Note 7. Advances

Advances as of September 30, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Beginning Balance	$ 89	$ 160
Prepayments	5	-
Liquidations	(55)	(71)
Ending Balance	$ 39	$ 89

Advances with the public generally consist of prepaid service agreements for support or maintenance.

Note 8. Non-entity Assets

Non-entity Assets as of September 30, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	$ 21,394	$ 16,827
Due from the General Fund	493	256
Total Intragovernmental Non-entity Assets	21,887	17,083
Tax and Trade Receivables, Net	44,465	15,498
Total Non-Entity Assets	66,352	32,581
Total Entity Assets	46,706	42,634
Total Assets	$ 113,058	$ 75,215

Note 9. Other Liabilities

Other Liabilities as of September 30, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Offers-in-Compromise not yet Accepted	$ 7,367	$ 2,453
Total Other Liabilities with the Public	$ 7,367	$ 2,453

All Other Liabilities are considered current liabilities.

Note 10. Liabilities Not Covered by Budgetary Resources

Liabilities not Covered by Budgetary Resources as of September 30, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Accrued FECA Liability	$ 21	$ 22
Total Intragovernmental Liabilities not Covered by Budgetary Resources	21	22
FECA Actuarial Liability	82	59
Unfunded Leave	5,685	5,906
Total Liabilities with the Public not Covered by Budgetary Resources	5,767	5,965
Total Liabilities not Covered By Budgetary Resources	5,788	5,987
Total Liabilities Covered by Budgetary Resources	75,475	40,732
Total Liabilities	$ 81,263	$ 46,719

Note 11. Future Funding Requirements

Total liabilities not covered by budgetary resources generally do not equal the total financing sources yet to be provided on the Reconciliation of Net Cost of Operations to Budget. The amounts reported on the Balance Sheet are period ending balances, while the amounts reported on the Reconciliation of Net Cost to Net Outlays are activity for the period.

Generally, liabilities not covered by budgetary resources require future funding and can be liquidated only with the enactment of future appropriations.

Note 12. Imputed Financing

Imputed Financing as of September 30, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Health Insurance	$ 3,575	$ 3,380
Life Insurance	10	10
Pension	540	356
Total Imputed Financing	$ 4,125	$ 3,746

Imputed financing recognizes actual cost of future benefits to be paid by other Federal entities. These benefits include Federal Employees Health and Benefits Program (FEHB), Federal Employees Group Life Insurance Program (FEGLI), and pensions. Imputed financing also recognizes costs paid by the Judgment Fund. The Fund was established and funded by Congress under 31 U.S.C. 1304 to pay in whole or in part court judgments and settlement agreements negotiated by Treasury on behalf of agencies, as well as certain types of administrative awards. The Judgment Fund did not pay out any awards on TTB's behalf during fiscal years 2021 or 2020.

TTB does not report CSRS assets, FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to retirement plans because the accounting for and reporting of such amounts is the responsibility of OPM. Based on cost factors provided by OPM, which vary by retirement plan, estimated future pension benefits for TTB employees, to be paid by OPM, totaled $540,000 and $356,000 million for fiscal years 2021 and 2020 respectively. Similarly, OPM rather than TTB, reports liabilities for future payments to retired employees who participate in the FEHB and FEGLI programs. The FEHB cost factor applied to a weighted average number of employees enrolled in the FEHB program increased in FY 2021 to $8,476 from $8,038 in FY 2020, resulting in $3.6 million of imputed cost for employees' health benefits in FY 2021 versus $3.4 million in FY 2020. The cost factor, as provided by OPM, for employees enrolled in the FEGLI program, remained unchanged from FY 2020 to FY 2021, at .02 percent of employees' basic pay. The FEGLI amounts totaling $10,000 in each FY 2021 and FY 2020, respectively, are also included as an expense and imputed financing source in TTB financial statements.

