Audit Report

OIG-25-023

FINANCIAL MANAGEMENT

Audit of the Alcohol and Tobacco Tax and Trade Bureau's Financial Statements for Fiscal Years 2024 and 2023

December 19, 2024

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 19, 2024

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

FROM: Shiela Michel /s/
Acting Director, Financial Statement Audits

SUBJECT: Audit of the Alcohol and Tobacco Tax and Trade Bureau's Financial Statements for Fiscal Years 2024 and 2023

We hereby transmit the attached subject report. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Alcohol and Tobacco Tax and Trade Bureau (TTB) as of September 30, 2024 and 2023, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

In its audit of the TTB, KPMG found

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

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on TTB's financial statements, conclusions about the effectiveness of internal control, or compliance with laws, regulations, and contracts. KPMG is responsible for the attached auditors' report dated December 19, 2024, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 486-1415, or a member of your staff may contact Nikki Holbrook, Manager, Financial Statement Audits, at (202) 597-1813.

Attachment

Alcohol and Tobacco Tax and Trade Bureau

Annual Report

Fiscal Year 2024

Alcohol and Tobacco Tax and Trade Bureau

Annual Report

Fiscal Year 2024

TABLE OF CONTENTS

PART III

Financial Results, Position, Condition, and Auditors' Report

PART IV

Appendices (Unaudited)

Introduction

Within its FY 2024 Annual Report, the U.S. Department of the Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) combines program performance and financial data to demonstrate how effectively the Bureau translates its program dollars into effective market protection and fair and efficient tax administration.

Each year, as part of the performance and budget cycle, TTB issues this report to inform its stakeholders of the Bureau's accomplishments and explain any challenges. The report defines the Bureau's mission and major programs, and summarizes its progress in meeting the strategic goals and 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.

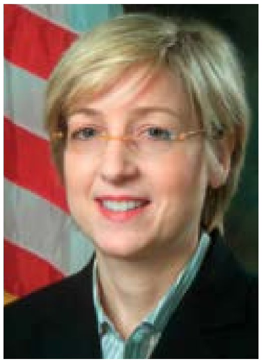
▶ PART III – FINANCIAL RESULTS, POSITION, CONDITION, AND AUDITORS' REPORT

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, 2024, and September 30, 2023, and the Independent Auditors' Report on these financial statements. TTB also reports on its internal controls over financial reporting and the Bureau'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 a crosswalk that demonstrates the alignment between TTB and the Department of the Treasury's strategic plans.

MESSAGE FROM THE ADMINISTRATOR



Market and economic pressures are forcing the continued evolution of the industries we regulate. Both TTB revenue and submissions data demonstrate that these businesses must navigate challenges from increased competition, to evolving consumer trends, to broader market forces that make competition difficult. Likewise, we face ongoing mandates and rising demands that strain our resources. Accelerated attrition in recent years, as well as a challenging budget outlook, compound these issues and further test our capacity to achieve our service and compliance goals.

We see the opportunities in these challenges and are responding proactively to ensure that we are prepared to meet the demands of our mission in a sustainable way. Grounded in our foundational values of accountability and innovation, we have focused our efforts upon modernizing our programs, including redesigning and streamlining our regulations, to implement our statutory mandates with the least possible regulatory intrusion. We have designed our new myTTB system around those streamlined requirements, to hone our oversight capacity, make compliance easier, and provide the foundation for the timely and quality service that our industries require to operate in a highly competitive market.

As much as our intention is to administer our statutory mandates with the least necessary burden upon industry, we understand that intentions don't always match reality. To that end, we have partnered with our industry to ensure that our solutions are clear and achieve those objectives. We are piloting our revised tax forms to ensure that revised requirements do not result in unintended burdens. We are building new self-service capabilities within our systems to allow users to manage their accounts, and we are testing them with industry volunteers, to ensure that they are easily navigable and work within their operating environment. We have seen the benefits of that collaboration in our recent myTTB development efforts and, based upon those efforts, are working to further empower industry to manage their compliance responsibilities without requiring unnecessary Bureau interventions.

