Alcohol and Tobacco Tax and Trade Bureau

Annual Report

Fiscal Year 2020

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Introduction

Within its FY 2020 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 increased tax revenue.

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, 2020, and September 30, 2019, 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

The historic events of 2020 upended us all. Throughout, TTB played a critical role in helping our industries sustain operations and supporting the nation's capacity to respond to the COVID-19 virus.

Our prompt guidance enabled our industries to switch their focus to helping address shortages of hand sanitizer. Our teams worked tirelessly to issue permits to help businesses quickly expand or start operations to produce hand sanitizer. We completed approximately 2,400 permit actions, and turned most around within a single day, recognizing the need for an urgent response. We also answered more than a thousand inquiries about hand sanitizer production, helping so many navigate federal rules while helping to ensure compliant operations.

While the full impact of COVID-19 has yet to be revealed, we started to see its effects on our industries early on, as the overall volume of alcohol beverage label submissions began to decline. For those seeking these approvals, we took necessary steps to ensure processing times remained within our 15-day service standard—achieving 10 days on average by year-end. We also used the opportunity presented by reduced backlogs and submissions to work on program fundamentals to sustain timely service levels going forward.

Recognizing the potential financial strains for so many businesses, we issued tax guidance to provide temporary relief to our industry members, postponing due dates on tax filings and payments to help them endure during the economic downturn. Further, to avoid delays related to paper filings while we operated remotely, we developed online solutions to enable the electronic filing of claims. An entirely paper-based process until this year, this new filing option helped get refunds back in the hands of taxpayers when they needed it most.

In the trade practice area, we helped to ease potential industry hardship by issuing guidance on several areas of concern, including how to lawfully return products or extend credit under changed business circumstances during COVID-19, demonstrating our commitment to common sense regulation and transparency.

Even in the midst of crisis, we remained steadfast in our long-term strategic efforts. We continued to lay the groundwork for a new integrated online filing system, referred to as "MyTTB." While still in the early stages, this effort will transform customer interactions with TTB, providing greater transparency and access to data, and improving guidance and service. We also stayed focused on reducing regulatory burdens. This year, we published a final rule in our multi-year initiative to modernize federal alcohol beverage labeling regulations, with plans to publish additional final rules through FY 2021. Similarly, we continued to develop our proposals to simplify permit applications and streamline tax filings, with plans to publish proposed regulatory updates for industry comment in the year ahead.

Looking to the future, we know that our success hinges on effective collaboration and open dialogue with our partners and stakeholders. As we continue to face uncertainty, the needs of our industry members will remain our priority. Working together, we will create a regulatory environment that responds to shifting conditions and regulations that are narrowly tailored to achieve the purpose of the statute.

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

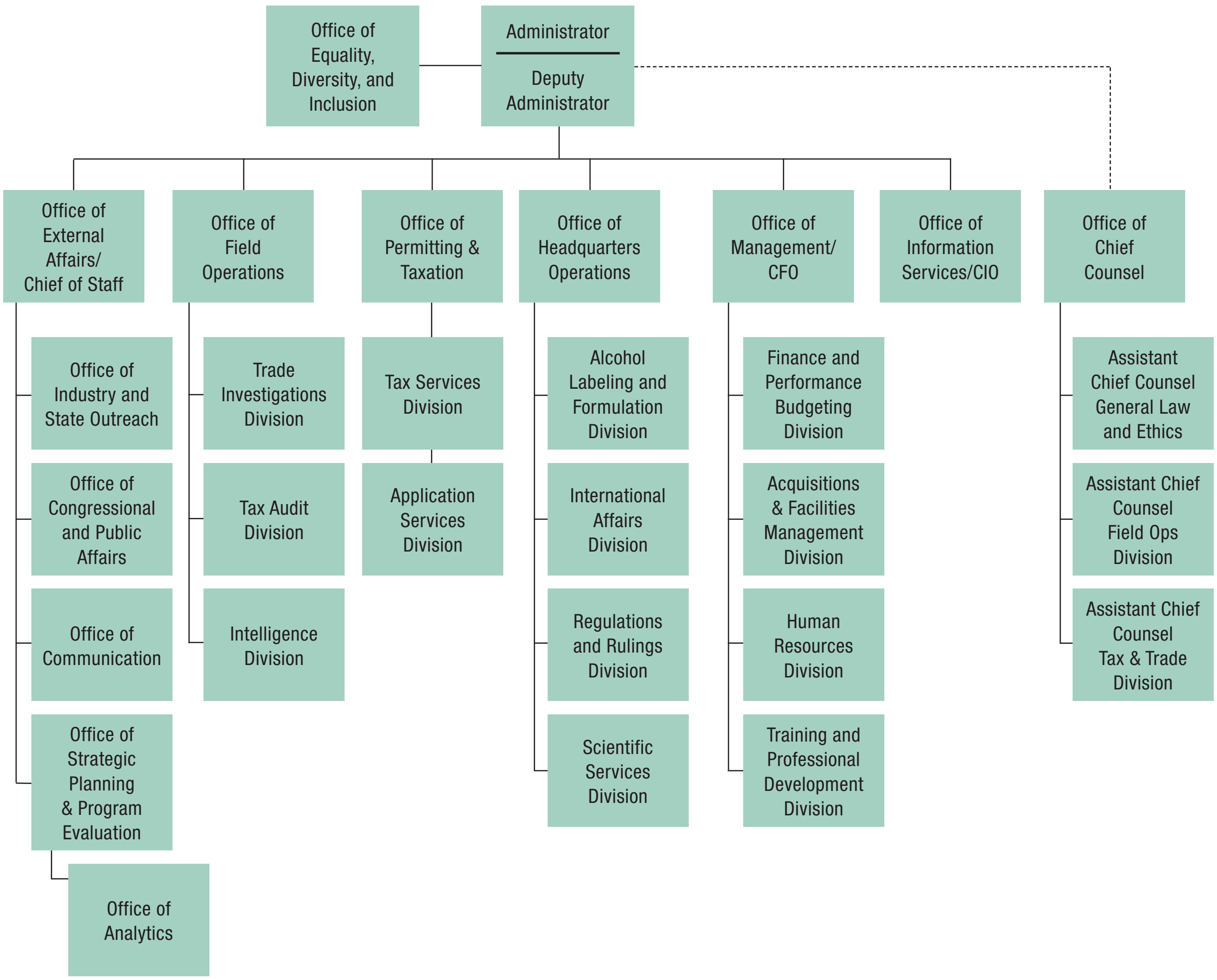
Our vision is to be a model for next generation government in the regulation, taxation, and science of alcohol and tobacco products.

VALUES

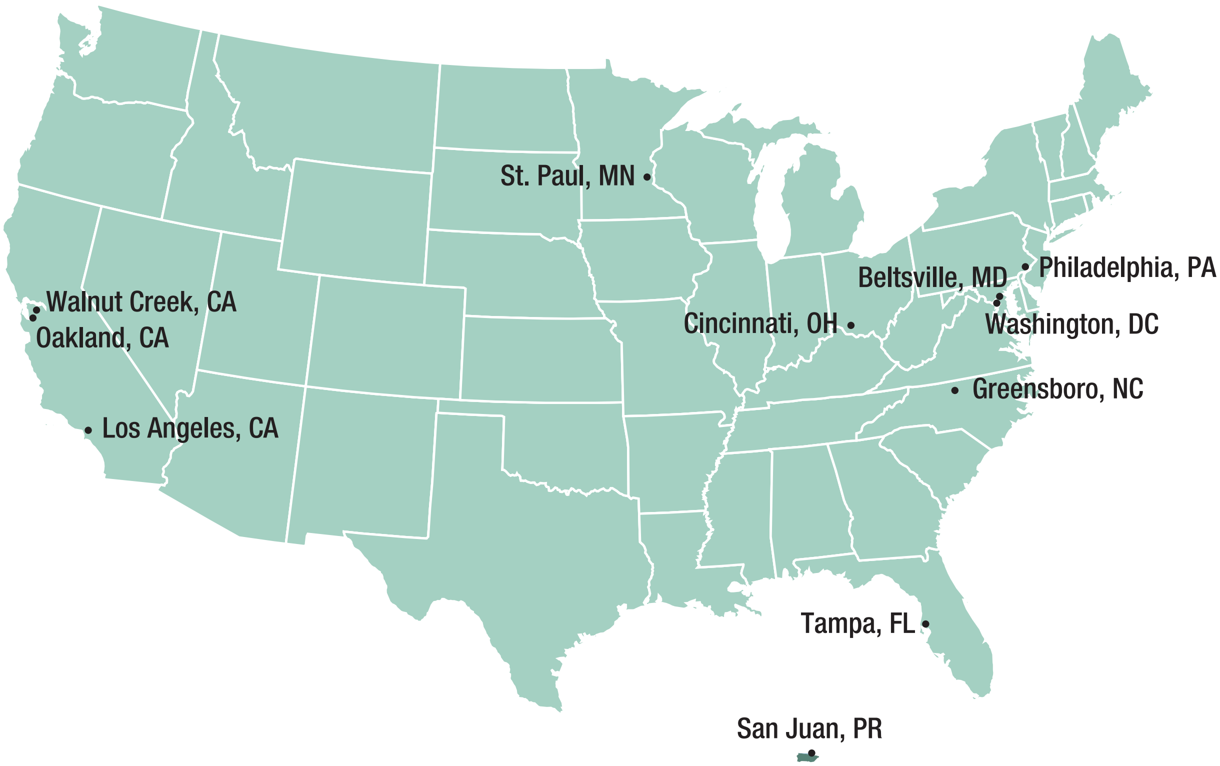
We value:

- **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 2019	FY 2020
Employees	521	521
Office Locations	11	11
Budget Authority	$119.6 Million	$119.6 Million
Revenue Collected	$19.8 Billion	$20.0 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.

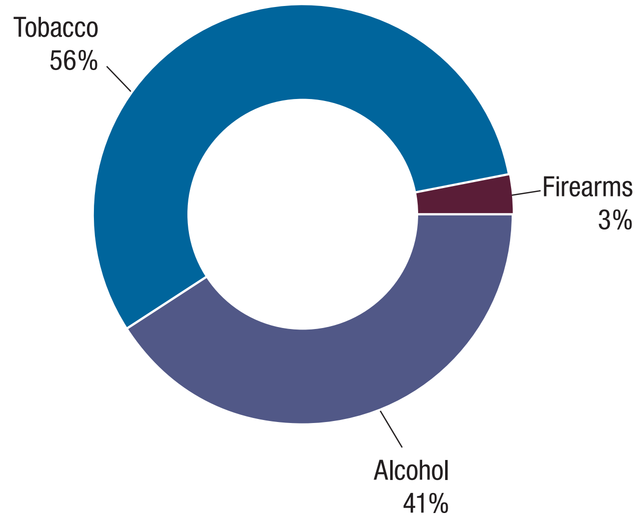
TTB's jurisdiction and related budget activities to "Collect the Revenue" and "Protect the Public" both serve to support economic growth and stability by ensuring that the federal government has the resources needed to fund national priorities and that lawful U.S. alcohol businesses are competitive and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

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 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 56 percent of TTB's total tax collections. The Tax Cuts and Jobs Act of 2017 contained provisions related to alcohol known as the Craft Beverage Modernization and Tax Reform Act (CBMA), effective through December 31, 2020. The CBMA reduced tax rates and expanded eligibility for tax credits for alcohol beverages, resulting in reduced alcohol tax collections in the first two fiscal years following its enactment. In FY 2020, alcohol revenues increased, despite the extension of CBMA provisions and the impact of the COVID-19 pandemic, and represent approximately 41 percent of total excise tax collections.

FY 2020 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 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 conducts product evaluations during audits and investigations to check for proper tax classification based on the characteristics of the product as defined by statute.

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 integrity of 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 Product Safety; 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 turnaround 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.

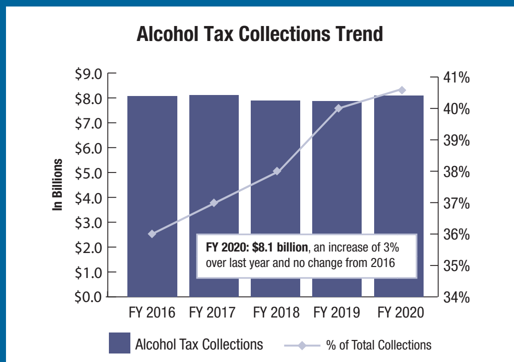
Under its Alcohol Labeling, Advertising, and Product Safety Program, TTB carries out provisions of the FAA Act that are intended to ensure that the labeling and advertising of alcohol beverages provide adequate information to consumers concerning the identity and quality of products. Before an alcohol 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.

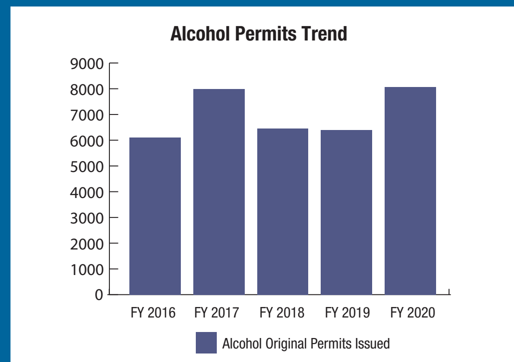
The FAA Act also calls for TTB to prevent misleading labeling or advertising that may result in consumer deception regarding alcohol beverage products. TTB confirms compliance with these regulations by reviewing production records through product integrity investigations and by conducting marketplace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

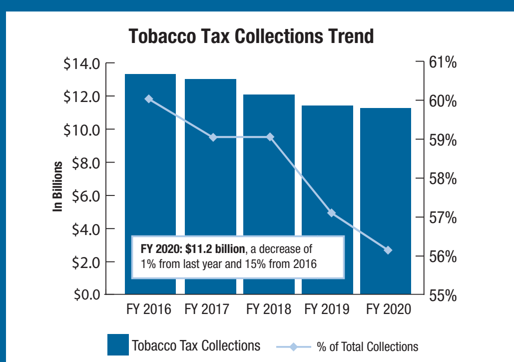
Across its programs, TTB promotes voluntary compliance by providing clear regulatory standards and guidance, encouraging use of its electronic filing systems, and supporting industry members through education and outreach efforts. TTB also provides industry members and states with direct assistance on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

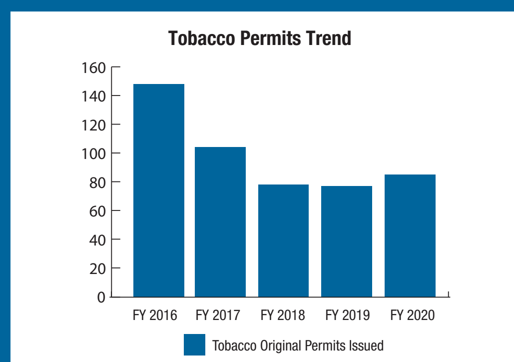
Alcohol Industry Snapshot



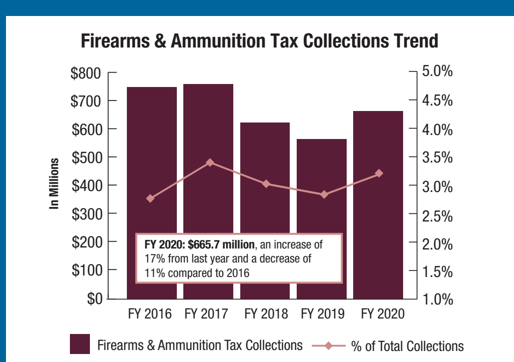


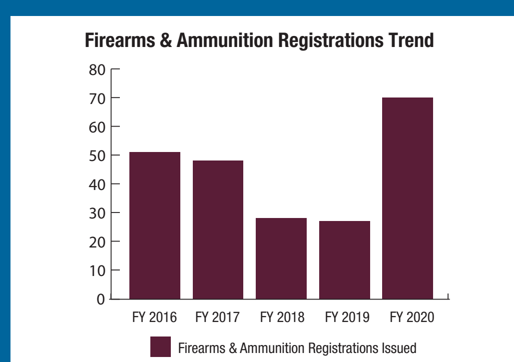
Tobacco Industry Snapshot





Firearms and Ammunition Industry Snapshot





1.2 ENTERPRISE RISKS AND CHALLENGES

TTB must effectively manage risks to achieve its strategic goals and objectives. TTB employs enterprise risk management principles to implement a framework for identifying and elevating crosscutting risks and developing effective mitigation strategies. TTB is also focused on establishing and fostering a culture that encourages open and transparent communication around potential risks and other concerns.

TTB identified the following among its key strategic mission and operational risks in FY 2020.