Note 13. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification

Consolidated Gross Cost and Earned Revenue by Budget Function Classification as of September 30, 2021 and 2020 consisted of the following (in thousands):

Fiscal Year Ended September 30, 2021

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$ 36,537	$ (2,953)	$ 33,584
With the Public	Central Fiscal Operations	803	95,783	(3,688)	92,095
Consolidated	Central Fiscal Operations	803	$132,320	$ (6,641)	$125,679

Fiscal Year Ended September 30, 2020

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$ 34,445	$ (3,009)	$ 31,436
With the Public	Central Fiscal Operations	803	93,849	(3,542)	90,307
Consolidated	Central Fiscal Operations	803	$128,294	$ (6,551)	$121,743

Note 14. Statement of Budgetary Resources vs. Budget of the United States Government

The following chart displays balances from the FY 2020 Statement of Budgetary Resources and actual fiscal year balances included in the FY 2022 President's Budget. There were no differences related to the Salaries and Expense accounts. The FY 2023 budget, which would include FY 2021 actuals, had not been published at the time of this report.

Fiscal Year Ended September 30, 2020 (In Millions)	**Statement of Budgetary Resources**	**President's Budget**
Budgetary Resources:		
Appropriations	$ 120	$ 120
Spending Authority from Offsetting Collections	7	7
Budgetary Resources Available for Obligation	$ 127	$ 127
Outlays:		
Outlays, Gross	$ 126	$ 126
Actual Offsetting Collections	(7)	(7)
Outlays, Net	$ 119	$ 119

Additionally, for Special and Trust Fund Receipts, the FY 2022 President's Budget disclosed budget authority of $471 million for FY 2020, which funded cover-over payments to Puerto Rico. These amounts were not reported in the Statement of Budgetary Resources because the cover-over payments and associated tax revenues are reported as custodial activity of the Bureau. The tax revenues are not available for use in the operation of the Bureau and are not reported on the Statement of Net Cost. Likewise, the resultant cover-over payments are not recognized as an operating expense of the Bureau. To present the cover-over payments as an expense of the Bureau on the Statement of Net Cost would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Bureau in meeting its strategic objectives. Further, since this activity is not reported on the Statement of Net Cost, it would be contradictory to report the associated budget authority on the Statement of Budgetary Resources.

Note 15. Apportionment Categories of New Obligations and Upward Adjustments

New Obligations and Upward Adjustments as of September 30, 2021 and 2020 consisted of the following (in thousands):

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total New Obligations and Upward Adjs
2021	Category B	$ 127,429	$ 7,131	$ 134,560
2020	Category B	$ 120,726	$ 6,776	$ 127,502

The amount of direct and reimbursable obligations against amounts apportioned under Category B is reported in the table above. Apportionment categories are determined by the apportionment categories reported on the Standard Form 132 *Apportionment and Reapportionment Schedule*. Category B represents apportionments by project. Based on how the Office of Management and Budget views TTB's operations in relation to projects, the Category B apportionments have essentially provided the Bureau full-year apportionments of its appropriations.

New Obligations and Upward Adjustments represents amounts that have been obligated or expended during each of the respective years. Whereas, Undelivered Orders represents the balance of obligations at the end of the respective years.

	2021	2020
Undelivered Orders, End of Year	$ 21,767	$ 18,564

Note 16. Net Custodial Revenue Activity

▶ Excise Taxes

As an agent of the Federal Government and as authorized by 26 U.S.C., TTB collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, special occupational taxes are collected from certain alcohol and tobacco businesses. During FY 2021 and FY 2020, TTB collected $20.3 billion and $20.0 billion respectively in taxes, interest, and other custodial revenues.

Substantially all of the taxes collected by TTB net of related refund disbursements are remitted to the Department of Treasury General Fund. The Department of Treasury further distributes this revenue to Federal agencies in accordance with various laws and regulations. The firearms and ammunition excise taxes are an exception. Those revenues are remitted to the Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

▶ Refunds and Other Payments

During FY 2021 and FY 2020, TTB issued $974 million and $898 million in refunds, cover-over payments, and drawback payments in the respective years.

Tax Refunds

Tax Refunds result when taxpayers file returns for payments made for a given tax period and the result of the return is an overpayment.