Over the past year, TTB implemented a new statutory import claims provision that required importers to pay alcohol beverage taxes upon entry and to file claims to realize their assigned tax benefits. Importers were concerned that the claims process would take months, tying up their resources and threatening their businesses. In response, TTB developed a claims program, including entirely new systems, processes, and regulations, to enable U.S. importers and their foreign suppliers to assert the tax benefits assigned to them. As of year-end, the new program has been delivered and has resulted in importers receiving refunds in a matter of weeks, while at the same time establishing effective controls to ensure the validity of those claims.

This year, while we also continued to maintain historically low service times across permit, label, and formula approvals, we saw these times fluctuate in line with staffing turnover, demonstrating how tenuous our performance capacity can be. We understand that fierce competition and escalating market pressures in the alcohol sector leave no room for service delays from the Government. To that end, we are concentrating our efforts on reinforcing one of our primary efficiency strategies to sustain the service goals that are so critical in the competitive environment: replacing legacy systems, which have constrained our capacity to make more foundational changes to our processing duties, and have been a source of frustration for our customers.

In the year ahead, we plan to advance our program efforts by unfolding our modernized permits program. By shedding outdated requirements and implementing newly streamlined applications in the myTTB permitting system, we intend to transform how we deliver service to new businesses who apply for a TTB permit. Progress in the product labeling area follows, and preparation is underway to take on that challenge as demands in permit modernization efforts recede.

The Bureau takes pride in the work we do, and requires of ourselves that we deliver results, despite the most challenging circumstances. In fact, ingenuity and resilience are the requirement in our organization as we challenge ourselves to be the best run business in Government. We bring confidence to that effort but, equally important, we bring humility as recognizing our limits allows us to be an informed and responsive, therefore effective, regulator. In the year ahead, we will continue honing our capacities to meet mission demands, building and enhancing partnerships, engaging stakeholders, and delivering meaningful results for the American people.

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 ensure a level playing field across the industries we regulate by:

- **COLLECTING** the taxes due on alcohol, tobacco, firearms, and ammunition;
- **PROTECTING** the consumer by ensuring the integrity of alcohol products;
- **ENABLING** qualified businesses to enter and operate in the industry;
- **UPHOLDING** fair and equitable competition in the alcohol markets; and
- **PREVENTING** unlawful markets for alcohol and tobacco products.

VISION

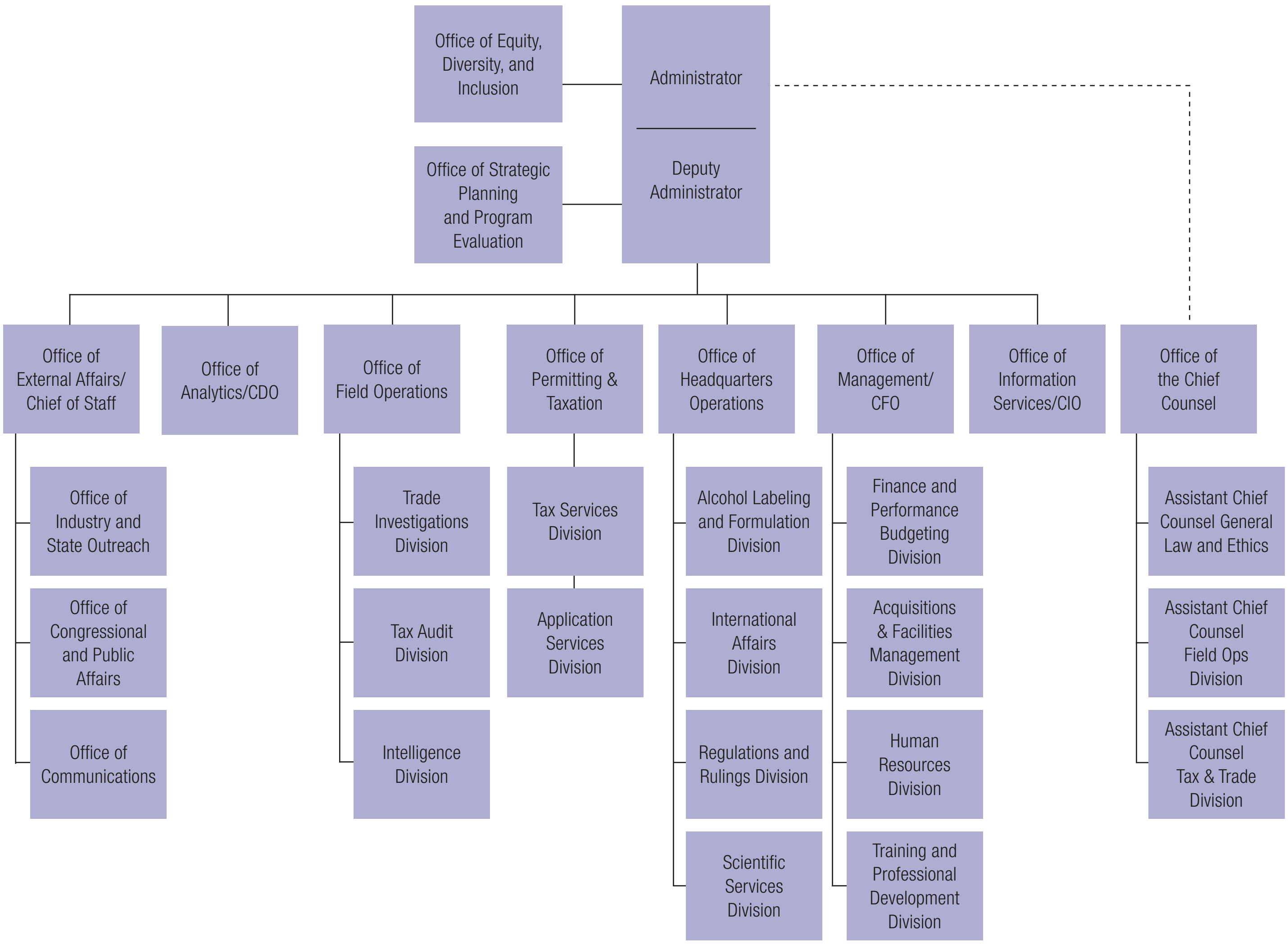
Reinventing Our Services by making every interaction with the public simple, seamless, and secure, and **Reimagining Our Workplace** to lead as an ideal employer for empowered and connected employees in a highly flexible environment