- **Tax Reform Implementation.** The craft beverage modernization provisions of the Tax Cuts and Jobs Act (Public Law 115-97) are scheduled to expire on December 31, 2020, with uncertainty as to whether they may be further extended. Advance planning in terms of preparing any related guidance, procedures, and regulations for 2021 and beyond remains a challenge. If the provisions are extended, TTB will continue its work to mitigate risks associated with tax administration and enforcement related to expanded eligibility for reduced rates and tax credits through timely policy decisions and industry guidance. TTB also will continue to coordinate with U.S. Customs and Border Protection (CBP) on the import provisions of the law to ensure that eligible taxpayers correctly apply the reduced tax rates and credits for alcohol products.

- **Industry Growth and Compliance.** The alcohol beverage sector has grown significantly in recent years, particularly in the number of wineries, breweries, and distilleries, which 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 training, in coordination with its implementation of Treasury's Integrated Talent Management System. TTB is also employing a variety of human capital policies and programs to address hiring delays that exacerbate these risks, including through its 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 several initiatives to modernize the Bureau's information technology architecture to enable the Bureau to increase the pace of delivery, streamline system maintenance processes, and provide an improved user 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

Pursuant to the requirements of the Government Performance and Results Act (GPRA) and the GPRA 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.

- **GOAL 1: Facilitate Commerce through the Timely Issuance of Permits to Qualified Applicants**

  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, 2020*

- **GOAL 2: Facilitate Commerce through a Modern Labeling Program Focused on Service and Market Compliance**

  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: Improve Tax Compliance through Increased Voluntary Compliance and Enhanced Enforcement**

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

- **GOAL 4: Address Cross-Border Tax Risk through Data Driven Enforcement**

  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: Equip the Workforce for Professional Growth and Development by Revitalizing TTB Training**

  Prepare the workforce to meet mission challenges through effective assessments of individual and organizational training needs and increasing availability of training opportunities to address critical skill gaps

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 Facilitate Commerce through the Timely Issuance of Permits to Qualified Applicants	GOAL 2 Facilitate Commerce through a Modern Labeling Program Focused on Service and Market Compliance	GOAL 3 Improve Tax Compliance through Increased Voluntary Compliance and Enhanced Enforcement	GOAL 4 Address Cross-Border Tax Risk through Data Driven Enforcement	GOAL 5 Equip the Workforce for Professional Growth and Development by Revitalizing TTB Training
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	
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: FACILITATE COMMERCE THROUGH THE TIMELY ISSUANCE OF PERMITS TO QUALIFIED APPLICANTS

TTB facilitates growth in the U.S. economy by ensuring that only qualified applicants enter business as an alcohol producer, wholesaler, or 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.

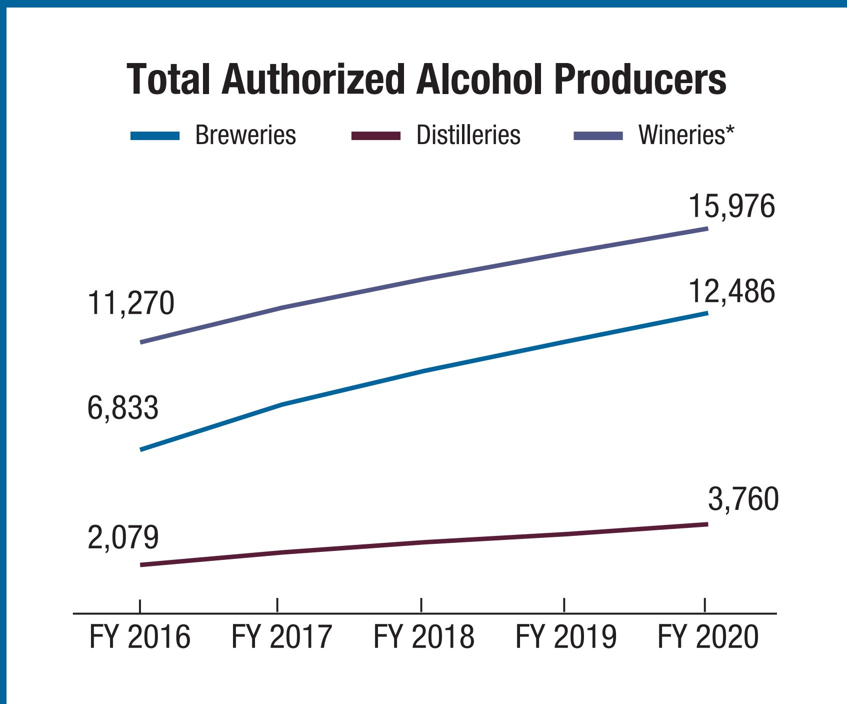
In FY 2020, TTB received approximately 9,200 applications for a federal permit or registration, and qualified approximately 8,200 new businesses. These are predominantly small businesses, which contribute to local job opportunities and often lead the industry in product innovation. This year, these applicants included hundreds of businesses seeking to produce hand sanitizer to replenish supplies during the COVID-19 pandemic. Today, TTB regulates more than 106,000 authorized industry members.

Alcohol beverage industry growth in recent years has increased the number of TTB permittees, particularly in terms of new alcohol producers. This growth in workload had contributed to delayed permit approvals by TTB—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.

In FY 2020, TTB retained a revised priority goal to improve the timely service in permitting. TTB achieved the first of its two priority goal targets in FY 2019, reducing average to 75 days. However, due to processing delays from the government shutdown, TTB fell short of its second target to achieve a 75-day standard for 85 percent of permit applicants. As a result, TTB extended the date to achieve this critical performance target to September 30, 2020.

In FY 2020, 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



*Includes bonded wine cellars

The number of businesses with a permit, brewer's notice, or registration with TTB has increased significantly in recent years, driven by a boom in new breweries, distilleries, and wineries. Since FY 2016, the number of authorized wineries has increased 60 percent. The growth rate for brewers and distillers has been far greater, at roughly 80 percent for both business types.

GOAL 1 PERFORMANCE HIGHLIGHTS

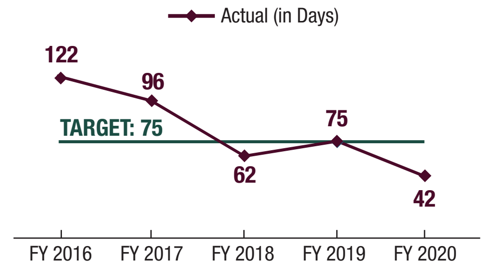
In FY 2020, TTB continued to make progress toward its strategic goal to timely issue permits to qualified applicants. This goal proved particularly critical in aiding the U.S. response to COVID-19. Following nationwide shortages in hand sanitizer, hundreds of applicants sought TTB approval to operate as a distilled spirits plant, aiming to quickly stand up new operations or shift their existing production facilities to support this critical need. On average, TTB approved these applications within 3 days, with many applications approved within 24 hours.

At the same time, with submission volume down in other permit types following the onset of the pandemic, TTB was able to reduce backlogs in many areas and improve overall service levels. Across permit types, TTB reduced average turnaround times from 75 days in FY 2019 to 42 days in FY 2020. This substantially improved upon the progress achieved in FY 2019 under TTB's priority goal.

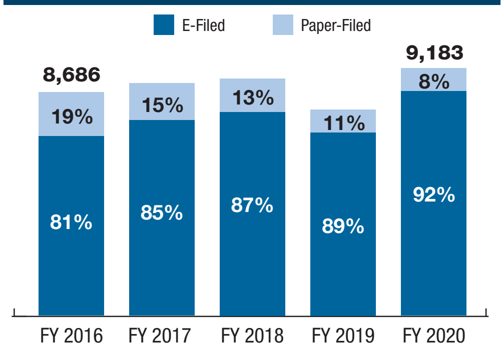
In FY 2020, after falling short last year, TTB maintained its second priority goal target to achieve the 75-day service standard for 85 percent of permit applicants. With service times improving across permit types, TTB ended the fiscal year just shy of its target at 84 percent of permit applications issued within 75 days. Based on the progress this year, TTB is positioned to achieve its targeted performance level in FY 2021.

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.

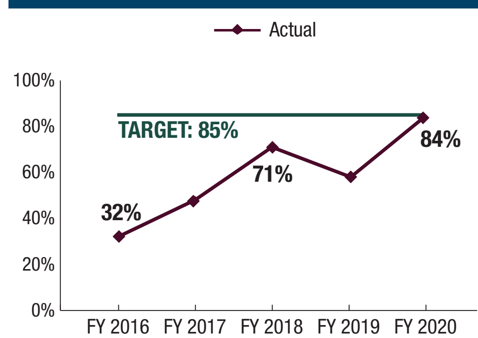
Average Permit Approval Time



Permit Application Submissions by Filing Method

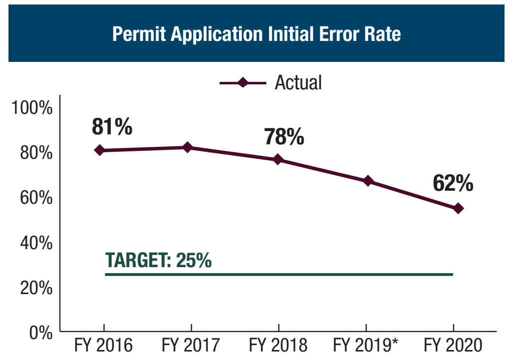


Permits Meeting Service Standard (<75 Days)



TTB continued to achieve high electronic filing rates to support timely processing, which trended positively in FY 2020 to 92 percent for new permit applications and 85 percent for submissions to amend a permit. The online system provides navigation and guidance to support industry members in filing complete and compliant applications the first time they submit.

In FY 2020, with recent system and guidance enhancements, TTB was able to bend the curve on the high volume of applications submitted with errors. 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 significantly to overall processing times. Since FY 2016, error rates on permit applications have remained around 80 percent. For FY 2020, the error rate on permit applications decreased to 62 percent, with improvements achieved across most application types.



*Estimated result due to data quality issue identified in Q4

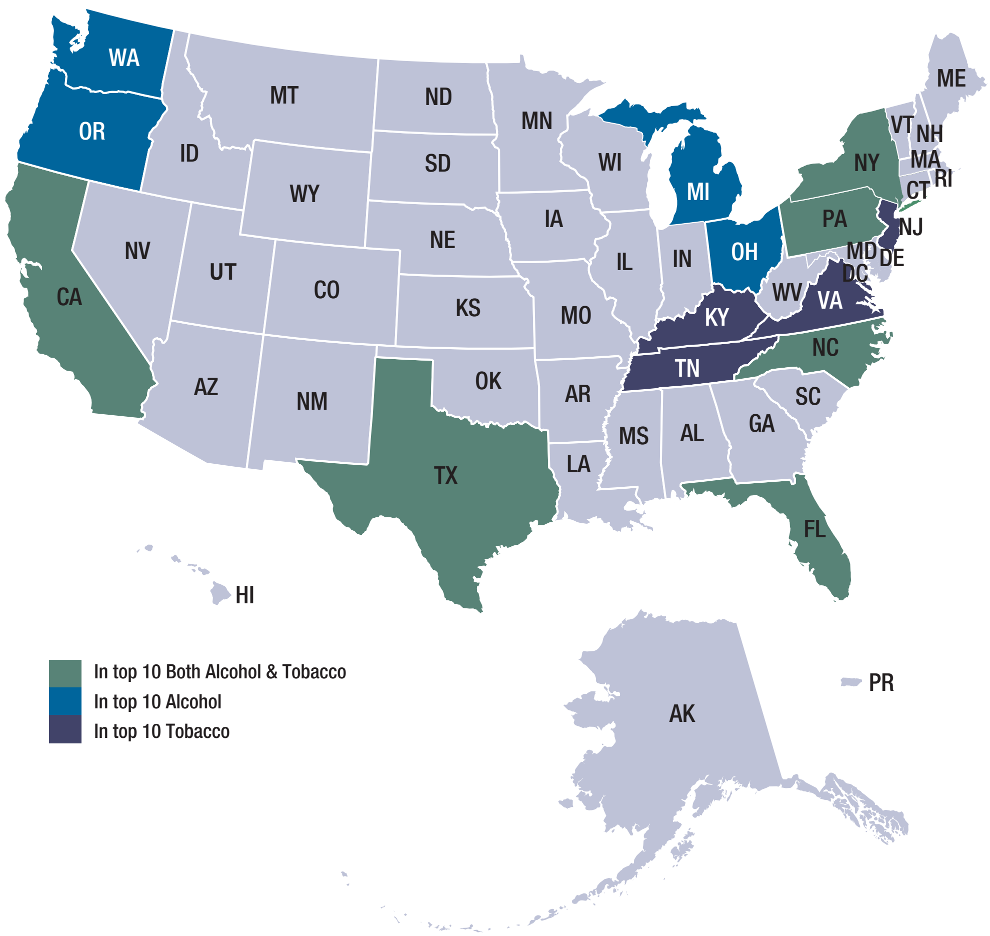
If error rates remain high, TTB will not be able to sustain timely service levels, as application volume is expected to increase as the economy recovers following the pandemic. In FY 2021, TTB plans to proceed with phased rulemaking to simplify TTB permit application requirements. These actions will reduce burdens related to permit applications on industry and TTB, as well as the likelihood of errors, while maintaining adequate controls to ensure revenue protection.

Further, TTB plans to enhance Permits Online to streamline industry communications and internal processing. In FY 2021, TTB will incorporate the findings of a Lean Six Sigma process review to enable incomplete applications to be returned to an applicant and corrected within Permits Online. Currently handled via email, this enhancement will reduce processing inefficiencies and improve effective management of in-process applications.

In the years ahead, TTB is planning to replace legacy systems, including Permits Online, with an integrated online filing experience for industry members, referred to as “MyTTB.” The multi-year initiative, which is dependent on funding, will include incremental releases with permit application updates as well as additional process improvements.

Finally, TTB will also continue to refine its risk-based techniques for screening permit applications for additional review or field investigation prior to issuance. Enhancements that TTB intends to pilot in FY 2021 should support further improvements to both the quality and timeliness of TTB application approvals.

FY 2020 Permitees by State



Top 10 States by Number of Alcohol Producer Permits	
State	**# Permit Holders**
California	9,173
New York	2,533
Washington	2,463
Texas	2,389
Pennsylvania	1,946
Michigan	1,860
Oregon	1,645
Ohio	1,610
Florida	1,461
North Carolina	1,331

Top 10 States by Number of Tobacco Permits	
State	**# Permit Holders**
Florida	209
California	84
North Carolina	71
New York	58
Texas	49
Virginia	41
Pennsylvania	32
New Jersey	31
Tennessee	20
Kentucky	19

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 2020 with 23 open investigations and initiated 10 new investigations this year, including a National Response Team case that involved a large-scale, complex investigation.

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. In FY 2020, in the fourth year since receiving dedicated resources, TTB closed 19 trade practice cases, with 74 percent resulting in successful outcomes. These successful resolutions included 3 Offers-in-Compromise and 11 permittees that served suspensions. 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 2020, TTB's outreach efforts included a new online video series on prohibited trade practices. The videos provide on-demand access to information on prohibited trade practices, including the history leading up to the rules.

Further, in response to industry questions about the applicability of trade practice provisions during COVID-19, TTB issued guidance to clarify its interpretation and treatment of specific activities, including returning unsold product after cancelled events, extending credit terms, furnishing gift cards to consumers, donating to charities, and providing hand sanitizer to consumers.

GOAL 2: FACILITATE COMMERCE THROUGH A MODERN LABELING PROGRAM FOCUSED ON SERVICE AND MARKET COMPLIANCE

Consumer confidence is essential to ensuring that the U.S. economy 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.

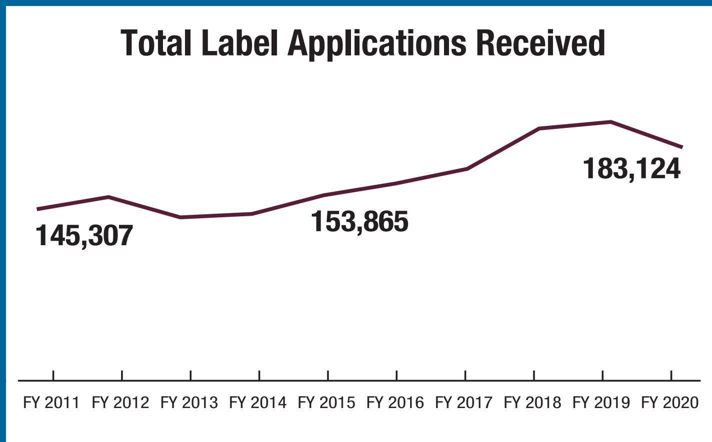
Recent growth and ongoing product innovation by the alcohol beverage industry has significantly increased the volume of alcohol beverage label and formula applications submitted for TTB approval. TTB now receives nearly 190,000 label and over 24,000 formula applications each year. Given the negative impact that delays have on U.S. businesses, TTB must maintain a strategic focus to improve its ability to provide timely and consistent service. This includes managing overall workload by reducing application errors that delay approvals.