Cover-over Payments

Federal excise taxes are collected under the Internal Revenue Code of 1986, 26 U.S.C., on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the United States. In accordance with 26 U.S.C. 7652, such taxes collected on rum imported into the United States are custodial revenues and “covered over,” or paid into, the treasuries of Puerto Rico and the Virgin Islands.

TTB maintains operations in Puerto Rico to enforce the provisions of chapter 51 in respect to items of Puerto Rican manufacture brought in to the United States. These operations include conducting annual revenue, application, and product integrity investigations of large alcohol and tobacco industry members. Except for application investigations, TTB investigates medium and small alcohol and tobacco producers in response to specific problems and risk indicators. Revenue inspections are used to verify that TTB is collecting all of the revenue that is rightfully due from the taxpayer. TTB staff in Puerto Rico also conducts qualification inspections of all distilled spirits producers/processors, wineries, wholesalers, importers, Manufacturer of Nonbeverage Products (MNBP) claimants, and Specially Denatured Alcohol permit applicants. All costs associated with the functioning and supporting of the Puerto Rico office, $3.7 million and $3.5 million in FY 2021 and FY 2020 respectively, are offset against the cover-over payments made by the United States to Puerto Rico.

Drawbacks

Under current law, 26 U.S.C. 5134, MNBP permittees may be eligible to claim a refund of tax paid on distilled spirits used in their products. In the case of distilled spirits, on which the tax has been paid or determined, a drawback shall be allowed on each proof gallon at the rate of $1 less than the rate at which the distilled spirits tax had been paid or determined. The refund is due upon the claimant providing evidence that the distilled spirits on which the tax has been paid or determined were unfit for beverage purposes and were used in the manufacture or production of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfume.

Refunds, Drawbacks and Cover-over Payments as of September 30, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Alcohol, Tobacco, and Firearms Excise Tax Refunds	$ 42,758	$ 45,709
Drawbacks on MNBP Claims	402,129	373,438
Interest and Other Payments	587	550
Refunds and Drawbacks	445,474	419,697
Cover-over Payments - Puerto Rico	519,682	471,073
Cover-over Payments - Virgin Islands	8,787	6,906
Amounts Provided to Non-federal Entities	528,469	477,979
Total Refunds, Drawbacks and Coverover Payments	$ 973,943	$ 897,676

Note 17. Custodial Revenue

Collection and Disposition of Custodial Revenue as of September 30, 2021 and 2020 consisted of the following (in thousands):

FY 2021 COLLECTIONS AND REFUNDS BY TAX YEAR AND TYPE

Revenue Type	2021	2020	2019	Pre-2019	FY 2021 Total
Excise Taxes	$ 14,620,565	$ 5,606,179	$ 6,236	$ 10,970	$ 20,243,950
Fines, Penalties, Interest and Other	4,422	1,565	262	659	6,908
Total Revenue Received	14,624,987	5,607,744	6,498	11,629	20,250,858
Less: Amounts Collected for Non-federal Entities	(528,139)	(330)	-	-	(528,469)
Total	$ 14,096,848	$ 5,607,414	$ 6,498	$ 11,629	$ 19,722,389
Refund Type					
Excise Taxes	$ 176,929	$ 244,998	$ 10,022	$ 12,938	$ 444,887
Fines, Penalties, Interest and Other	130	66	75	316	587
Total Refunds & Drawbacks	177,059	245,064	10,097	13,254	445,474
Amounts Provided to Fund the Federal Government	$ 13,919,789	$ 5,362,350	$ (3,599)	$ (1,625)	$ 19,276,915

FY 2020 COLLECTIONS AND REFUNDS BY TAX YEAR AND TYPE

Revenue Type	2020	2019	2018	Pre-2018	FY 2020 Total
Excise Taxes	$14,831,923	$ 5,148,962	$ 3,586	$ 13,198	$19,997,669
Fines, Penalties, Interest and Other	512	1,249	109	324	2,194
Total Revenue Received	14,832,435	5,150,211	3,695	13,522	19,999,863
Less: Amounts Collected for Non-federal Entities	(477,106)	(873)	-	-	(477,979)
Total	$14,355,329	$ 5,149,338	$ 3,695	$ 13,522	$19,521,884
Refund Type					
Excise Taxes	$ 156,907	$ 238,004	$ 19,267	$ 4,969	$ 419,147
Fines, Penalties, Interest and Other	176	99	243	32	550
Total Refunds & Drawbacks	157,083	238,103	19,510	5,001	419,697
Amounts Provided to Fund the Federal Government	$14,198,246	$ 4,911,235	$ (15,815)	$ 8,521	$19,102,187