VALUES

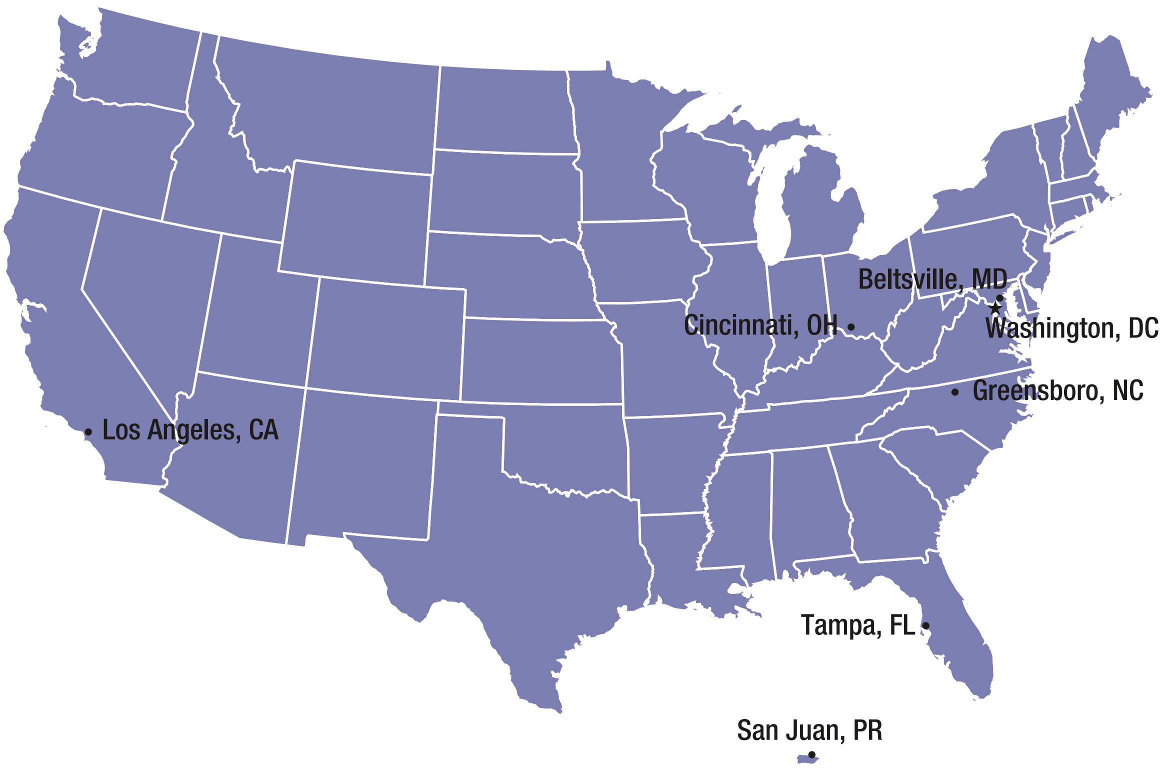
We value:

- **PEOPLE.** We support each other, empower individuals and teams to build a responsible work-life model, and are committed to building a diverse and inclusive workforce.
- **RESULTS.** We hold ourselves accountable for achieving efficiencies and meaningful results.
- **INTEGRITY.** We build trust by acting with honesty and transparency, following through on our commitments, and treating others with impartiality and respect.
- **ACCESS.** We are responsive and open to the public and our colleagues, and we listen and engage stakeholders to find equitable solutions.
- **PROGRESS.** We seek to continuously improve and learn by anticipating issues, staying open to new opportunities, and responding to challenges with creativity and resourcefulness.

TTB ORGANIZATION



TTB OFFICE LOCATIONS



TTB at a Glance	FY 2023	FY 2024
Employees	566	568
Office Locations	8	7
Budget Authority	$148.9 Million	$157.8 Million
Revenue Collected	$18.1 Billion	$16.8 Billion

*TTB has some field offices co-located in larger cities. In FY 2024, TTB closed its Oakland, CA field office.

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. For 20 years, the Bureau's role in permitting, regulating, and taxing the alcohol and tobacco industries has ensured 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 traces back more than 200 years to the nation's first effort to collect Federal taxes. 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 560 employees, most of whom are aligned 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 seven 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 a laboratory facility in Beltsville, Maryland. This lean physical footprint ensures TTB resources are invested in personnel to perform the mission, with recent consolidations enabling investment in retrofitting offices to facilitate a robust hybrid work environment.

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

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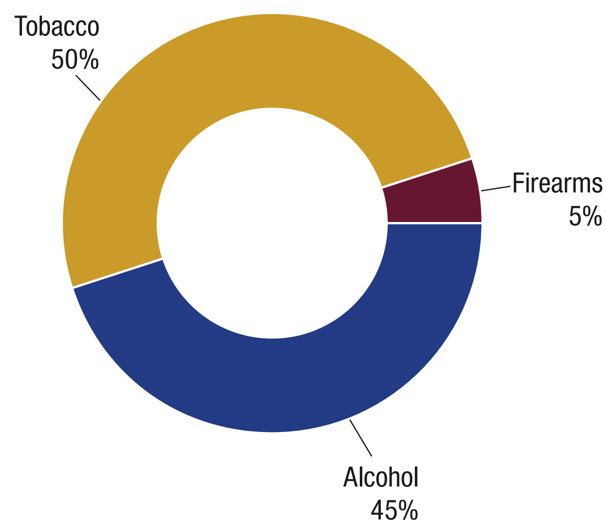
1. Chapters 51 and 52 of the IRC provide for excise taxation and authorize operations of alcohol and tobacco product manufacturers and related industries, and IRC sections 4181 and 4182 provide for excise taxes for firearms and ammunition.
2. The FAA Act provides for regulation of those engaged in the alcohol beverage industry and for protection of consumers through certain requirements regarding the labeling and advertising of alcohol beverages. The FAA Act also includes provisions to preclude unfair trade practices that serve as barriers to competition and trade in the U.S. marketplace.
3. The ABLA mandates that a Government warning statement appear on all alcohol beverages offered for sale or distribution in the United States.
4. The Webb-Kenyon Act prohibits the shipment of alcohol beverages into a state in violation of that state's laws.

COLLECT THE REVENUE: KEY PROGRAMS

TTB is the third largest tax collection agency in the United States 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 $16.8 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. Since then, tobacco collections have decreased by nearly 50 percent—from $15.9 billion to $8.3 billion—due to shifts in tobacco production and consumption. Today, tobacco revenues comprise about half of TTB's total tax collections.