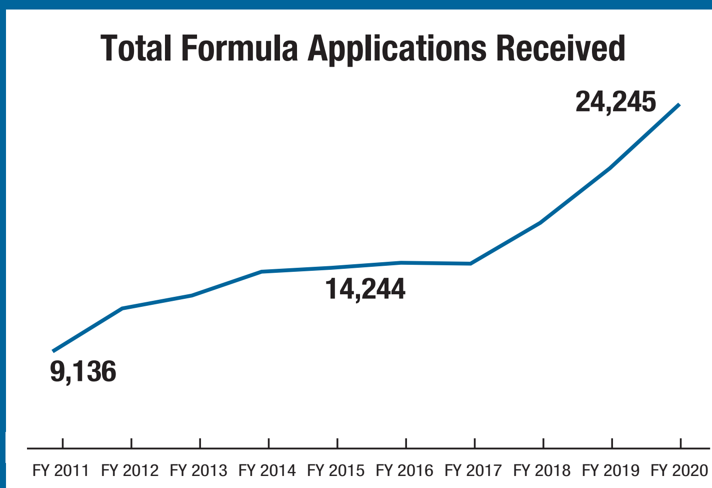
Over the last 10 years, the total number of label applications has increased nearly 40 percent, despite TTB's implementation of strategies to reduce filing requirements in certain low-risk areas. These increases cut across all alcohol commodities, and include both imported and domestic products. Label applications for malt beverage and distilled spirits products have largely driven these increases, tracking with the recent expansion in these industries. COVID-19 disrupted these trends, with the total volume of label applications down 8 percent this year. Distilled spirits applications were the exception, which increased 4 percent over FY 2019.

Over the same period, the total number of alcohol beverage formula applications has increased 165 percent. Current market trends that include flavored wine, hard cider, and malt beverages have resulted in increased formula submissions, generally offsetting the reductions TTB achieved through policy changes in prior years. Total formula submissions increased more than 20 percent in FY 2020, indicating that industry members continued to innovate and create new product lines throughout the pandemic, with malt beverage formulas increasing at the fastest rate. In the last two years, malt beverage submissions have nearly doubled.

In FY 2020, 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





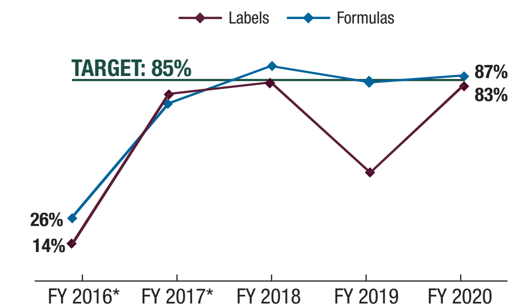
Label volume decreased overall, as wine and malt beverage submissions declined compared to FY 2019. Formula submissions continued to rise significantly, indicating that industry members continue to develop new and novel products.

GOAL 2 PERFORMANCE HIGHLIGHTS

In FY 2020, 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 particularly critical for U.S. businesses to maintain operations during the pandemic. TTB's performance goal is to issue these approvals within 15 days for 85 percent of applicants. This year, TTB exceeded its targeted performance level formula approvals and nearly met its targeted performance level for label approvals, with 83 percent of label and 87 percent of formula applications approved within 15 days. Since March, TTB has consistently approved label and formula applications in 10 days or less.

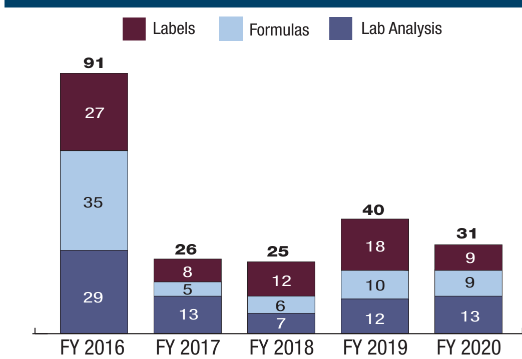
Percentage of Applications Processed within Service Standards (15 days)



*Historic data adjusted to reflect the 15-day service standard for FY 2018-2020 to support trend analysis; see Part II, Goal 2 performance table for performance levels at annual service standards.

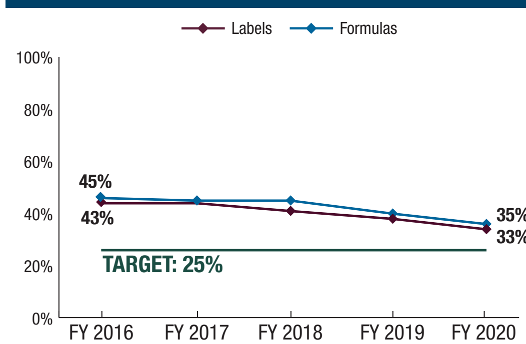
Certain alcohol beverage products also require lab analysis prior to applying for formula and label approval. TTB's performance goal is to complete lab analyses within 10 days for 85 percent of submissions. This year, TTB laboratories were temporarily closed in response to the pandemic, causing processing delays and requiring TTB to develop alternative options for certain analyses, where possible. As a result, TTB fell short of its target, completing 68 percent of lab analyses within 10 days. Even with these challenges, in FY 2020, TTB restored total average review time to approximately 30 days for products requiring lab analysis, formula approval, and label approval.

Total Average Review Time (in calendar days)



In FY 2020, TTB continued to focus on sustaining timely service by reducing 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. New wine labeling and formula guidance on TTB.gov contributed to error

Initial Error Rate - Alcohol Beverage Labels and Formulas



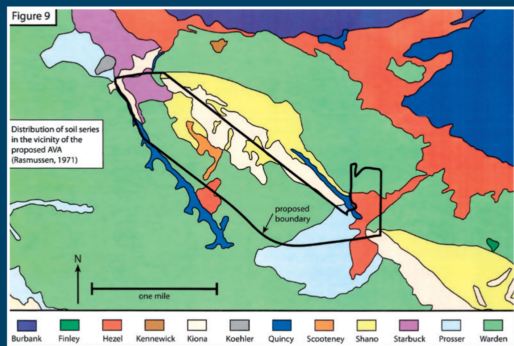
rates for wine labels dropping to 27 percent in FY 2020, down from nearly 40 percent at the beginning of FY 2018, and nearly achieving the performance target. TTB also addressed error rates on distilled spirits applications through training focused on internal processing consistency, which contributed to error rates dropping to 51 percent in FY 2020, down 13 percent in just one year. Overall, in FY 2020, TTB reduced errors by 4 percent, ending the year at 33 percent for labels and 35 percent for formulas.

In FY 2021, TTB plans to publish a new distilled spirits home page as well as interactive label examples to explain and clarify requirements. TTB also made substantial progress in developing an updated web-based tool to assist spirits producers and importers in determining whether their products require formula approval. These new tools will be published in FY 2021 with the aim of eliminating applications for products that do not require formula approval. In the year ahead, as part of its IT modernization efforts, TTB also plans to initiate a pilot to determine if artificial intelligence can be used to detect and flag errors on label submissions, with the goal of preventing them prior to submission.

In addition, TTB continued its long-term plans to improve industry guidance through updated labeling regulations. In FY 2020, TTB published a final rule from Notice No. 176 in April 2020, which finalized a number of liberalizing proposals that received broad consensus from commenters. TTB plans to publish additional label modernization final rules in FY 2021 to further clarify, streamline, and modernize TTB labeling and advertising requirements.

Finally, in FY 2021, TTB will continue to focus on incorporating 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 based on certain risk factors. 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 newly established Candy Mountain AVA in Washington.

During FY 2020, TTB published 13 AVA-related rulemaking documents, including 8 proposed rules and 5 final rules. As a result of these final rules, at the end of FY 2020, TTB and its predecessor agency, the Bureau of Alcohol, Tobacco and Firearms, have established a total of 252 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 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.

An American Viticultural Area (AVA) is a delimited grape growing region having a name, a delineated boundary, and distinguishing features (Part 9, TTB Regulation). 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 to help identify wines that they may purchase.

FY 2020 Proposed Rulemakings

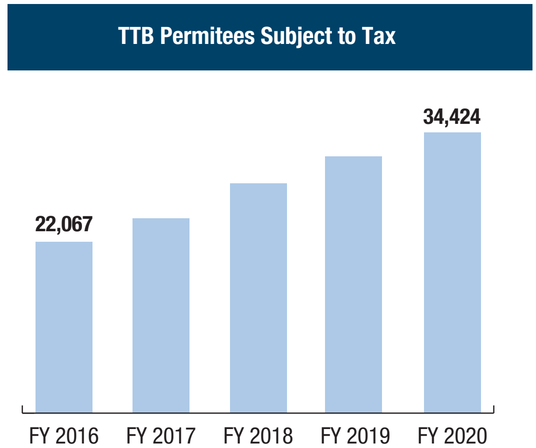
- **Royal Slope,** proposing a new AVA covering portions of portions of Adams and Grant Counties in Washington
- **Alisos Canyon,** proposing new AVA in Santa Barbara County in California
- **Verde Valley,** proposing a new AVA in Yavapai County in Arizona
- White Bluffs, proposing a new AVA in Franklin County in Washington
- **The Burn of Columbia Valley,** proposing a new AVA in Klickitat County in Washington
- **Palos Verdes Peninsula,** proposing a new AVA in Los Angeles County in California
- **Tehachapi Mountains,** proposing a new AVA in Kern County in California
- An eighth proposed rule proposed boundary modifications to two adjacent AVAs in Monterey County in California (**Santa Lucia Highlands** and **Arroyo Seco AVAs**).

FY 2020 Final Rules

- **Royal Slope,** establishing a new AVA in Washington
- **Alisos Canyon,** establishing a new AVA in California
- **Candy Mountain,** establishing a new AVA in Benton County in Washington
- **Eastern Connecticut Highlands,** establishing a new AVA in Connecticut.
- A fifth final rule established two adjacent AVAs, one in portions of Multnomah and Washington Counties in Oregon (**Tualatin Hills**), and the other in portions of Washington and Yamhill Counties in Oregon (**Laurelwood District**).

GOAL 3: IMPROVE TAX COMPLIANCE THROUGH INCREASED VOLUNTARY COMPLIANCE AND ENHANCED ENFORCEMENT

In FY 2020, TTB collected $20 billion in revenue from the alcohol, tobacco, firearms, and ammunition industries. As the number of TTB permittees continues to expand, with a corresponding increase in market competition, TTB must continue to innovate in its policies and processes to ensure that all taxpayers meet their tax obligations.



Recognizing the economic impact of COVID-19 on TTB's regulated industries, TTB acted to suspend tax payments and associated filings for 90 days for all TTB taxpayers under the emergency authority of the Internal Revenue Code. In addition, following the 90-day deferral period, TTB issued guidance on TTB.gov to assist taxpayers who may have challenges paying their tax liability due to financial hardship.

While the environment has changed, the importance of tax compliance and TTB's strategies in support of this goal have not. TTB will continue efforts to facilitate voluntary compliance through education and outreach to support industry in navigating federal tax requirements. 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.

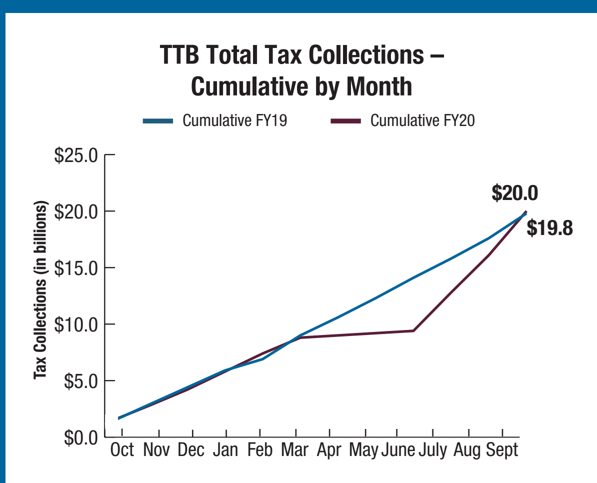
These strategic changes are especially critical in light of the CBMA provisions of the Tax Cuts and Jobs Act. These tax reform provisions include some of the most significant changes to the tax code relating to alcohol beverages in almost 40 years. Among other things, the new provisions altered the effective tax rates for all three alcohol beverage 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.

In the two years after these provisions took effect in January 2018, annual alcohol collections declined; this trend reversed in FY 2020, with alcohol revenue up nearly 3 percent over last year, driven by distilled spirits collections. These increases contributed to total TTB tax collections ending the year slightly above FY 2019. TTB data indicates that the pandemic likely had a disparate effect on TTB industry members, depending on commodity and other factors, including industry member size and diversity of products and businesses.

Looking ahead, TTB will continue to improve tax compliance through additional industry guidance and developing analytics tools to detect and address non-compliance and other high-risk activity. If the CBMA provisions are extended by Congress beyond December 31, 2020, TTB will continue developing and implementing strategies to address compliance risks, including effective information sharing with enforcement partners, timely guidance to industry, and potential rulemaking.

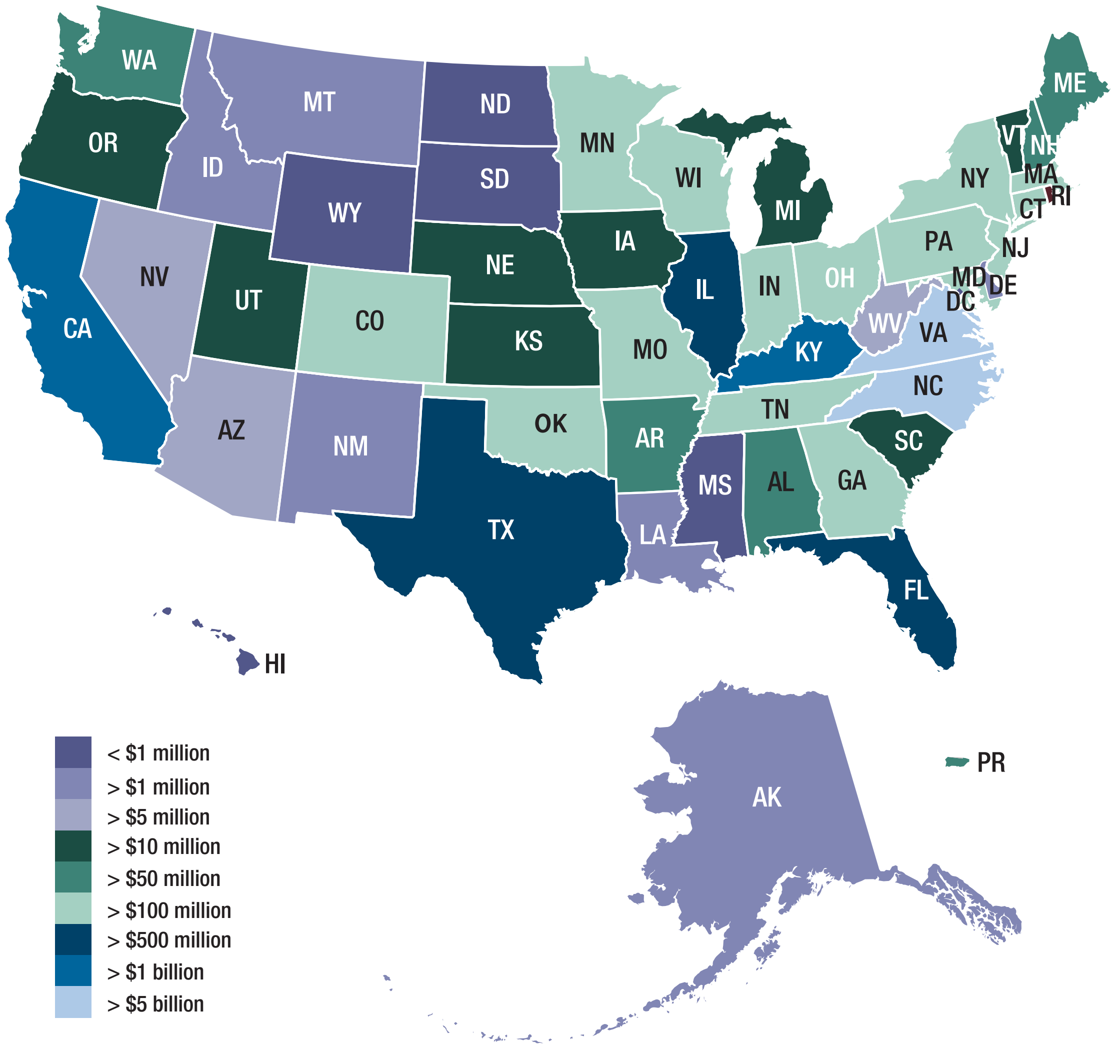
In FY 2020, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

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



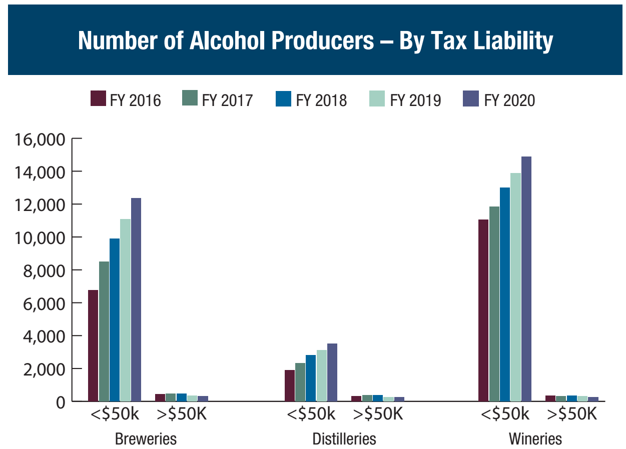
By year-end, TTB tax collections exceeded prior year levels after declines in Q3 as industry deferred tax payments by up to 90 days under guidance issued by TTB in response to COVID-19.