Note 18. Reconciliation of Net Cost to Net Outlays

The Reconciliation of Net Cost to Net Outlays details the activity impacting Net Cost but not Budgetary Outlays; and conversely, activity impacting Net Outlays but not Net Cost. The reconciliation does not include custodial activity, as this activity neither impacts Net Cost nor Budgetary Outlays.

Reconciliation of Net Cost to Net Outlays, as of September 30, 2021 and 2020 consisted of the following (in thousands):

2021	Federal	Non-Federal	Total
Net Cost of Operations (SNC)	$ 33,584	$ 92,095	$ 125,679
Components of Net Cost of Operations not Part of the Budgetary Outlays:			
Depreciation Expense	-	(1,752)	(1,752)
Increase/(Decrease) in Accounts Receivable	201	(9)	192
Increase(Decrease) Other Assets	-	(50)	(50)
Increase/(Decrease) in Assets	201	(59)	142
(Increase)/Decrease in Accounts Payable	16	(639)	(623)
(Increase)/Decrease in Salaries and Benefits Liabilities	(111)	(238)	(349)
(Increase)/Decrease in Other Liabilities	1	198	199
(Increase)/Decrease in Liabilities	(94)	(679)	(773)
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(4,125)	-	(4,125)
Transfers Out/(In) Without Reimbursement	(1,087)	-	(1,087)
Other Financing Sources	(5,212)	-	(5,212)
Total Components of Net Cost of Operations not Part of the Budgetary Outlays	(5,105)	(2,490)	(7,595)
Components of Budgetary Outlays not Part of Net Cost of Operations:			
Acquisition of Capital Assets	-	2,265	2,265
Other	-	-	-
Total Components of Budgetary Outlays not Part of Net Cost of Operations	-	2,265	2,265
Other Temporary Timing Differences:			
Total Other Temporary Timing Differences	-	-	-
Outlays, Net (Calculated Total)	$ 28,479	$ 91,870	$ 120,349
Related Amounts on the Statement of Budgetary Resources:			
Outlays, Gross	$ 28,479	$ 91,872	$ 120,351
Distributed Offsetting Receipts	-	(2)	(2)
Outlays, Net	$ 28,479	$ 91,870	$ 120,349

2020	Federal	Non-Federal	Total
Net Cost of Operations (SNC)	$ 31,436	$ 90,307	$ 121,743
Components of Net Cost of Operations not Part of the Budgetary Outlays:			
Depreciation Expense	-	(1,495)	(1,495)
Increase/(Decrease) in Accounts Receivable	362	(11)	351
Increase(Decrease) Other Assets	-	(71)	(71)
Increase/(Decrease) in Assets	362	(82)	280
(Increase)/Decrease in Accounts Payable	(203)	1,929	1,726
(Increase)/Decrease in Salaries and Benefits Liabilities	(219)	(561)	(780)
(Increase)/Decrease in Other Liabilities	(8)	(814)	(822)
(Increase)/Decrease in Liabilities	(430)	554	124
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(3,746)	-	(3,746)
Transfers Out/(In) Without Reimbursement	(350)	-	(350)
Other Imputed Financing Sources	-	-	-
Other Financing Sources	(4,096)	-	(4,096)
Total Components of Net Cost of Operations not Part of the Budgetary Outlays	(4,164)	(1,023)	(5,187)
Components of Budgetary Outlays not Part of Net Cost of Operations:			
Acquisition of Capital Assets	3	3,128	3,131
Other	(2)	-	(2)
Total Components of Budgetary Outlays not Part of Net Cost of Operations	1	3,128	3,129
Other Temporary Timing Differences:			
Total Other Temporary Timing Differences	4	(4)	-
Outlays, Net (Calculated Total)	$ 27,277	$ 92,408	$ 119,685
Related Amounts on the Statement of Budgetary Resources:			
Outlays, Gross	$ 27,277	$ 92,412	$ 119,689
Distributed Offsetting Receipts	-	(4)	(4)
Outlays, Net	$ 27,277	$ 92,408	$ 119,685

Note 19: Contingent Liabilities

As of September 30, 2021, TTB is not party to any legal matters where the likelihood of a material loss is reasonably possible.