FY 2024 Total Tax Collections by Industry Type



The Taxpayer Certainty and Disaster Tax Relief Act of 2020[5] made permanent certain provisions related to alcohol known as the Craft Beverage Modernization and Tax Reform Act (CBMA). The CBMA reduced tax rates and expanded eligibility for tax credits for alcohol beverages. After an initial decline, alcohol revenues increased in fiscal years 2020 and 2021 despite the reduced CBMA tax rates and the economic effects of the pandemic. This trend reversed in FY 2022, with alcohol revenues down another four percent this year, likely tied to lower consumer demand and inflationary pressures on businesses. Today, alcohol revenues represent 45 percent of total TTB tax collections. The balance of collections is from firearms and ammunition excise tax (FAET).

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

The Internal Revenue Code provides distinct tax rates for the various alcohol and tobacco products, depending on a variety of factors, including product type (e.g., wine 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. TTB conducts product evaluations to check for proper tax classification based on the characteristics of the product as defined by Federal statutory and regulatory standards. In addition, industry members may submit claims for tax refunds based upon taxes paid on those products, under certain statutorily defined circumstances. As of January 2023, this

5. Division EE, Consolidated Appropriations Act, 2022 (Pub. L. No. 116-260)

includes a refund of tax paid on imported alcohol where the importer has been assigned CBMA tax benefits for the product by a foreign producer registered with TTB.

In effecting its revenue mission, TTB uses a strategic risk-based approach to verify that industry members remit the excise taxes due on alcohol, tobacco, firearms, and ammunition products. 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 product diversion and other forms of tax evasion. Through its data-driven analyses, TTB focuses its audit and investigation resources on the highest risk activity across the sectors to ensure fair competition in the industry. Continuous refinements to these analytics tools, combined with sound intelligence, enables TTB to use its resources most efficiently to address the most serious revenue threats.

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

PROTECT THE PUBLIC: KEY PROGRAMS

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

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

Under its Alcohol Labeling & Advertising Program, TTB carries out provisions of the FAA Act that are intended to ensure that the labeling and advertising of alcohol beverages provide adequate information to consumers concerning the identity and quality of products. The FAA Act also calls for TTB to prevent misleading labeling or advertising that may result in consumer deception regarding alcohol beverage 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, as required by statute. 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.

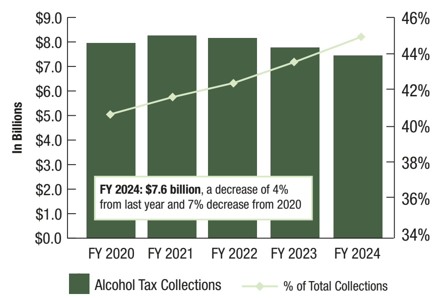
TTB confirms compliance with these regulations in the market by reviewing production records through product integrity investigations and by conducting marketplace sampling to test products for formulation and label compliance. TTB also reviews advertising materials to ensure compliance with TTB laws and regulations.

In addition, TTB actively enforces the provisions of the FAA Act that prohibit unfair trade practices in alcohol beverage distribution to ensure that the 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 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.

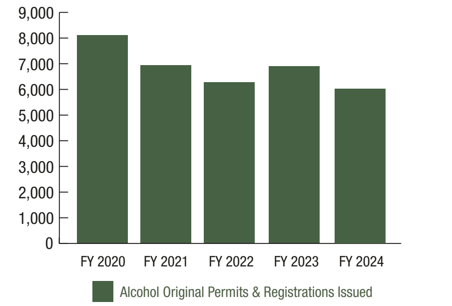
Across its programs, TTB promotes voluntary compliance by providing clear regulatory standards and guidance, encouraging the use of its electronic filing systems, and supporting industry members through education and outreach efforts. This includes engaging the industry to ensure that its regulatory standards and systems do not compromise innovation while we ensure that our mission is effectively administered. TTB also provides industry members and states with direct assistance on specific needs as well as guidance on broader issues affecting TTB-regulated commodities.