FY 2020 Collections by State



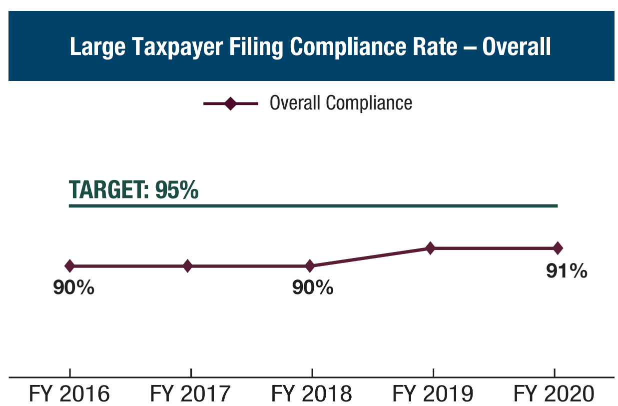
GOAL 3 PERFORMANCE HIGHLIGHTS

In FY 2020, TTB made progress 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 additional workload and enforcement challenges, particularly in light of recent tax reforms. This growth has cut across industry types, with the most significant increases in small businesses (i.e., those with less than $50,000 in annual tax liability) entering the alcohol industry. In the last five years, the TTB tax base has increased nearly 60 percent.

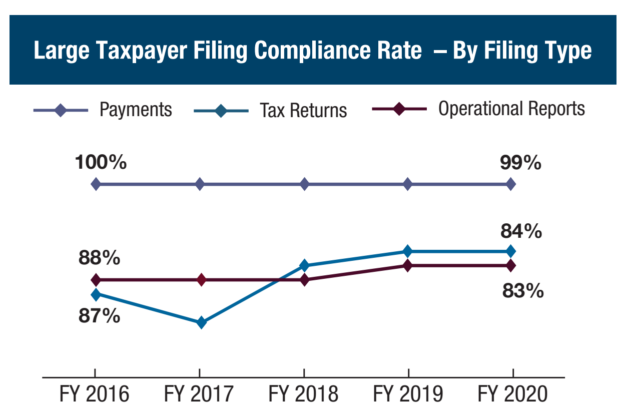


At the same time, filing compliance by TTB taxpayers has remained below target, hindering TTB's ability to timely detect underreporting or fraud due to missing or late filings. Under a new measure methodology, TTB calculates a filing compliance score for each taxpayer, based on filing patterns for tax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

TTB is focused on reversing the declining filing compliance trend for large taxpayers, defined based on statutory requirements as those with annual tax liabilities of $50,000 or more. Given the revenue exposure, TTB set a high target for filing compliance for its largest taxpayers at 95 percent. For the year, these TTB taxpayers were 91 percent compliant overall, below target but in line with FY 2019 performance despite the significant challenges presented by COVID.



While revenue risk remains relatively low, as indicated by the 99 percent compliance rate for tax payments, 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 2020, filing compliance for both tax returns and operational reports held at prior year levels, at 84 percent and 83 percent, respectively.



TTB attributes the recent declines in filing compliance rates to a number of factors, including overall industry growth and expansion, limited TTB resources to direct toward industry education and outreach, and competing TTB enforcement priorities. In FY 2020, the Bureau also faced enforcement limitations due to COVID-19, which required modifying its enforcement approach and operating plans for the safety of its employees and others.

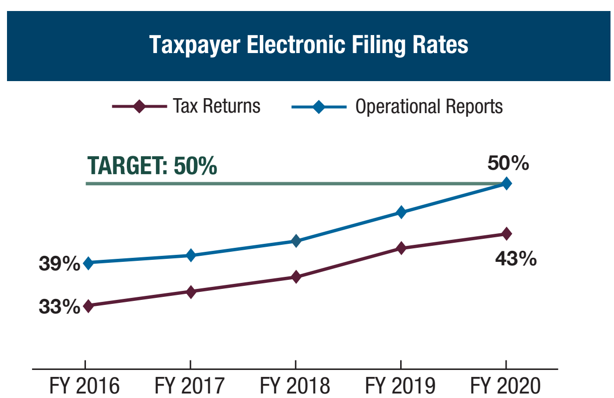
Further, TTB's ability to timely address delinquent filings is impeded by low electronic filing rates, with less than half of TTB taxpayers submitting their tax filings to TTB through Pay.gov, which adds to inefficiencies in making data available for tax reconciliation or advanced analytics.

TTB is employing a multi-pronged strategy to address these challenges and improve filing compliance across all taxpayer segments. In FY 2020, TTB made significant progress in employing analytics and process improvements to timely detect non-compliance. Using new compliance dashboards, TTB piloted and validated streamlined procedures and improved field referral criteria to identify and assess more than $60 million in delinquent taxes, penalties, and interest due from its largest taxpayers.

In FY 2021, TTB will continue to integrate and expand the use of these tools and procedures, addressing non-compliance across additional taxpayer segments. With recent industry growth, TTB is also focused on strategies to increase and improve taxpayer guidance. Education and outreach are critical to facilitating voluntary compliance for all TTB taxpayers, particularly if the CBMA provisions are extended.

In addition, TTB plans to significantly modernize tax filing requirements and processes to increase overall tax compliance. In FY 2021, 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 create an integrated online experience for industry to complete all required business interactions with TTB, including the online submission of all TTB tax-related filings and payments.



GOAL 4: ADDRESS CROSS-BORDER TAX RISK THROUGH DATA DRIVEN ENFORCEMENT

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 these 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 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 the quantities imported or paying at an improper rate. The risk associated with tax evasion on imported alcohol products has further increased following the passage of the craft beverage modernization provisions of recent tax reform 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 2020, 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 2020, 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 through interagency partnerships 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 International Trade Data System to timely detect tax evasion and identify potential diversion.

In FY 2020, 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

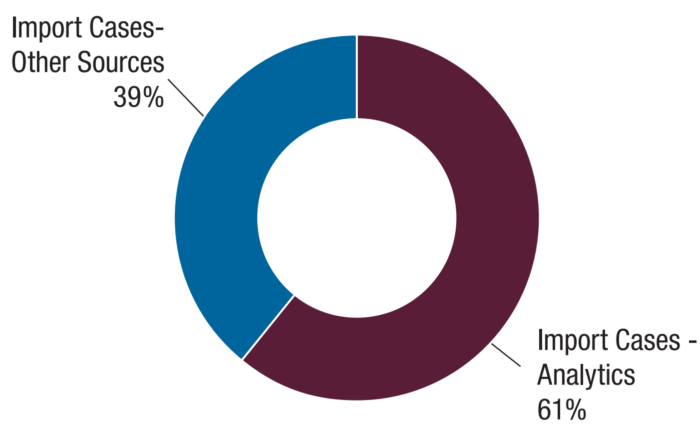
GOAL 4 PERFORMANCE HIGHLIGHTS

In FY 2020, TTB made limited progress in its strategic goal to Address Cross-Border Tax Risk due to continued challenges in the operating environment. At the onset of the pandemic, with the safety of TTB employees and industry paramount, TTB modified its enforcement policies and plans, including 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.

The CBMA provisions introduced further enforcement challenges, including the need to identify affiliated domestic and foreign producers and to ensure that U.S. importers do not improperly claim reduced rates or tax credits when paying tax to CBP at entry. To address these risks, TTB continued to focus its efforts in FY 2020 on improving its analytic tools

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 cases through analytics and, across its revenue cases, achieved a rate of 34 percent. TTB was particularly successful in using analytics to generate leads for revenue cases involving import activity. In FY 2020, TTB initiated 61 percent of these cases based on analytics. In addressing these findings, TTB also 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 2020, 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 group rules, extend across affiliated domestic and foreign producers. Enforcing these rules presents challenges, particularly where imported products are concerned. 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 complies with the production caps in the statute. In FY 2020, TTB acquired new data sources to identify company relationships to attempt to mitigate some of these risks. By integrating this data with TTB tax data, TTB 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.

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 has actively engaged 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.

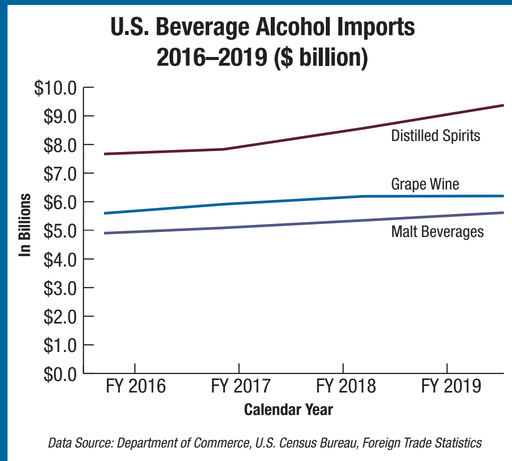
These efforts include providing technical advice for trade agreements that facilitate trade and suspend trade barriers, educating industry and foreign officials on U.S. import and export-related requirements, and monitoring foreign trade measures that have the potential to adversely affect U.S. exports.

In FY 2020, TTB supported the negotiation and execution of new free trade agreements that modernize and rebalance trade relationships to promote U.S. economic growth. TTB partnered with USTR in finalizing two trade agreements—the U.S.-Mexico-Canada Agreement and the U.S.-Japan Trade Agreement—and continues to support their implementation through side letter agreements, including the two side letter agreements that may result in the recognition of additional U.S. distinctive products in these major export markets.

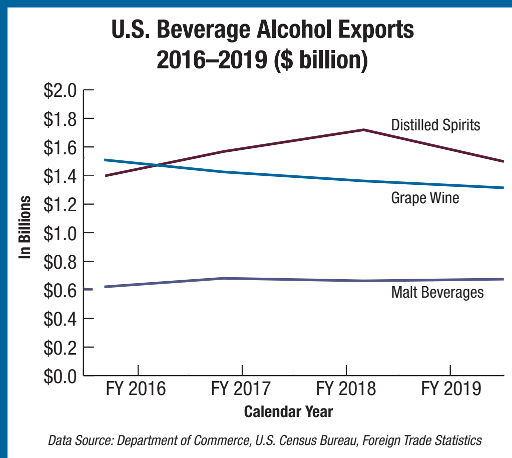
Future TTB action to recognize certain products as distinctive products of Mexico and Japan could result in reciprocal action by Mexico for American Rye Whiskey and by Japan for Bourbon Whiskey and Tennessee Whiskey. Additionally, to fulfill its obligations to Japan, TTB plans to engage in rulemaking on standards of fill for wine and distilled spirits.

In the year ahead, TTB will continue to support USTR in trade agreements talks with the United Kingdom (UK) as they relate to trade in alcohol beverages. In 2019, the U.S. exported almost $240 million in wine and just over $111 million in distilled spirits to the UK.

TTB will also continue its work in other multilateral settings, including participating in the World Wine Trade Group to advance issues of mutual interest in international trade in wine.



The value of U.S. import trade in 2019, the most recent full year of data available, increased five percent over 2018, reaching a total of $21.2 billion. Wine, distilled spirits, and malt beverages all experienced moderate increases, with distilled spirits showing the most significant year-to-year increase at nine percent. The five-year trend indicates continued U.S. demand for imported products.



Overseas demand for the products TTB regulates declined slightly, with the total value of U.S. exports for all alcohol beverages decreasing seven percent to approximately $3.5 billion in 2019, compared to the prior year. Distilled spirits exports reflected the most marked decline, with a 13 percent decrease, while malt beverage exports continued to increase, totaling more than $674 million. Since 2014, the volume of malt beverage exports has increased more than 26 percent.

GOAL 5: EQUIP THE WORKFORCE FOR PROFESSIONAL GROWTH AND DEVELOPMENT BY REVITALIZING TTB TRAINING

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 2020, 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 an imminent retirement wave, with approximately 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 critical mission risk requires that TTB use a variety of human capital policies and programs, with TTB expanding its strategic goal starting in FY 2021 to include additional strategies to increase overall workforce readiness.

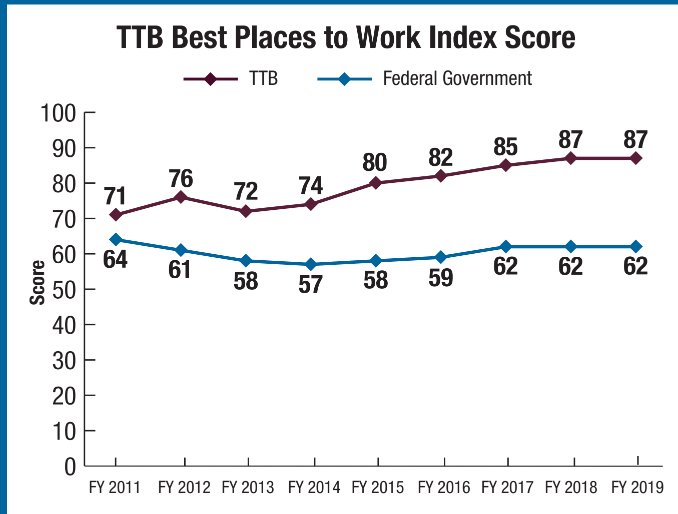
TTB also continues to rely on employee feedback provided in the annual Employee Viewpoint Survey (EVS) to set the direction for this strategic goal. Administered annually by the Office of Personnel Management, the EVS provides important insights into areas for improvement. Based on these scores, TTB 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.

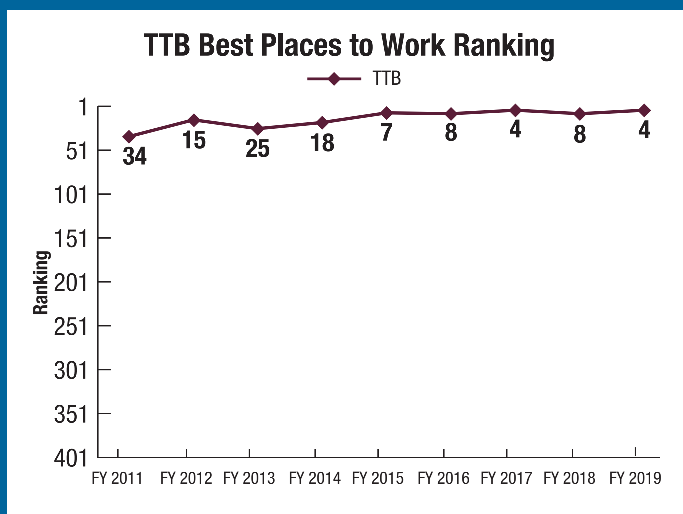
In FY 2020, TTB continued to focus on assessing and addressing individual and organizational skill gaps, improving its workforce planning policies and practices, and developing a tiered leadership development framework.

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

In FY 2020, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

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





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 2020 EVS survey, the 2019 results are the most current available. Detailed results are available at www.bestplacestowork.org.

GOAL 5 PERFORMANCE HIGHLIGHTS

In FY 2020, to revitalize its training programs, TTB continued to employ a variety of strategies to encourage and promote the professional development of its employees. TTB also recognized the need to expand the scope of this strategic goal to address other critical risks to building a sustainable workforce. The Bureau will move forward in FY 2021 focused on overall workforce readiness to meet evolving mission needs.

This fiscal year, TTB focused on addressing cross-cutting skill gaps in technical and supervisory skills. Based on its annual assessment of training needs, TTB delivered training to supervisors to support effective recruitment and hiring practices, and to ensure that performance management is focused on results. TTB also delivered prioritized training to the broader workforce in the critical areas of project management and data analytics. In the COVID operating environment, with nearly all TTB employees working remotely, TTB was still able to deliver on its training priorities by leveraging available online tools and courses to provide internal training sessions, as well as opportunities available through partner agencies.

In FY 2020, TTB also continued efforts to establish effective leadership development programs for those seeking leadership positions. TTB developed a conceptual framework for identifying, training, and mentoring high-potential employees. In the year ahead, TTB plans to develop a tiered approach to leadership development, to ensure 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.

Under its expanded strategic goal, TTB also initiated data-driven workforce planning efforts by collecting baseline data on key programs, tasks, and staffing levels across its offices and divisions, a critical first phase in understanding workloads and staffing alignment. TTB also determined the need to accelerate workforce planning in the Office of Permitting and Taxation to timely address certain critical risks. In FY 2021, the workforce planning team will test new processes and develop templates with the goal of applying them across all TTB directorates by the end of FY 2022.