3.3 SUPPLEMENTAL INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Budgetary Information

Budgetary information aggregated for the purposes of the Statement of Budgetary Resources should be disaggregated for each of an entity's major budget accounts (i.e., Appropriated Funds, Trust Funds, Revolving Funds, or other funds) and presented as Supplementary Information. However, for proprietary reporting, TTB only has appropriated funds. Consequently, a Combining Statement of Budgetary Resources disaggregated by fund type has not been presented.

Excise Tax and Other Collections

REQUIRED SUPPLEMENTARY INFORMATION
EXCISE TAX AND OTHER COLLECTIONS BY FISCAL YEAR
Unaudited (In Thousands)

Fiscal Year	Alcohol	Tobacco	FAET	SOT	FST	Other	Total
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
2018	7,877,214	12,050,283	624,802	273	7	1,006	20,553,585
2019	7,865,036	11,375,038	567,330	260	5	5,126	19,812,795
2020	8,088,717	11,239,189	665,650	250	-	6,057	19,999,863
2021	8,390,351	10,756,326	1,102,734	212	-	1,235	20,250,858
Average	$8,003,127	$12,815,837	$ 715,684	$ 263	$ 1,070	$ 1,456	$21,537,436

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

TTB collects FAET taxes on behalf of the Department of Interior, U.S. Fish and Wildlife Service, and transfers the collections directly to the Wildlife Restoration Fund. During fiscal years 2021 and 2020, TTB incurred $1.9 million and $1.7 million respectively of direct and indirect costs associated with collecting the FAET taxes. The law currently does not provide for TTB to recover these costs. The cost of the program was communicated to the U.S. Fish and Wildlife Service so the agency could properly record an imputed cost in its financial records.

REFUNDS, COVER-OVER PAYMENTS, AND DRAWBACK PAYMENTS

REQUIRED SUPPLEMENTARY INFORMATION
REFUNDS, COVER-OVER PAYMENTS AND DRAWBACK PAYMENTS
BY FISCAL YEAR
Unaudited (In Thousands)

Fiscal Year	Cover-over Puerto Rico	Cover-over Virgin Islands	AT&F Excise Tax	Drawbacks MNBP Claims	Interest and Other	Total
2012	$ 376,373	$ 9,337	$ 30,293	$ 289,330	$ 3,824	$ 709,157
2013	349,017	8,706	35,278	345,231	452	738,684
2014	303,457	8,279	40,600	316,040	358	668,734
2015	343,429	7,093	27,776	306,640	151	685,089
2016	416,815	7,975	34,799	355,668	162	815,419
2017	364,804	5,122	55,839	350,055	136	775,956
2018	446,026	8,708	44,848	273,927	635	774,144
2019	445,324	8,217	47,277	342,433	456	843,707
2020	471,073	6,906	45,709	373,438	550	897,676
2021	519,682	8,787	42,758	402,129	587	973,943
Average	$ 403,600	$ 7,913	$ 40,518	$ 335,489	$ 731	$ 788,251

AT&F – Alcohol, Tobacco, and Firearms
MNBP – Manufacturer of Nonbeverage Products

OTHER ACCOMPANYING INFORMATION (UNAUDITED)

OTHER ACCOMPANYING INFORMATION
COMBINED SCHEDULE OF SPENDING
For the Years Ended September 30, 2021 and 2020
Unaudited (In Thousands)