Alcohol Industry Snapshot

Alcohol Tax Collections Trend

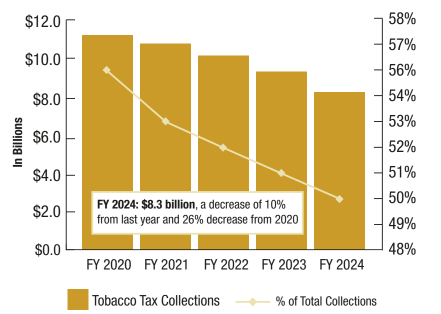


Alcohol Permits and Registrations Trend

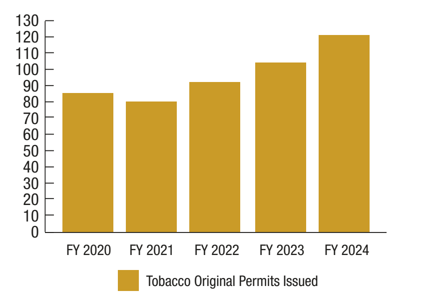


Tobacco Industry Snapshot

Tobacco Tax Collections Trend

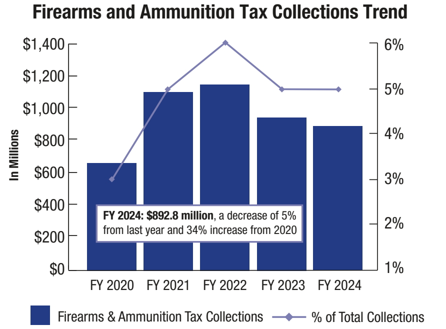


Tobacco Permits Trend

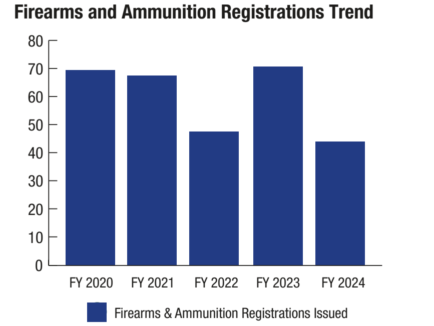


Firearms and Ammunition Industry Snapshot

Firearms and Ammunition Tax Collections Trend



Firearms and Ammunition Registrations Trend



1.2 ENTERPRISE RISKS AND CHALLENGES

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

TTB identified the following among its key strategic mission and operational risks in FY 2024.

- **Tax Administration and Enforcement.** The Craft Beverage Modernization Act tax provisions introduced reduced tax rates and credits for both domestic and imported alcohol products. The complexity of these provisions increases the likelihood of non-compliance and fraud, straining limited enforcement resources. TTB is engaged in a multi-year initiative to simplify TTB tax filings, both to reflect the current market and improve the quality of data we collect for tax administration and enforcement. Once built into myTTB systems, the new filings will help industry comply and support more self-service options while enhancing TTB's ability to monitor compliance and identify where enforcement is appropriate. Further, in administering the import provisions, TTB will continue using systems and analytics to enhance its ability to timely and effectively detect ineligible claims and prevent improper payments.
- **Industry Growth and Compliance.** The alcohol beverage sector has grown significantly in the past decade, particularly in the number of wineries, breweries, and distilleries. This growth presents challenges to our capacity to maintain timely service, facilitate voluntary compliance, and ensure appropriate enforcement. TTB will continue to adapt to meet service demands through targeted policy, process, and system improvements to improve the customer experience, and remain transparent in communicating its service standards to support industry members in their operational planning.
- **Workforce Readiness.** The Bureau's succession planning risk is increasing due to high retirement eligibility across the TTB workforce, particularly in key leadership and technical positions, as well as increased attrition in recent years in positions across the Bureau. TTB is addressing this risk by focusing on workforce planning, knowledge management, and employee development. TTB is also acting to address hiring delays that exacerbate workforce risks, including through the increased use of special hiring authorities. TTB must also enhance recruitment strategies to expand its applicant pool and recruit the highest quality talent, leveraging the Bureau's hybrid work environment to fill positions with talent from across the U.S., while also ensuring we invest limited resources in staff over space.