In FY 2021, to support employee development, TTB will also continue 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. As part of its workforce planning efforts, TTB will continue to refine the tools and procedures to perform these assessments across all mission-critical occupations to provide a better understanding of the skills that employees must master to reach the next level in their position.

1.5 FINANCIAL HIGHLIGHTS

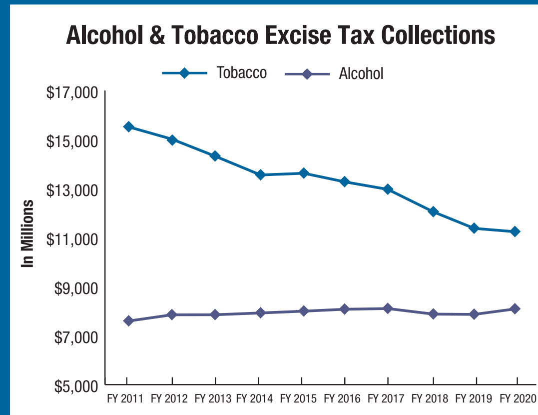
FEDERAL EXCISE TAX COLLECTIONS

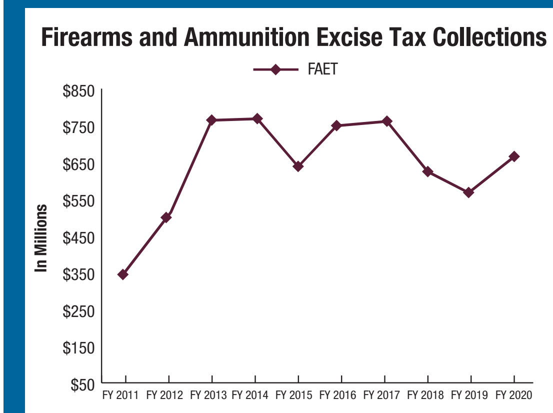
During FY 2020, TTB collected $20 billion in taxes, interest, and other revenues from the alcohol, tobacco, firearms, and ammunition industries. The tax for imported alcohol and tobacco products is collected by CBP.

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 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 2020, TTB collected nearly $8.1 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 CBMA provisions of the Tax Cuts and Jobs Act.

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 $344.3 million in FY 2011 to $665.7 million in FY 2020, an increase of $321.4 million over the past decade, or a 93 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 (FAET) 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 2020 Excise Tax Collections:

Alcohol	$	8,088,717,000
Tobacco	$	11,239,189,000
FAET	$	665,650,000
Special Occupational Tax	$	250,000
Floor Stocks Tax	$	-
Other	$	6,057,000
Total	$	19,999,863,000

Refund, Cover-Over, and Drawback Payments

During FY 2020, TTB issued $897.7 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.[5]

During FY 2020, cover-over payments totaled $478 million, with $471.1 million paid to Puerto Rico and $6.9 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 2020, these drawback payments totaled $373.4 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 2020 Refund, Cover-Over, and Drawback Payments:

Alcohol, Tobacco & Firearms Excise Tax Refunds	$	45,709,000
Cover-over Payments, Puerto Rico	$	471,073,000
Cover-over Payments, Virgin Islands	$	6,906,000
Drawbacks on MNBP Claims	$	373,438,000
Interest and Other Payments	$	550,000
Total	$	897,676,000

5 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, 2020.

- The Balance Sheet shows the assets, liabilities, and net position as of a point in time, in this case, as of September 30, 2020.
    - The total assets were reported as $75.2 million at the close of the fiscal year. Of this amount, $47.0 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 $46.7 million, of which total intragovernmental liabilities amount to $17.9 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, 2020 shows the total net cost of operations at $121.7 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 $51.1 million.
    - The total net cost reported as program costs under the Protect the Public program was $70.6 million.
- The Statement of Change in Net Position for the fiscal year ended September 30, 2020 shows a total net position balance of $28.5 million, and 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, 2020 shows the budgetary resources received and the status of those resources. For TTB, the resources are primarily annual appropriations received in the amount of $119.6 million, in addition to spending authority from collections. The offsetting collections amount was $7.0 million. Of that amount, $3.5 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, 2020 shows the amount of revenue received during FY 2020 compared with FY 2019, 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 $20.0 billion. Within this total, the Bureau processed tax refunds, drawback claims, and cover-over payments in the amount of $ 897.7 million.
    - **Drawback claims** of $373.4 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 $45.7 million.
- **Cover-over payments** were returned to Puerto Rico and the Virgin Islands in the amount of $478.0 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 $19.6 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 $665.4 million, 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 2020 and 2019, 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 2020 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 2020 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 2020 BUREAU BUDGET

BUDGET HIGHLIGHTS BY FUND SOURCE

This section highlights TTB program activity in FY 2020 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 2020 Salaries and Expenses	
Fund Source:	
Salaries and Expenses FY 2020 One-Year Appropriation (P.L. 116-93 Consolidated Appropriations Act, 2020)[1]	**$114,600,000**
Obligations Incurred in FY 2020 from Current Year Appropriations	*$114,167,236*
Salaries and Expenses FY 2020/21 Two-Year Appropriation (P.L. 116-93 Consolidated Appropriations Act, 2020)[2]	**$5,000,000**
Obligations Incurred in FY 2020 from Current Year Appropriations	*$558,502*
Salaries and Expenses FY 2019/20 Two-Year Appropriation (P.L. 116-6 Consolidated Appropriations Act, 2019)[2]	**$4,403,713**
Obligations Incurred in FY 2020 from Current Year Appropriations	*$4,354,594*
Salaries and Expenses FY 2019/20 (50% Prior Year Recovery)[3]	**$222,000**
Obligations Incurred in FY 2020 from Current Year Appropriations	*$222,000*
Transfer in From Other Appropriations (TEOAF Strategic Support Fund)	**$350,000**
Obligations Incurred in FY 2020 from Current Year Appropriations	*$348,954*
Reimbursable Authority (Various Customers)	**$7,437,000**
Obligations Incurred in FY 2020 from Current Year Appropriations	*$6,743,505*

1 The 2020 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 2019 and 2020 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 2019 shall remain available through September 30, 2020.

In FY 2020, TTB received $119.6 million in discretionary appropriations under the FY 2020 Consolidated Appropriations Act (Public Law 116-93) and an authorized staffing level of 502 full-time equivalent (FTE) positions. Of this amount, $114.6 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, 2021) 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 2019/2020) for trade practice enforcement.

Additionally, TTB recovered $222 thousand in funding from 50 percent of the prior year (FY 2019) unobligated balances to replace outdated IT equipment.

In FY 2020, the Bureau obligated or expended more than 99.5 percent of the $114.6 million of discretionary funding from its one-year Salaries and Expenses appropriation. TTB obligated or expended 98.9 percent of the $4.4 million in two-year Salaries and Expenses funding carried over from the prior year (FY 2019/2020), and 100 percent of the 50 percent recovery of the prior year FY 2019 unobligated balance. The Bureau obligated 11.1 percent of the $5 million from its FY 2020 two-year Salaries and Expenses appropriation, with the year-end balance of $4.4 million being available for FY 2021 program spending.

Anticipated Collections, Reimbursements, and Other

During FY 2020, TTB had $7.8 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 $7.1 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.

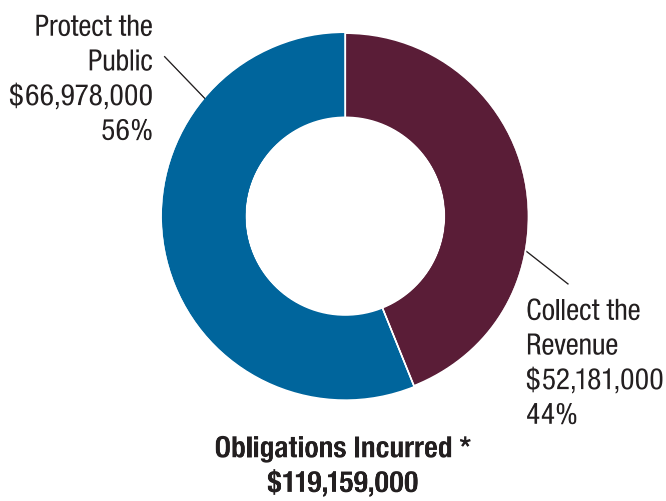
Budget Fiscal Year 2020 Anticipated Offsetting Collections, Reimbursements, and Other

	Apportioned Authority	Obligations and Expenditures
Puerto Rico Cover Over Operations and Enforcement Activities (Offsetting Collections)	$ 3,600,000	$ 3,551,139
Community Development Financial Institutions Fund (CDFI) (Reimbursable)	$ 2,643,200	$ 2,322,822
Treasury Executive Office for Asset Forfeiture - Mandatory Account (Reimbursable)	$ 1,037,000	$ 745,151
Treasury Departmental Offices (DO) (Reimbursable)	$ 156,800	$ 124,393
Treasury Executive Office for Asset Forfeiture - Secretary's Enforcement Fund (Other/Transfer)	$ 350,000	$ 348,954
Budget Fiscal Year 2020 Totals	$ 7,787,000	$ 7,092,459

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.

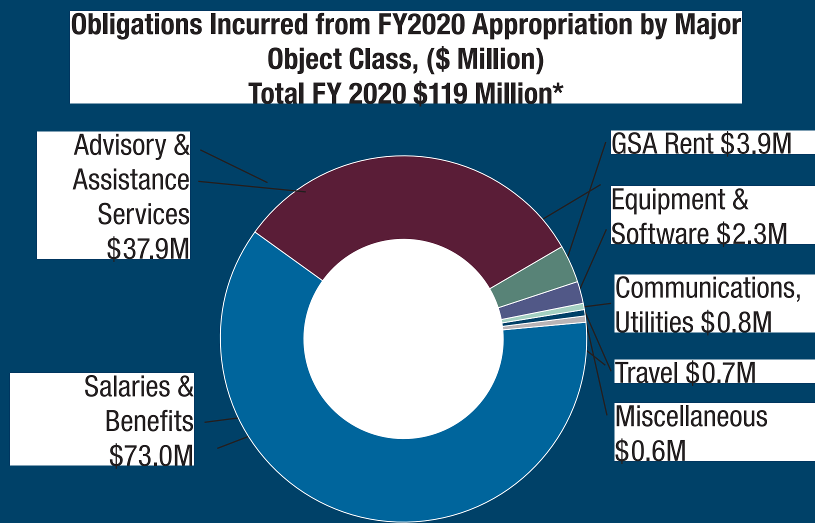
An analysis of the FY 2020 data stemming from the account code structure shows that TTB incurred obligations of $119,159,000 of its salaries and expenses appropriation, of which 44 percent was spent on the Collect the Revenue budget activity and 56 percent was spent on Protect the Public budget activity.



*Amounts include obligations incurred in FY 2020 from the FY 2020 annual appropriation; obligations incurred in FY 2020 from two-year funding (FY 19/20 and FY 20/21); and 50 percent of the prior year FY 2019 recovery.

*For presentation purposes, indirect costs are allocated from direct costs.

Spending by Major Object Class



**Amounts include obligations incurred in FY 2020 from the FY 2020 annual appropriation; obligations incurred in FY 2020 from two-year funding (FY 19/20 and FY 20/21); and 50 percent of the prior year FY 2019 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 (93 percent) fall into two principal major object classes: Salaries & Benefits and Advisory & Assistance Services (Contracts).

Salaries & Benefits comprise 61 percent of total obligations incurred by object class, and cover the cost of TTB's roughly 486 onboard positions at the end FY 2020. The Advisory & Assistance Services object class constitutes 32 percent of FY 2020 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 2020, the Bureau's travel costs were in support of core mission activities for audits and investigations. The remaining object classes that cover the FY 2020 obligations incurred include cost categories for rent, communications, equipment, and other miscellaneous categories.

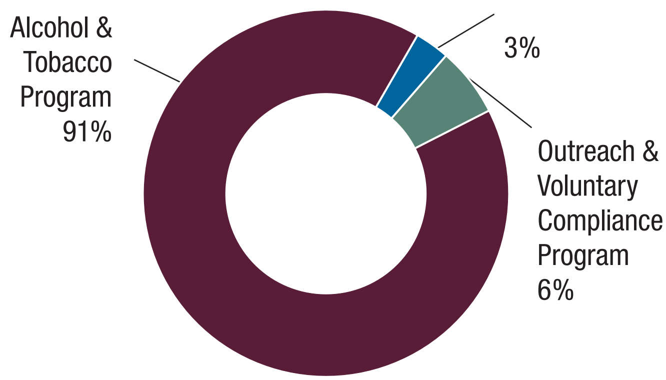
Obligations Incurred from FY 2020 Appropriations by Budget Activity

Collect the Revenue.....$52,181,000

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 Tax; 2) Firearms and Ammunitions Excise Tax (FAET); and 3) Outreach and Voluntary Compliance.

FY 2020 Collect the Revenue
Cost Allocation



TOTAL: $52,181,000

In FY 2020, 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.

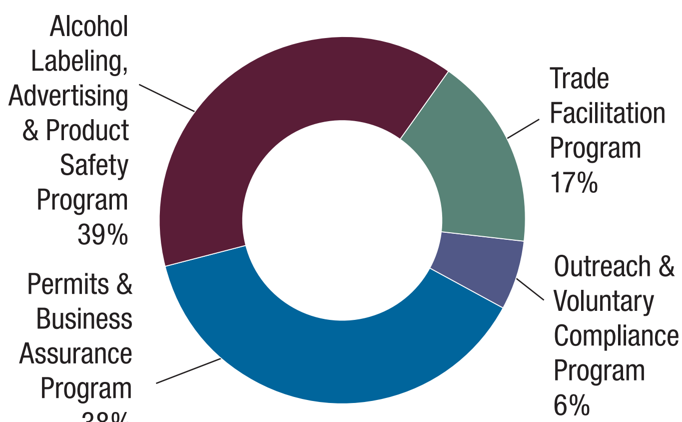
Costs for the Outreach and Voluntary Compliance Program totaled 6 percent of Collect the Revenue resources. These resources supported efforts to educate and train industry members regarding their obligations in the areas of tax compliance.

Protect the Public.....$66,978,000

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, and Product Safety; 3) Trade Facilitation; and 4) Outreach and Voluntary Compliance.

FY 2020 Protect the Public
Cost Allocation



TOTAL: $66,978,000

In FY 2020, TTB expended 77 percent of its Protect the Public resources on two programs: Permits and Business Assurance (38 percent) and Alcohol Labeling, Advertising, and Product Safety (39 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, and Product Safety 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 (6 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 2020, 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 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 2020. That report is included herein on pages 62 to 64. 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 2020, 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 2020 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 2020 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 businesses 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. Detailed performance information is discussed according to the key strategic objectives that represent TTB's continuous improvement efforts in FY 2020.

In FY 2020, TTB met or exceeded the performance targets for 5 of its 14 performance measures. TTB also monitored its performance through several new or existing indicators that support data-driven decision making across TTB's strategic goals. Despite falling short in many of its annual performance goals in FY 2020, TTB made substantial improvements in many key service and operational measures this year, with most trending in a positive direction by year-end, demonstrating TTB's effective recalibration of its plans and priorities during COVID-19.

Based on external factors and the results achieved this fiscal year, TTB reviewed its performance goals and set FY 2021 targets that reflect workload projections, resource levels, planned business process improvements, and anticipated impacts from technology enhancements.

To meet its performance goals in FY 2021, TTB will implement an aggressive strategic agenda that integrates modern technology, policy updates, and process improvements, as well as data-driven outreach and enforcement. Further, under its FY 2018-2022 strategic plan, TTB continues to develop the appropriate suite of measures to provide evidence of 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 stand up its data reporting platform, as well as new data governance policies and procedures, which will enable TTB to detect and address data quality issues across its critical data sets. As part of these efforts, additional data validations will continue; any necessary updates to TTB's performance measures or indicators will be reported in FY 2021.

FY 2020 Performance Measure Status	
Performance Targets Met	5
Performance Targets Not Met	9
Total Performance Measures	14

2.2 PROTECT THE PUBLIC PERFORMANCE

In FY 2020, TTB met three of its nine annual targets for the performance measures under its Protect the Public mission. TTB uses these measures to monitor its progress toward meeting its strategic and priority goals to facilitate lawful commerce for the protection of U.S. businesses and consumers. These measures also help TTB monitor the degree to which it is meeting the service standards it establishes 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, has caused approval times to increase. Approval times spiked to an average of 122 days in FY 2016, and over 200 days for alcohol producer applications, delaying operations for these applicants, many of whom had already made significant upfront investments. Under a two-year Agency Priority Goal (APG) for FY 2018-2019, TTB and Treasury set a performance goal 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.

TTB met one of its two APG targets in FY 2019, reducing average approval times to 75 days. However, TTB fell short of its second target to achieve the 75-day service standard for 85 percent of permit applicants. In FY 2020, TTB retained this second prong of its priority goal and, by year-end, nearly achieved the target at 84 percent. Average review times also decreased significantly, down to 42 days overall in FY 2020, with improvements across all application types. TTB attributes these gains to improved backlog management, which was facilitated by new permit application dashboards that display key metrics on the status and age of pending applications to support effective management.