	2021	2020
What Money is Available to Spend		
Total Resources	$ 141,056	$ 134,190
Less: Amount Available but not Agreed to be Spent	(4,938)	(4,895)
Less: Amount Not Available to Be Spent	(1,558)	(1,793)
Total Amounts Agreed to be Spent	$ 134,560	$ 127,502
How was the Money Spent		
Collect the Revenue		
Object Class 11: Personnel Compensation	$ 23,728	$ 24,026
Object Class 12: Personnel Benefits	8,522	8,349
Object Class 21: Travel	153	459
Object Class 23: Rent, Utilities, and Telecommunications Services	2,363	2,287
Object Class 25: Contractual Services	18,051	20,096
Object Class 31: Equipment and Software	2,530	2,363
Other	293	297
Total Collect the Revenue	55,640	57,877
Protect the Public		
Object Class 11: Personnel Compensation	34,123	32,367
Object Class 12: Personnel Benefits	12,183	11,044
Object Class 21: Travel	185	377
Object Class 23: Rent, Utilities, and Telecommunications Services	3,056	2,688
Object Class 25: Contractual Services	20,532	18,984
Object Class 31: Equipment and Software	1,906	2,490
Other	371	434
Total Protect the Public	72,356	68,384
Total Spending	127,996	126,261
Change in Amounts Remaining to be Spent	6,564	1,241
Total Amounts Agreed to be Spent	$ 134,560	$ 127,502
Who did the Money go to		
Federal Recipients	$ 32,409	$ 30,276
Non-Federal Recipients	95,587	95,985
Total Spending	127,996	126,261
Change in Amounts Remaining to be Spent	6,564	1,241
Total Amounts Agreed to be Spent	$ 134,560	$ 127,502

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL ASSETS
As of September 30, 2021
Unaudited (In Thousands)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable	Advances
Department of the Treasury	020	$ -	$ 1,509	$ -
Treasury General Fund	--	54,970	493	-
Total		$ 54,970	$ 2,002	$ -

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL ASSETS
As of September 30, 2020
Unaudited (In Thousands)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable	Advances
Department of the Treasury	020	$ -	$ 1,308	$ -
Treasury General Fund	--	46,985	256	-
Total		$ 46,985	$ 1,564	$ -

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL LIABILITIES
As of September 30, 2021
Unaudited (In Thousands)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	004	$ 139	$ -	$ -
Department of the Interior	014	-	-	4,056
Department of Justice	015	910	-	-
Department of Labor	016	-	21	-
Department of the Treasury	020	465	-	-
Office of Personnel Management	024	-	-	752
General Fund	--	-	-	40,628
Total		$ 1,514	$ 21	$ 45,436

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL LIABILITIES
As of September 30, 2020
Unaudited (In Thousands)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	004	$ 102	$ -	$ -
Department of the Interior	014	6	-	6,955
Department of Justice	015	796	-	-
Department of Labor	016	-	22	-
Department of the Treasury	020	492	-	-
Office of Personnel Management	024	-	-	657
General Services Administration	047	37	-	-
Department of Health and Human Services	075	90	-	-
Department of Defense	097	7	-	-
General Fund	--	-	-	8,747
Total		$ 1,530	$ 22	$ 16,359

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL EARNED REVENUE
For the Fiscal Years Ended September 30, 2021 and 2020
Unaudited (In Thousands)

Trading Partner	Agency Code	2021	2020
Department of Treasury	020	2,953	3,009
Total		$ 2,953	$ 3,009

Budget Function Classification (BFC)	BFC Code	2021	2020
Central Fiscal Operations	803	$ 2,953	$ 3,009
Total		$ 2,953	$ 3,009

INTRAGOVERNMENTAL GROSS COST

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL GROSS COST
For the Fiscal Years Ended September 30, 2021 and 2020
Unaudited (In Thousands)

Trading Partner	Agency Code	2021	2020
Government Printing Office	004	$ 211	$ 152
Department of Commerce	013	6	3
Department of Interior	014	63	68
Department of Justice	015	1,060	990
Department of Labor	016	1	-
United States Postal Services	018	20	20
Department of the Treasury	020	7,336	7,142
Office of Personnel Management	024	18,083	16,816
General Services Administration	047	5,221	4,824
Department of the Air Force	057	-	1
Environmental Protection Agency	068	10	6
Department of Transportation	069	5	(7)
Department of Homeland Security	070	310	268
Department of Health and Human Services	075	30	33
National Archives Records Administration	088	16	15
Department of Defense	097	87	151
General Fund	--	4,078	3,963
Total		$ 36,537	$ 34,445

During fiscal years 2021 and 2020, TTB incurred costs with other Federal agencies totaling approximately $36.5 million and $34.4 million, in each year, respectively. The majority of those costs were associated with the five entities detailed below.

- **Department of Justice:** TTB paid ATF $1.1 million and $990,000 in fiscal years 2021 and 2020, respectively, for shared lab space and shared building services.
- **Department of the Treasury:** The Bureau received law enforcement services from the IRS, as well as administrative services from the Bureau of the Fiscal Service's Administrative Resource Center, in fiscal years 2021 and 2020 in the amounts of $7.3 million and $7.1 million, respectively.
- **Office of Personnel Management:** TTB incurred $18.1 million and $16.8 million in costs for employee benefits during fiscal years 2021 and 2020, respectively.
- **General Services Administration:** TTB paid $5.2 million and $4.8 million to GSA for rent and information technology services in fiscal years 2021 and 2020, respectively.
- **General Fund:** The Bureau paid $4.1 and $4.0 million, in fiscal years 2021 and 2020, respectively, for employee benefits and lockbox fees.

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PART IV
Appendices

4.1 PRINCIPAL OFFICERS OF TTB

Administrator .... Mary Ryan

Deputy Administrator .... David Wulf

Assistant Administrator, Chief of Staff/External Affairs .... Elisabeth Kann

Assistant Administrator, Field Operations .... Carrie May

Assistant Administrator, Permitting & Taxation .... Daniel Riordan

Assistant Administrator, Headquarters Operations .... Emily Streett

Assistant Administrator, Management/CFO .... Cheri Mitchell

Assistant Administrator, Information Resources/CIO .... Robert Hughes

Equality, Diversity, and Inclusion .... Vacant

Chief Counsel .... Anthony Gledhill

For additional information, contact:
Alcohol and Tobacco Tax and Trade Bureau
1310 G Street, NW, Box 12
Washington, DC 20005
(202) 453-2000
http://www.ttb.gov

4.2 CONNECTING THE TREASURY AND TTB STRATEGIC PLANS

TREASURY PRIORITY AREA[7]	TTB STRATEGIC GOAL
Promote Equitable Economic Growth and Recovery	**TTB Goal 1: Business Qualification** Streamline permit applications to reduce applicant burden and use technology to minimize application errors and improve processing times
	TTB Goal 2: Labeling Modernization Provide timely and consistent service, reducing the burden of resubmissions on industry and TTB, and employ risk-based market sampling and investigations to ensure product integrity and fair competition
	TTB Goal 3: Tax Compliance Improve tax compliance through updated filings, processes, and technologies; enhanced analytics and other detection tools; and improved taxpayer education and outreach
	TTB Goal 4: Cross-Border Tax Risk Improve diversion detection and enforcement in the cross-border trade of alcohol and tobacco products through the full integration of advanced analytics tools into enforcement planning and processes
Modernize Treasury Operations	**TTB Goal 5: Workforce Readiness** Sustain an innovative and inclusive workplace with an agile, skilled, and prepared workforce aligned to evolving mission needs

7 The new FY 2022 - 2026 Treasury Strategic Plan will be available on Treasury.gov in February 2022. TTB is also in the process of revising its strategic plan. TTB's new strategic direction and alignment to Treasury goals and objectives will be available in FY 2022.

www.ttb.gov

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REPORT WASTE, FRAUD, AND ABUSE

Submit a complaint regarding Treasury OIG Treasury Programs and Operations using our online form: https://oig.treasury.gov/report-fraud-waste-and-abuse

TREASURY OIG WEBSITE

Access Treasury OIG reports and other information online: https://oig.treasury.gov/