TTB achieved these improvements even as the volume of permit applications spiked in FY 2020, driven by new and amended permits related to hand sanitizer production. TTB expedited its processing of over 2,400 permit applications, facilitating a shift in industry operations to hand sanitizer production following the CARES Act. Under the law, Congress provided certain flexibilities for tax-free withdrawals of spirits used to produce hand sanitizer in accordance with FDA guidance through the end of calendar year 2020.

Sustaining these performance improvements in FY 2021 and beyond will require progress on several cross-cutting initiatives. In FY 2021, TTB will focus on achieving its performance target through continued process improvements, Permits Online system enhancements, and updates to its permit applications to simplify and streamline requirements.

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 directed strategies to maintain timely service by increasing the number of first-time permit application approvals. Errors increase the overall workload volume, requiring extensive back-and-forth with applicants to ensure the application is complete 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 had consistently remained around 80 percent. Error rates are much higher for prospective breweries, wineries, and distilleries, which have more complex applications compared to non-manufacturers (i.e., wholesalers and importers). With recent system and guidance enhancements, as well as the permit application changes implemented to date, TTB has been able to reduce the high volume of applications submitted with errors. For FY 2020, the error rate on permit applications decreased to 62 percent, with improvements achieved across most application types.

Further, to improve both error rates and approval times, TTB plans to implement recommendations from a review of its process for returning permit applications for corrections. In FY 2020, TTB integrated new tools and processes to streamline the application return process and standardize internal procedures. In FY 2021, to continue making progress toward its target of 25 percent, TTB plans to implement system enhancements to provide greater consistency in reviews and improve industry interactions with TTB. Today, the online filing system for permit applications does not allow an applicant to add or correct information on the application after it is submitted. This is instead 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 MyTTB IT modernization initiative, TTB plans to enable incomplete applications to be returned and corrected within Permits Online, which should result in processing efficiencies, reduced error rates, and better user experience for industry.

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 92 percent of permit applications via Permits Online in FY 2020. TTB attributes this ongoing increase to TTB.gov improvements following the release of the redesigned Permits Online system in 2018, which included improved guidance for first-time filers to help them navigate the application process. These system changes, combined with the online training available to industry, will support TTB in achieving its FY 2021 targets of increasing the electronic filing rate to 95 percent and reducing the initial error rate on permit applications to 25 percent.

In alignment with its strategy to optimize its electronic filing systems, TTB measures *Customer Satisfaction with the Permits Online eGov System* through an e-mail survey to assess how satisfied businesses are in applying for a permit or registration through Permits Online. In FY 2020, system satisfaction rates increased 10 percent, from 68 percent in FY 2019 to 78 percent in FY 2020. Notably, satisfaction rebounded significantly with improved permit approval times later in the year, demonstrating a strong correlation between service levels and system satisfaction. Although still below the annual target of 80 percent, TTB expects the positive trend to continue in line with overall improvements in service levels, and as TTB initiates broader system modernization efforts in FY 2021 to provide applicants with a single integrated online filing experience. TTB will also focus on improving the level of service provided to customers seeking live assistance with the permit application process via TTB's call center.

Update Regulatory Requirements

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

In FY 2020, TTB continued to make progress towards modernizing its permit applications. Using a multi-disciplinary team, TTB has reviewed its permit requirements and developed recommendations to modernize and streamline the applications based on TTB's statutory responsibilities and enforcement needs. In FY 2020, TTB continued to implement application changes to reduce filing burden, with changes to the Brewer's Notice application to remove required uploads for leases or proof of property ownership, as well as updates to the applications for FAA Act importers and wholesalers to eliminate commodity-specific designations.

These efforts will carry forward into FY 2021, with ongoing evaluation of options to simplify the federal permitting and registration process by reducing open text fields and requirements to upload supporting documentation, including those that can be implemented in advance of rulemaking. The Bureau intends to publish rulemaking in FY 2021 for more significant modifications to TTB permit applications, with the aim of significant burden reductions both for industry and TTB. In addition to reducing compliance burdens, simplifying and clarifying TTB's regulatory requirements should also result in a reduced volume of initial permit applications submitted with errors, 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 2020, TTB continued to update its procedures to screen permit applicants, refining the risk criteria, tools, and procedures used to vet applicants for suitability to hold a federal permit. In FY 2021, TTB will continue to use the results of its field investigations to inform its risk factors to improve the effectiveness of its business qualification process. Use of statistical sampling and risk-based screening will also help TTB manage workloads and improve service delivery.

GOAL 1 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2020 Target	Result vs Target
Percentage of Permit Applications Processed within Service Standards (75 days)	SO 1	32%	48%	71%	58%	**84%**	85%	Unmet
Initial Error Rate for Permit Applications	SO 2	81%	83%	80%	71%	**62%**	25%	Unmet
Percentage of Electronically Filed Permit Applications	SO 15	81%	85%	87%	89%	**92%**	90%	Met
Customer Satisfaction Rate with TTB Permitting Process	SO 15	71%	80%	83%	DISC	**DISC**	DISC	N/A
Customer Satisfaction Rate with eGov Systems - Permits Online[2]	SO 15	54%	68%	77%	68%	**78%**	80%	Unmet

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 2020, TTB received approximately 183,000 label applications and 24,000 formula applications for new alcohol beverage product approvals. 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 nearly 15 percent for labels and nearly 70 percent for formulas. COVID-19 temporarily halted this growth in label applications, with volume down 8 percent overall compared to FY 2019. This decline was driven by reductions in wine and malt beverage label applications, with a decrease of 11 percent in wine and 5 percent in malt beverages in FY 2020. Distilled spirits label applications, however, continued to increase, with another 4 percent growth over prior years, driven by innovation in the craft spirits sector. Although all alcohol beverage commodities contributed to the increase in formula submissions, malt beverage submissions increased at the fastest rate, up over 40 percent compared to last year, due to the use of innovative ingredients and market trends toward flavored malt beverage products.

In light of customer expectations, as well as ongoing program improvements supported by funding enacted in the FY 2020 budget to accelerate approval times, TTB maintained its service standards for beverage alcohol labels and formulas at 15 days in FY 2020. Despite increased submission volume, the formulation area achieved the targeted performance level, and ended the year at 87 percent of formula 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. By employing similar strategies, label performance nearly achieved the target in FY 2020 at 83 percent. Performance significantly improved for both application types in the latter half of the fiscal year as TTB cleared backlogs while the overall label application volume decreased, with the vast majority of applications processed in 10 days or less.

TTB sought to capitalize on reduced backlogs to ensure the Bureau is able to maintain timely service following the anticipated rebound in label application volume. This included addressing higher turnaround times for distilled spirits labels relative to wine and malt beverage labels. TTB cross-trained specialists to enable the redeployment of staff across commodities as needed, such as when resource levels or application volumes fluctuate. In FY 2020, TTB cross-trained wine specialists in distilled spirits labels, using the reduction in wine label applications as an opportunity to improve staffing flexibility. As a result of these improvements, approval times for distilled spirits labels ended FY 2020 under 10 days, in line with wine and malt beverage applications.

Completed Label Application Statistics

	Pre-COVID (10/01/19 - 3/14/20)		Post-COVID (3/15/20 - 9/30/20)	
Commodity	**% Meeting Standard**	**Median**	**% Meeting Standard**	**Median**
DISTILLED SPIRITS	41%	19	75%	8
MALT BEVERAGE	46%	16	86%	6
WINE	91%	5	94%	3
Overall	**74%**	**7**	**90%**	**4**

Completed Formula Application Statistics

	Pre-COVID (10/01/19 - 3/14/20)		Post-COVID (3/15/20 - 9/30/20)	
Commodity	**% Meeting Standard**	**Median**	**% Meeting Standard**	**Median**
DISTILLED SPIRITS	80%	8	88%	5
MALT BEVERAGE	86%	7	95%	4
WINE	86%	7	91%	4
Overall	**83%**	**7**	**91%**	**5**

TTB successfully reduced approval times in the latter half of FY 2020 in efforts to support industry members in maintaining operations during the COVID-19 pandemic.

TTB expects performance to continue to trend positively in FY 2021 due to the significant reduction in the application backlogs achieved this year and 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, and will work toward its FY 2021 target of meeting this standard for 85 percent of applications through strategic initiatives to upgrade online 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 relies on 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 2020, approximately 34 percent of label and formula applications were submitted incomplete or with errors, falling short of the targeted performance level of 25 percent, although demonstrating year-to-year progress.

In FY 2020, 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 detailed examples of compliant label and formula submissions by commodity, as well as web-based tools to make it easier for industry members to determine if their products require TTB formula approval prior to filing a label. Going forward, TTB intends to further reduce error rates by increasing and integrating industry guidance available on TTB.gov and its online systems. TTB also intends to update the information on processing times available to industry on TTB.gov, which will publish TTB's label and formula service standards to external customers and provide data on how error rates negatively affect processing times to incentivize correct submissions.

Update Regulatory Requirements

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, in recent years, industry growth combined with market trends toward products that require an approved formula prior to production have resulted in increased submissions that offset these reductions. Going forward, TTB will 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.

Further, TTB continued its initiative to modernize federal alcohol beverage labeling regulations to reflect current TTB policy and modern industry practices. In FY 2020, TTB published a final rule as part of its multi-year labeling modernization rulemaking project. This final rule codified liberalizing proposals that received broad industry consensus. Subsequent phases planned for FY 2021 will address specific labeling and advertising proposals for each alcohol beverage commodity, as well as crosscutting labeling issues. TTB will also indicate issues the Bureau intends to close or reserve for future rulemaking. TTB's plans can be viewed as part of Treasury's Unified Agenda. Through rulemaking, as well as policy guidance, TTB is seeking to equip industry with the information needed to submit more complete and accurate label and formula applications.

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 and label compliance errors and, in FY 2020, results indicate that the changes implemented to date have proven effective, with error rates down 4 percent overall for both application types compared to last year, with labels ending the year at 33 percent (down from 37 percent) and formulas at 35 percent (down from 39 percent).

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 99 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 system modernization efforts, TTB plans to expand and improve system-based validations. These efforts include 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. TTB will also continue to 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 2020, satisfaction rates increased, from 77 percent to

80 percent for COLAs Online users and 70 percent to 73 percent for Formulas Online users. TTB attributes these increases to reduced processing times, and anticipates that performance will continue to improve through FY 2021 in line with timely service levels. Further, TTB expects that planned system improvements and regular review of survey feedback in FY 2021 will help TTB to exceed its user satisfaction target of 80 percent and continue to 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 2020 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 non-mandatory information between the approved label and the label on the bottle.

In FY 2021, the 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 will 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 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2020 Target	Result vs Target
Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards (15 days)[1]	SO 1	80%	62%	84%	48%	**83%**	85%	Unmet
Initial Error Rate for Label and Formula Applications	SO 2	44%	43%	40%	37%	**34%**	25%	Unmet
Percentage of Electronically Filed Label and Formula Applications	SO 15	97%	98%	98%	99%	**99%**	95%	Met
Customer Satisfaction Rate with eGov Systems - COLAs Online	SO 15	74%	82%	81%	77%	**80%**	80%	Met
Customer Satisfaction Rate with eGov Systems - Formulas Online[2]	SO 15	58%	70%	79%	70%	**73%**	80%	Unmet

1 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.

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

2.3 COLLECT THE REVENUE PERFORMANCE

In FY 2020, TTB met two of its five annual targets for the 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. In FY 2020, TTB revised this measure based on a new scoring method to better reflect risk by filing type and revenue exposure. With this update, TTB maintained a comprehensive picture of compliance by taxpayer, but improved the Bureau's ability to rate and prioritize taxpayers based on relative risk to ensure TTB pursues the most serious 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 2020, TTB achieved an overall compliance rate of 91 percent from its large taxpayers in meeting all tax filing requirements. Payment compliance rates remained high, at over 99 percent, indicating that the majority of reported liabilities are paid on time. Compliance rates for tax returns and operational reports were 84 percent and 83 percent, respectively. Although below target, these rates held constant with FY 2019, even with disruptions to TTB and industry operations caused by COVID-19.

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 2020, to improve tax oversight, TTB piloted new analytics tools and internal procedures to address identified non-compliance. By partnering its tax experts with its analytics team, TTB created 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 tested and validated streamlined procedures for reconciling taxpayer accounts and issuing assessments. At the same time, TTB established and validated 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, with TTB assessing approximately $60 million in delinquent taxes in FY 2020. While these assessments were necessary to protect revenue, at the same time, TTB also provided additional guidance to industry on payment options in cases of financial distress caused by COVID-19.

In FY 2021, 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 improving analytics tools and expanding the pilot to include 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.

Enhance External Communication & Outreach

TTB continues to emphasize external communication strategies to improve tax compliance. TTB.gov remains the Bureau's primary industry resource for tax guidance. However, potential improvements to online tax resources, identified as a key mitigation strategy to address declining filing compliance rates, were postponed in FY 2020 due to competing communication priorities related to the COVID-19 pandemic.

Since the onset of the pandemic, TTB has fielded thousands of inquiries from industry and stakeholders on existing laws and regulations, as well as the hand sanitizer provisions of the CARES Act. TTB also issued formal guidance on industry operations and trade practices and, where possible, provided necessary flexibilities to help industry members endure the economic downturn. This included a 90-day deferral of tax filings and payment, which TTB implemented under its emergency authorities. After the 90-day deferral period, TTB also issued guidance focused on how to mitigate penalties and interest that accrue as a result of delayed payment, and directed industry members on how to obtain information on payment plans and settlement options.

TTB plans under its outreach program also had to be dramatically altered, with many planned industry events and conferences cancelled due to COVID-19. Where possible, TTB pivoted to an online format, delivering presentations and training sessions remotely, including new "boot camps" developed by commodity 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. With ongoing uncertainty in the operating environment, in FY 2021, TTB will continue to maximize virtual options to conduct industry training and outreach.

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. In FY 2021, TTB plans to increase and improve tax guidance on TTB.gov, including additional information on financial relief options available to eligible taxpayers. Further, with the craft beverage modernization provisions of the tax code set to expire in December 2020, TTB will need to actively manage its online guidance to provide current information on rules and requirements in response to any Congressional action to extend these provisions.

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 2020, TTB achieved a return on investment of $380 for every program dollar spent on collection activities.

Revenue from the alcohol, tobacco, and firearms and ammunition industries increased year-to-year, with alcohol collections up 3 percent and FAET revenues up 17 percent compared to FY 2019. Tobacco revenues have steadily declined in line with shifts in consumption patterns, product manufacturing, and trade. In total, revenue collections are up approximately 1 percent compared to FY 2019.

At the same time, TTB's tax administration and enforcement costs decreased, as TTB significantly curtailed in-person outreach and enforcement activities following the outbreak of COVID-19. TTB plans to revisit these restrictions in FY 2021, guided by direction from the Administration and public health officials.

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

Optimize Electronic Systems

TTB will also focus on improving tax compliance through tax system 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 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 43 percent of tax returns and 50 percent of operational reports submitted electronically. 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 developing a custom external interface for electronic tax filings and enhancing internal workflows to support TTB tax administration. However, the pace and scale of system modernization efforts are dependent on TTB funding levels. In FY 2020, TTB deployed new document and imaging archives and an internal claims processing module to improve internal processes. TTB also initiated critical identity management work, laying the groundwork for a single industry member login across TTB's online systems. Combined, these releases provide foundational infrastructure for the new integrated "MyTTB" system.

Effective tax administration also requires modernized systems to facilitate TTB's data-driven approach to monitoring compliance and timely identifying potential tax evasion—even more critical in light of recent tax reforms. At present, resource-intensive manual analysis and reconciliation of multiple reports and returns, in combination with other data sources, by specialists, auditors, and investigators are required to detect and address high-risk activity. In the years ahead, TTB will need to enhance its tax systems and analytics tools to facilitate TTB's use of its tax information, in combination with other data sources such as import and export data, to more effectively target its limited resources to suspected evasion schemes.

Update Regulatory Requirements

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

The review generated recommendations to significantly streamline requirements to decrease both the amount of information collected as well as the frequency with which it is collected. The review also incorporated changes to TTB requirements to address new risks to underreporting introduced by recent tax reforms, which may be necessary if these provisions are extended beyond December 2020. 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 2021, will require rulemaking to 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 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2020 Target	Result vs Target
Amount of Revenue Collected Per Program Dollar	SO 5	$414	$406	$369	$339	**$380**	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	N/A
Percent of Voluntary Compliance from Large Taxpayers in Filing Operational Reports Timely (by taxpayer)[3]	SO 2	-	66%	74%	76%	**DISC**	DISC	N/A
Percent of Voluntary Compliance from Large Taxpayers - Overall[3]	SO 2	90%	90%	90%	91%	**91%**	95%	Unmet
By Payment	SO 2	99%	99%	99%	99%	**99%**	-	-
By Tax Return	SO 2	81%	79%	82%	84%	**84%**	-	-
By Operational Report	SO 2	82%	82%	82%	83%	**83%**	-	-
Percent of Electronically Filed Tax Returns - Pay.gov	SO 15	33%	35%	37%	41%	**43%**	50%	Unmet
Percent of Electronically Filed Operational Reports - Pay.gov	SO 15	39%	40%	42%	46%	**50%**	50%	Met

Key: DISC - Discontinued

3 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 with 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 coordination 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 now available to TTB in electronic format through the recent implementation of the International Trade Data System (ITDS)—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 2020 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 2020, 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. Under the CBMA provisions, TTB also continues 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 34 percent of TTB's 379 revenue cases were generated by analytics. TTB was particularly successful in using analytics to generate leads for revenue cases involving import activity. This year, of the 76 revenue cases TTB initiated that involved import activity, 46 were derived through analytics, or 61 percent. While the overall success rate of these cases is below the annual target of 70 percent, it continues 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 oversights and enforcement using ITDS 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 2021, TTB also plans to ensure continued coordination with CBP, including the exchange and use of the 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.

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 2020, TTB made progress towards obtaining 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 where imports are concerned. 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 complies with the production caps in the statute.

By integrating these data with TTB tax data, TTB 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 new tools are critical to improving TTB’s ability to verify effective tax rates in audits and other reconciliations, and support risk determinations in TTB enforcement planning. In FY 2021, TTB plans to expand upon these efforts to focus on multinational controlled groups comprised of domestic and 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 two ways—through a paper form for each removal for export or a monthly summary spreadsheet that may be allowed under a TTB-approved variance—neither of which results in information that is readily available for use in analytics tools. TTB had to significantly curtail these efforts in FY 2020 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 new tax reform provisions. In FY 2021, 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 2020, 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-tax-paid 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 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 2020, TTB successfully resolved 10 of 18 criminal cases, all of which were closed with a successful resolution, 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 $3.6 million; TTB expects to close several open cases in FY 2021 with significant potential federal excise tax liabilities.

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 2020, due to travel restrictions, TTB initiated only two National Response Team investigations, with one related to high-risk activity by a tobacco manufacturer and importer.

In recent years, the number and type of National Response Team investigations has shifted in response to shifting enforcement priorities and resource constraints. Given the complexity and scale of trade practice investigations, in FY 2021, TTB employed this enforcement technique to initiate one of its trade practice investigations this year. With continued emphasis on trade practice enforcement, and within current resources, TTB will need to continue to balance its enforcement priorities in FY 2021 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 2020 Target	Result vs Target
Number of National Response Team Investigations	SO 12	10	12	8	8	**2**	N/A	N/A
Percent of Criminal Cases Resolved with Successful Outcomes[4]	SO 4	72%	87%	88%	61%	**100%**	N/A	N/A
Percent of Revenue Cases Initiated though Analytics[5]	SO 11	-	-	-	22%	**34%**	30%	Met
Success Rate of Closed Revenue Cases Initiated through Analytics[5]	SO 11	-	-	-	58%	**46%**	70%	Unmet

4 Result based on 10 criminal cases resolved in FY 2020

5 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: TRAINING REVITALIZATION

TTB's strategic goal to revitalize its training and workforce development programs underpins its success in the other four strategic goals. 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 plans to expand the scope of this goal to emphasize other critical aspects of workforce readiness, including workforce planning, to ensure 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, more than 40 percent of TTB employees will be eligible to retire. TTB intends to continue its proactive approach to addressing mission risk related to the anticipated upcoming 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 2020, 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 75 percent in FY 2016 to 82 percent in FY 2019. Results of the 2020 survey were not available at the time of this report due to a delay in the Office of Personnel Management's (OPM) release of the survey in response to COVID. Further, OPM modified this year's 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 will account for these revisions in its FY 2020 results and trend analysis in future reports.

Improvements in this area have been driven by improved annual processes to ensure that TTB's priority training needs are identified and fulfilled. This year, TTB completed its annual Bureau-wide training needs assessment, which informed the FY 2020 TTB training plan. TTB also actively managed its training plans through quarterly reviews. Despite competing priorities for programs and personnel to respond to COVID-related matters, TTB delivered on the critical aspects of the FY 2020 training plan, including supervisory training, project management, and data analytics. 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 2020, TTB leveraged a training opportunity hosted by the Treasury Executive Institute to participate in a seven-part series to increase awareness and practical skills related to data analytics, a vital developmental area for the TTB workforce, with each session virtually attended by an average of 130 TTB employees.

TTB also continued to make progress this year on its initiative to develop career ladder assessments, continuing to test and refine its processes and tools for a new career ladder matrix that defines clear standards, specific skills, and optional developmental or training assignments to support an employee in advancing within their job series. To date, TTB has completed assessments for its chemist and auditor series. In FY 2021, TTB will continue its efforts to make incremental progress across its mission-critical positions, with plans to focus on label and formula specialists.

Finally, to develop its next generation of leaders, TTB continued its efforts to improve succession planning to enhance practical leadership capabilities and the bureau's leadership pipeline. In FY 2020, TTB initiated the development of a three-tiered approach to leadership development. Under this approach, TTB plans to refine existing programs geared toward identifying and engaging emerging leaders, while also developing new programs designed to support the development of existing high-potential employees, as well as foster potential senior leaders through the completion of a Senior Executive Service Candidate Development Program (SES CDP). In FY 2021, TTB is participating in a Treasury-wide pilot of an SES CDP, which should provide economies of scale in offering 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.

Even as government-wide performance has remained relatively flat, TTB has successfully improved its workforce satisfaction over the past five years, achieving a *Best Places to Work Engagement Index Score* of 87 percent in FY 2019, the most current ranking available at the time of the report.

TTB's Employee Engagement Action Plan for FY 2020 focused on improving training and internal communications, two areas with opportunity for improvement across TTB divisions. Specifically, in addition to the above additions to TTB's training programs, TTB continued to improve the experience of new hires through ongoing enhancements to its onboarding program. TTB modified the format for its onboarding program in FY 2020, delivering a mix of online and virtual presentations.

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. In FY 2020, TTB initiated data-driven workforce planning efforts by collecting baseline data on key functions, tasks, and staffing levels across its directorates. TTB also determined the need to accelerate workforce planning in the Office of Permitting and Taxation (PT) directorate to timely address certain critical risks relating to retirement eligibility and evolving mission needs. The workforce planning team will test new processes and develop templates with the goal of applying them across all directorates by the end of FY 2022.

GOAL 5 KEY SUCCESS INDICATORS

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

6 The 2020 results for OPM'S EVS survey were not available at the time of this report. TTB revised its FY 2019 Best Places to Work engagement index score based on final results posted on www.bestplacestowork.org.

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 2020, for the eleventh consecutive year, TTB obtained an unmodified (clean) audit opinion on its financial statements from an independent Certified Public Accounting firm. This audit provides reasonable assurance that TTB's financial statements are free from material misstatement and prepared in accordance with generally accepted accounting principles.

This year, TTB faced unprecedented challenges due to the COVID-19 pandemic. Through the dedication of our workforce, we successfully transitioned nearly all employees to full-time telework, allowing us to continue to carry out our mission without disruption. We used our strategic and enterprise risk management frameworks to modify our business plan, recognizing the need to stay focused on critical workload backlogs in business permitting and alcohol beverage product labeling to mitigate potential economic impacts on industry.

We also sustained focus on our strategic goal to revitalize our training programs, delivering on the critical aspects of our annual training plan despite competing priorities imposed by COVID. This included partnering with the Treasury Executive Institute to deliver comprehensive data literacy training to all TTB employees. This critical cross-organizational training focused on data fundamentals, data analysis, and data communications in support of our objective to become a more data-driven organization.

We believe efforts like these are the reason that TTB's Federal Employee Viewpoint Survey scores rank us in the top 1% of Best Places to Work in the Federal Government among agency subcomponents. To keep our ranking, we plan to continue our emphasis on workforce training, including leadership development, to prepare for future retirements and ensure strong succession planning. We are also emphasizing workforce planning to ensure TTB has the right number of personnel with the right types of skills to meet the mission.

We are also excited about the prospects for the future. We have made considerable progress towards realizing our vision for "MyTTB"—a single integrated online system built with modern IT architecture—which will enable the faster delivery of new features while also reducing maintenance costs. This year, we developed several foundational components, including new single sign-on features to increase usability for industry.

As we move forward, TTB will continue to foster a collaborative workplace where we set goals, maintain transparency around program risks and results, and regularly review our progress to meet our objectives.

Cheri D. Mitchell
Assistant Administrator, Management/CFO

3.2 AUDITORS' REPORTS, FINANCIAL STATEMENTS, AND ACCOMPANYING NOTES

KPMG

KPMG LLP
Suite 12000
1801 K Street, NW
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, 2020 and 2019, 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. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 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 TTB'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 TTB'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, 2020 and 2019, and its net 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

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 are 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, 2020, we considered the Alcohol and Tobacco Tax and Trade Bureau'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 Alcohol and Tobacco Tax and Trade Bureau's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alcohol and Tobacco Tax and Trade Bureau'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 TTB'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 Alcohol and Tobacco Tax and Trade Bureau's financial statements as of and for the year ended September 30, 2020 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. 19-03.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the Alcohol and Tobacco Tax and Trade Bureau's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

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 Alcohol and Tobacco Tax and Trade Bureau's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
December 15, 2020

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
BALANCE SHEETS
As of September 30, 2020 and 2019
(In Thousands)

	2020	2019
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 46,985	$ 45,801
Accounts Receivable (Note 3)	1,308	947
Due from the General Fund (Notes 5 and 8)	256	16,378
Total Intragovernmental Assets	48,549	63,126
Accounts Receivable (Note 3)	541	552
Tax and Trade Receivables, Net (Notes 4 and 8)	15,498	17,378
Property, Plant and Equipment, Net (Note 6)	10,538	8,902
Advances (Note 7)	89	160
TOTAL ASSETS (Note 8)	$ 75,215	$ 90,118
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$ 1,530	$ 1,327
Payroll Benefits	861	642
FECA Liabilities	22	14
Due to the General Fund (Notes 4 and 5)	8,543	11,500
Due to the Wildlife Restoration Fund (Notes 4 and 5)	6,955	5,878
Total Intragovernmental Liabilities	17,911	19,361
Accounts Payable	2,847	4,793
Payroll Benefits	2,913	2,352
FECA Actuarial Liability	59	59
Refunds Payable	256	16,378
Unfunded Leave	5,906	5,092
Cash Bond Liabilities	14,374	13,460
Other Liabilities (Note 9)	2,453	1,440
TOTAL LIABILITIES	46,719	62,935
Commitments and Contingencies (Note 19)		
NET POSITION		
Unexpended Appropriations - Other Funds	23,590	22,875
Cumulative Results of Operations - Other Funds	4,906	4,308
TOTAL NET POSITION - OTHER FUNDS	28,496	27,183
TOTAL LIABILITIES AND NET POSITION	$ 75,215	$ 90,118

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, 2020 and 2019
(In Thousands)

	2020	2019
COLLECT THE REVENUE		
Program Costs		
Gross Costs	$ 56,242	$ 57,404
Less: Earned Revenue	(5,139)	(4,887)
Total Net Program Cost	51,103	52,517
PROTECT THE PUBLIC		
Program Costs		
Gross Costs	72,052	70,730
Less: Earned Revenue	(1,412)	(1,441)
Total Net Program Cost	70,640	69,289
NET COST OF OPERATIONS (Note 13)	$ 121,743	$ 121,806

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2020 and 2019
(In Thousands)

	2020	2019
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 22,875	$ 18,946
Budgetary Financing Sources		
Appropriations Received	119,600	119,600
Other Adjustments	(637)	(417)
Appropriations Used	(118,248)	(115,254)
Total Budgetary Financing Sources	715	3,929
Total Unexpended Appropriations	23,590	22,875
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	4,308	5,517
Budgetary Financing Sources		
Appropriations Used	118,248	115,254
Transfers-in without reimbursement	350	600
Other Financing Sources (Non-exchange)		
Imputed Financing from Costs Absorbed by Others (Note 12)	3,746	4,744
Transfers out to the General Fund and Other	(3)	(1)
Total Financing Sources	122,341	120,597
Net Cost of Operations (Note 13)	(121,743)	(121,806)
Net Change	598	(1,209)
Cumulative Results of Operations	4,906	4,308
TOTAL NET POSITION	$ 28,496	$ 27,183

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, 2020 and 2019
(In Thousands)

	2020	2019
BUDGETARY RESOURCES (Note 14)		
Unobligated Balance from Prior Year Budget Authority, Net	$ 7,558	$ 8,120
Appropriations (discretionary and mandatory)	119,600	119,600
Spending Authority from Offsetting Collections (discretionary and mandatory)	7,032	6,788
TOTAL BUDGETARY RESOURCES	$ 134,190	$ 134,508
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Note 15)	$ 127,502	$ 127,858
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	4,895	4,781
Unexpired Unobligated Balance, End of Year	4,895	4,781
Expired Unobligated Balance, End of Year	1,793	1,869
Unobligated Balance, End of Year	6,688	6,650
TOTAL STATUS OF BUDGETARY RESOURCES	$ 134,190	$ 134,508
AGENCY OUTLAYS, NET		
Outlays, Gross (discretionary and mandatory)	$ 126,261	$ 121,263
Actual Offsetting Collections (discretionary and mandatory)	(6,572)	(7,490)
Outlays, Net (discretionary and mandatory)	119,689	113,773
Distributed Offsetting Receipts	(4)	(1)
AGENCY OUTLAYS, NET (discretionary and mandatory)	$ 119,685	$ 113,772

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, 2020 and 2019
(In Thousands)

	2020	2019
SOURCES OF CUSTODIAL REVENUE		
Revenue Received		
Excise Taxes (Note 16)	$ 19,997,669	$ 19,809,202
Interest, Fines and Penalties	2,192	3,593
Other Custodial Revenue	2	-
Total Revenue Received (Note 17)	19,999,863	19,812,795
Less Refunds and Drawbacks (Note 16)	(419,697)	(390,166)
Net Revenue Received	19,580,166	19,422,629
Accrual Adjustment	14,241	(2,876)
Total Sources of Custodial Revenue	19,594,407	19,419,753
DISPOSITION OF CUSTODIAL REVENUE		
Amounts Provided to:		
General Fund	18,436,809	18,402,843
Wildlife Restoration Fund	665,378	566,245
Amounts Provided to Fund the Federal Government (Note 17)	19,102,187	18,969,088
Amounts Provided to Non-Federal Entities (Note 16)	477,979	453,541
Increase/(Decrease) in Amounts Yet to be Provided:		
General Fund	(2,956)	(5,866)
Wildlife Restoration Fund	1,076	(61)
(Increase)/Decrease in Accrued Refunds	16,121	3,051
Total Disposition of Custodial Revenue	19,594,407	19,419,753
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 budget activities: Collect the Revenue and Protect the Public. Under the Collect the Revenue budget activity, TTB collects alcohol, tobacco, firearms, and ammunition excise taxes, and under its Protect the Public budget activity, 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 11.9 to 13.7 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 cost 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*

There were no changes in presentation between FY 2019 and FY 2020.

T. *Subsequent Events*

Subsequent events and transaction occurring after September 30, 2020 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, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Fund Balances:		
General Funds	$ 30,158	$ 30,885
Other Funds	16,827	14,916
Total	$ 46,985	$ 45,801
Status of Fund Balances:		
Unobligated Balance - Available	$ 4,895	$ 4,781
Unobligated Balance - Unavailable	1,793	1,869
Obligated Balance Not Yet Disbursed	23,470	24,235
Subtotal	30,158	30,885
Adjustment for Non-Budgetary Funds	16,827	14,916
Total Status of Fund Balances	$ 46,985	$ 45,801

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, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Intragovernmental Accounts Receivable:		
Due from Community Financial Development Institutions Fund	$ 314	$ 270
Due from Treasury Executive Office of Asset Forfeiture	870	677
Due from Treasury Departmental Offices	124	-
Total Intragovernmental Accounts Receivable	$ 1,308	$ 947
Due from the Government of Puerto Rico	$ 540	$ 551
Due from Employees	1	1
Total Accounts Receivable Due from the Public	$ 541	$ 552

No allowance for doubtful accounts has been recognized, nor have any accounts been written off in either FY2020 or FY2019. 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, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Tax and Trade Receivables	$251,558	$ 256,647
Interest Receivable	41,704	33,925
Penalties, Fines and Administrative Fees Receivable	90,549	83,215
Total Tax and Trade Receivables	383,811	373,787
Allowance for Doubtful Accounts	(368,313)	(356,409)
Total Tax and Trade Receivables, Net	$ 15,498	$ 17,378

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.

Tax and Trade Receivables also includes amounts related to criminal restitution owed to the U.S. government. As of September 30, 2020 and 2019, gross receivables related to criminal restitution orders we monitored were $51.9 million and $51.1 million, respectively, of which we determined $510,000 and $544,000 were collectible.

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, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Due from the General Fund	$ 256	$ 16,378

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.

	2020	2019
Due to the General Fund	$ 8,543	$ 11,500
Due to the Wildlife Restoration Fund	6,955	5,878
Total Custodial Liabilities	$ 15,498	$ 17,378

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, 2020 and 2019 consisted of the following (in thousands):

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

2019	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$ 13,644	$ 13,644	$ -
Equipment	4 - 6	12,253	10,080	2,173
Leasehold Improvements	2 - 5	3,180	2,346	834
Building	40	9,772	3,877	5,895
Total PP&E		$ 38,849	$ 29,947	$ 8,902

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, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Beginning Balance	$ 160	$ 180
Prepayments	-	48
Liquidations	(71)	(68)
Ending Balance	$ 89	$ 160

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, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	$ 16,827	$ 14,916
Due from the General Fund	256	16,378
Total Intragovernmental Non-entity Assets	17,083	31,294
Tax and Trade Receivables, Net	15,498	17,378
Total Non-Entity Assets	32,581	48,672
Total Entity Assets	42,634	41,446
Total Assets	$ 75,215	$ 90,118

Note 9. Other Liabilities

Other Liabilities as of September 30, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Offers-in-Compromise not yet Accepted	$ 2,453	$ 1,440
Total Other Liabilities with the Public	$ 2,453	$ 1,440

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, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Accrued FECA Liability	$ 22	$ 14
Total Intragovernmental Liabilities not Covered by Budgetary Resources	22	14
FECA Actuarial Liability	59	59
Unfunded Leave	5,906	5,092
Total Liabilities with the Public not Covered by Budgetary Resources	5,965	5,151
Total Liabilities not Covered By Budgetary Resources	5,987	5,165
Total Liabilities Covered by Budgetary Resources	40,732	57,770
Total Liabilities	$ 46,719	$ 62,935

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, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Health Insurance	$ 3,380	$ 3,009
Life Insurance	10	11
Pension	356	1,724
Total Imputed Financing	$ 3,746	$ 4,744

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 2020 or 2019.

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 $356,000 and $1.7 million for fiscal years 2020 and 2019 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 2020 to $8,038 from $7,268 in FY 2019, resulting in $3.4 million of imputed cost for employees' health benefits in FY 2020 versus $3.0 million in FY 2019. The cost factor, as provided by OPM, for employees enrolled in the FEGLI program, remained unchanged from FY 2019 to FY 2020, at .02 percent of employees' basic pay. The FEGLI amounts totaling $10,000 and $11,000 for FY 2020 and FY 2019, 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, 2020 and 2019 consisted of the following (In Thousands):

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

Fiscal Year Ended September 30, 2019

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$ 33,557	$ (3,018)	$ 30,539
With the Public	Central Fiscal Operations	803	94,577	(3,310)	91,267
Consolidated	Central Fiscal Operations	803	$ 128,134	$ (6,328)	$ 121,806

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

The following chart displays balances from the FY 2019 Statement of Budgetary Resources and actual fiscal year balances included in the FY 2021 President's Budget. There were no differences related to the Salaries and Expense accounts. The FY 2022 budget, which would include FY 2020 actuals, had not been published at the time of this report.

Fiscal Year Ended September 30, 2019 (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	$ 121	$ 121
Actual Offsetting Collections	(7)	(7)
Outlays, Net	$ 114	$ 114

Additionally, for Special and Trust Fund Receipts, the FY 2021 President's Budget disclosed budget authority of $445 million for FY 2019, 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, 2020 and 2019 consisted of the following (In Thousands):

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total New Obligations and Upward Adjs
2020	Category B	$ 120,726	$ 6,776	$ 127,502
2019	Category B	$ 121,600	$ 6,258	$ 127,858

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.

	2020	2019
Undelivered Orders, End of Year	$ 18,564	$ 17,969

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 2020 and FY 2019, TTB collected $20.0 billion and $19.8 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 2020 and FY 2019, TTB issued $898 million and $844 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, $3.5 million and $3.3 million in FY 2020 and FY 2019 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, 2020 and 2019 consisted of the following (In Thousands):

	2020	2019
Alcohol, Tobacco, and Firearms Excise Tax Refunds	$ 45,709	$ 47,277
Drawbacks on MNBP Claims	373,438	342,433
Interest and Other Payments	550	456
Refunds and Drawbacks	419,697	390,166
Cover-over Payments - Puerto Rico	471,073	445,324
Cover-over Payments - Virgin Islands	6,906	8,217
Amounts Provided to Non-federal Entities	477,979	453,541
Total Refunds, Drawbacks and Coverover Payments	$ 897,676	$ 843,707

Note 17. Custodial Revenue

Collection and Disposition of Custodial Revenue as of September 30, 2020 and 2019 consisted of the following (In Thousands):

FY 2020 Collections and Refunds by Tax Year and Type

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

FY 2019 Collections and Refunds by Tax Year and Type

FY 2019 Collections and Refunds by Tax Year and Type

Revenue Type	2019	2018	2017	Pre-2017	FY 2019 Total
Excise Taxes	$ 14,572,323	$ 5,219,695	$ 2,428	$ 14,756	$ 19,809,202
Fines, Penalties, Interest and Other	1,980	377	126	1,110	3,593
Total Revenue Received	14,574,303	5,220,072	2,554	15,866	19,812,795
Less: Amounts Collected for Non-federal Entities	(452,969)	(572)	-	-	(453,541)
Total	$ 14,121,334	$ 5,219,500	$ 2,554	$ 15,866	$ 19,359,254
Refund Type					
Excise Taxes	$ 117,495	$ 256,631	$ 10,962	$ 4,622	$ 389,710
Fines, Penalties, Interest and Other	123	230	55	48	456
Total Refunds & Drawbacks	117,618	256,861	11,017	4,670	390,166
Amounts Provided to Fund the Federal Government	$ 14,003,716	$ 4,962,639	$ (8,463)	$ 11,196	$ 18,969,088

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, 2020 and 2019 consisted of the following (In Thousands):

2020	All Funds	Direct and Reimbursable Funds	Receipt Funds
Net Cost of Operations (SNC)	$ 121,743	$ 121,745	$ (2)
Components of Net Cost of Operations not Part of the Budgetary Outlays:			
Depreciation Expense	(1,495)	(1,495)	-
Increase/(Decrease) in Accounts Receivable	351	351	-
Increase(Decrease) Other Assets	(71)	(71)	-
Increase/(Decrease) in Assets	280	280	-
(Increase)/Decrease in Accounts Payable	1,726	1,726	-
(Increase)/Decrease in Salaries and Benefits Liabilities	(780)	(780)	-
(Increase)/Decrease in Other Liabilities	(822)	(822)	-
(Increase)/Decrease in Liabilities	124	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 Financing Sources	(4,096)	(4,096)	-
Total Components of Net Cost of Operations not Part of the Budgetary Outlays	(5,187)	(5,187)	-
Components of Budgetary Outlays not Part of Net Cost of Operations:			
Acquisition of Capital Assets	3,131	3,131	-
Other	(2)	-	(2)
Total Components of Budgetary Outlays not Part of Net Cost of Operations	3,129	3,131	(2)
			-
Outlays, Net (Calculated Total)	$ 119,685	$ 119,689	$ (4)
Related Amounts on the Statement of Budgetary Resources:			
Outlays, Gross	$ 119,689	$ 119,689	$ -
Distributed Offsetting Receipts	(4)	-	(4)
Outlays, Net	$ 119,685	$ 119,689	$ (4)

2019	All Funds	Direct and Reimbursable Funds	Receipt Funds
Net Cost of Operations (SNC)	$ 121,806	$ 121,807	(1)
Components of Net Cost of Operations not Part of the Budgetary Outlays:			
Depreciation Expense	(1,602)	(1,602)	-
Increase/(Decrease) in Accounts Receivable	(358)	(358)	-
Increase(Decrease) Other Assets	(20)	(20)	-
Increase/(Decrease) in Assets	(378)	(378)	-
(Increase)/Decrease in Accounts Payable	(1,174)	(1,174)	-
(Increase)/Decrease in Salaries and Benefits Liabilities	(359)	(359)	-
(Increase)/Decrease in Other Liabilities	(260)	(260)	-
(Increase)/Decrease in Liabilities	(1,793)	(1,793)	-
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(4,743)	(4,743)	-
Transfers Out/(In) Without Reimbursement	(600)	(600)	-
Other Financing Sources	(5,343)	(5,343)	-
Total Components of Net Cost of Operations not Part of the Budgetary Outlays	(9,116)	(9,116)	-
Components of Budgetary Outlays not Part of Net Cost of Operations:			
Acquisition of Capital Assets	1,082	1,082	-
Other	-	-	-
Total Components of Budgetary Outlays not Part of Net Cost of Operations	1,082	1,082	-
Outlays, Net (Calculated Total)	$ 113,772	$ 113,773	$ (1)
Related Amounts on the Statement of Budgetary Resources:			
Outlays, Gross	$ 113,773	$ 113,773	$ -
Distributed Offsetting Receipts	(1)	-	(1)
Outlays, Net	$ 113,772	$ 113,773	$ (1)

Note 19: Contingent Liabilities

As of September 30, 2020, 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
2011	$ 7,594,330	$ 15,515,073	$344,262	$ 268	$ 5,220	$ 2,257	$ 23,461,410
2012	7,856,391	15,002,616	514,622	249	5,942	61	23,379,881
2013	7,851,953	14,321,017	762,836	280	1,521	38	22,937,645
2014	7,924,951	13,552,711	768,927	332	465	2	22,247,388
2015	7,997,467	13,620,497	638,518	288	2,444	7	22,259,221
2016	8,075,476	13,274,371	749,789	258	245	505	22,100,644
2017	8,103,714	12,966,317	761,630	227	69	521	21,832,478
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
Average	$ 7,923,525	$ 13,291,711	$639,837	$ 269	$ 1,592	$ 1,558	$ 21,858,491

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 2020 and 2019, TTB incurred $1.7 million and $1.8 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
2011	$ 452,040	$ 9,592	$ 33,414	$ 306,584	$ 418	$ 802,048
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
Average	$ 396,836	$ 7,994	$ 39,583	$ 325,935	$ 714	$ 771,061

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

Other Accompanying Information
Combined Schedule of Spending
For the Years Ended September 30, 2020 and 2019
Unaudited (In Thousands)

	2020	2019
What Money is Available to Spend		
Total Resources	$ 134,190	$ 134,508
Less: Amount Available but not Agreed to be Spent	(4,895)	(4,781)
Less: Amount Not Available to Be Spent	(1,793)	(1,869)
Total Amounts Agreed to be Spent	$ 127,502	$ 127,858
How was the Money Spent		
Collect the Revenue		
Object Class 11: Personnel Compensation	$ 24,026	$ 23,805
Object Class 12: Personnel Benefits	8,349	7,722
Object Class 21: Travel	459	1,039
Object Class 23: Rent, Utilities, and Telecommunications Services	2,287	2,387
Object Class 25: Contractual Services	20,096	20,759
Object Class 31: Equipment and Software	2,363	2,494
Other	297	529
Total Collect the Revenue	57,877	58,735
Protect the Public		
Object Class 11: Personnel Compensation	32,367	31,209
Object Class 12: Personnel Benefits	11,044	9,918
Object Class 21: Travel	377	1,064
Object Class 23: Rent, Utilities, and Telecommunications Services	2,688	2,527
Object Class 25: Contractual Services	18,984	15,705
Object Class 31: Equipment and Software	2,490	1,568
Other	434	537
Total Protect the Public	68,384	62,528
Total Spending	126,261	121,263
Change in Amounts Remaining to be Spent	1,241	6,595
Total Amounts Agreed to be Spent	$ 127,502	$ 127,858
Who did the Money go to		
Federal Recipients	$ 30,276	$ 29,031
Non-Federal Recipients	95,985	$ 92,232
Total Spending	126,261	121,263
Change in Amounts Remaining to be Spent	1,241	6,595
Total Amounts Agreed to be Spent	$ 127,502	$ 127,858

Intragovernmental Assets

Other Accompanying Information
Intragovernmental Assets
As of September 30, 2020
Unaudited (In Thousands)

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

Other Accompanying Information
Intragovernmental Assets
As of September 30, 2019
Unaudited (In Thousands)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable
Department of the Treasury	020	$ -	$ 947
General Fund	--	45,801	16,378
Total		$ 45,801	$ 17,325

Intragovernmental Liabilities

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 Liabilities
As of September 30, 2019
Unaudited (In Thousands)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	004	$ 94	$ -	$ -
Department of the Interior	014	6	-	5,878
Department of Justice	015	702	-	-
Department of Labor	016	-	14	-
Department of the Treasury	020	392	-	-
Office of Personnel Management	024	-	-	479
General Services Administration	047	43	-	-
Department of Health and Human Services	075	90	-	-
General Fund	--	-	-	11,663
Total		$ 1,327	$ 14	$ 18,020

Intragovernmental Earned Revenue

Other Accompanying Information
Intragovernmental Earned Revenue
For the Fiscal Years Ended September 30, 2020 and 2019
Unaudited (In Thousands)

Trading Partner	Agency Code	2020	2019
Department of Treasury	020	$ 3,009	$ 3,018
Total		$ 3,009	$ 3,018

Budget Function Classification (BFC)	BFC Code	2020	2019
Central Fiscal Operations	803	$ 3,009	$ 3,018
Total		$ 3,009	$ 3,018

Intragovernmental Gross Cost

Other Accompanying Information
Intragovernmental Gross Cost
For the Fiscal Years Ended September 30, 2020 and 2019
Unaudited (In Thousands)

Trading Partner	Agency Code	2020	2019
Library of Congress	003	$ -	$ (2)
Government Printing Office	004	152	155
Department of Commerce	013	3	2
Department of Interior	014	68	51
Department of Justice	015	990	1,127
Department of Labor	016	-	26
United States Postal Services	018	20	23
Department of the Treasury	020	7,142	6,806
Office of Personnel Management	024	16,816	16,274
General Services Administration	047	4,824	4,807
Federal Labor Relations Authority	054	-	3
Department of the Air Force	057	1	-
Environmental Protection Agency	068	6	5
Department of Transportation	069	(7)	30
Department of Homeland Security	070	268	232
Department of Health and Human Services	075	33	120
Department of Housing and Urban Development	086	-	71
National Archives Records Administration	088	15	22
Department of Defense	097	151	37
General Fund	--	3,963	3,768
Total		$ 34,445	$ 33,557

During fiscal years 2020 and 2019, TTB incurred costs with other Federal agencies totaling approximately $34.4 million and $33.6 million, in each year, respectively. The majority of those costs were associated with the five entities detailed below.

- **Department of Justice:** TTB paid ATF $990,000 and $1.1 million in fiscal years 2020 and 2019, 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 2020 and 2019 in the amounts of $7.1 million and $6.8 million, respectively.
- **Office of Personnel Management:** TTB incurred $16.8 million and $16.3 million in costs for employee benefits during fiscal years 2020 and 2019, respectively.
- **General Services Administration:** TTB paid $4.8 million to GSA for rent and information technology services in each of fiscal years 2020 and 2019, respectively.
- **General Fund:** The Bureau paid $4.0 and $3.8 million, in fiscal years 2020 and 2019, 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	Elisabeth Kann (Acting)
Assistant Administrator, Chief of Staff/External Affairs	Elisabeth Kann
Assistant Administrator, Field Operations	Ron Hancock (Acting)
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	Peace Ngo
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 GOAL	TREASURY OBJECTIVE	TTB STRATEGIC GOAL/ OBJECTIVE
GOAL 1: Boost U.S. Economic Growth	**Objective 1.1. Tax Law Implementation:** Administer tax law to better enable all taxpayers to meet their obligations, while protecting the integrity of the tax system	**TTB Goal 3:** Improve Tax Compliance through Increased Voluntary Compliance and Enhanced Enforcement
		TTB Goal 4: Address Cross-Border Tax Risk through Data Driven Enforcement
	Objective 1.3. Trusted Currency and Service: Deliver trusted currency and services that enable citizens and businesses to participate in the economy	**TTB Goal 1:** Facilitate Commerce through a Modern Labeling Program Focused on Service and Market Compliance
		TTB Goal 2: Facilitate Commerce through the Timely Issuance of Permits to Qualified Applicants
	Objective 1.4. Free and Fair Trade: Advance a free and fair trade environment for U.S. businesses through successful negotiation of trade agreements and investment policies	**TTB Objective:** Ensure Level Playing Field
GOAL 5: Achieve Operational Excellence	**Objective 5.1. Workforce Management:** Foster a culture of innovation to hire, engage, develop, and optimize a diverse workforce with the competencies necessary to accomplish our mission TTB supports all Treasury objectives in this strategic goal, which may be viewed at Treasury.gov.	**TTB Goal 5:** Equip the Workforce for Professional Growth and Development by Revitalizing TTB Training

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