- **Legacy Information Technology (IT).** TTB is focused on modernizing its outdated IT systems because the rigidity of current legacy systems impedes the Bureau's ability to implement modernized requirements and improve both internal and external processes. Legacy systems are also a barrier to obtaining reliable data for timely analysis and lack the capacity to integrate management dashboards and other analytic tools to improve program efficiency. With modernized systems, TTB will be able to systematically reduce burden on industry while facilitating voluntary compliance. To that end, and as resources allow, TTB is engaged in a major multi-year initiative to transform its IT architecture to enable the Bureau to increase the pace of delivery, improve service design, streamline system maintenance, and enhance the customer experience.
- **Evolving Cyber Threats.** Cyberattacks pose a significant risk to the sensitive tax and business information maintained on TTB systems, requiring the dedication of resources to continually enhance TTB's cybersecurity tools and technologies. TTB continues to strengthen its cybersecurity posture through enhanced tools and monitoring to protect its high value assets and provide a more secure IT environment.

1.3 TTB STRATEGIC MANAGEMENT FRAMEWORK

As part of the Government Performance and Results Act Modernization Act of 2010, TTB maintains a robust strategic management framework to achieve its FY 2023-2027 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 to the health of any organization, including customers and stakeholders, financial stewardship, internal processes, and people and tools. Each strategic objective has a set of performance goals, which are a combination of performance measures and targets. TTB then regularly monitors its performance through a dashboard, which provides actionable data to support management decisions on annual priorities and resources.

STRATEGIC GOALS

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

- **GOAL 1: Facilitate Business Growth on a Level Playing Field**

  Provide timely and quality permitting service to facilitate the startup and growth of businesses, maintain a level playing field through effective qualification processes, and improve the applicant experience through simplified application requirements and a modern filing experience

- **GOAL 2: Facilitate Business Innovation in a Fair Marketplace**

  Provide timely and quality alcohol beverage labeling services to facilitate business innovation and growth, modernize systems and requirements to improve transparency and facilitate compliance, and enhance enforcement to ensure product integrity and fair competition

- **GOAL 3: Improve Taxpayer Experience and Administration**

  Facilitate tax compliance by improving the key points of service for TTB taxpayers, improve taxpayer experience by redesigning tax reporting requirements and filing options, and enhance tax enforcement to improve market competition and address inequities that disadvantage small businesses

- **GOAL 4: Ensure Access to Tax Refunds for Eligible Businesses**

  Deliver timely tax refunds to facilitate access to tax benefits and business cash flow, particularly for small businesses, and strengthen enforcement efforts to detect and address ineligible or fraudulent claims

  TTB Priority Goal: Meet the annual service standard for 85 percent of import claims and attain an auto-validation rate for import claims of at least 50 percent by September 30, 2025

- **GOAL 5: Enhance Workforce Readiness**

  Enhance TTB readiness and ability to adapt to meet evolving mission needs through a flexible and inclusive workplace culture that sustains a diverse, engaged, and capable workforce

STRATEGIC OBJECTIVE ALIGNMENT

TTB developed a crosscutting strategy comprised of 14 strategic objectives to build its organizational capacity and deliver outcomes to elevate performance across all strategic goals. The table below indicates the primary strategic objectives driving improvement in each strategic goal.

Strategic Objectives	GOAL 1 Facilitate Business Growth on a Level Playing Field	GOAL 2 Facilitate Business Innovation in a Fair Marketplace	GOAL 3 Improve Taxpayer Experience and Administration	GOAL 4 Ensure Access to Taxpayer Refunds for Eligible Businesses	GOAL 5 Enhance Workforce Readiness
Improve Industry Experience	x	x	x	x	
Attain High Voluntary Compliance	x	x	x	x	
Ensure Fair Market Competition	x	x	x	x	
Optimize Resource Management & Allocation	x	x	x	x	x
Enhance Change Management Practices	x	x	x	x	x
Improve Internal Communications	x	x	x	x	x
Improve Public Guidance & Outreach	x	x	x	x	
Maximize Simplicity & Clarity of Regulatory Requirements	x	x	x	x	
Improve Quality of Customer Contacts & Service	x	x	x	x	
Advance Noncompliance Prevention, Detection, & Resolution Methods	x	x	x	x	
Optimize Organizational Capacity	x	x	x	x	x
Strengthen Workforce Diversity & Inclusivity	x	x	x	x	x
Deliver Integrated System Experience	x	x	x	x	x
Increase Data Quality & Integration	x	x	x	x	x

1.4 PERFORMANCE HIGHLIGHTS

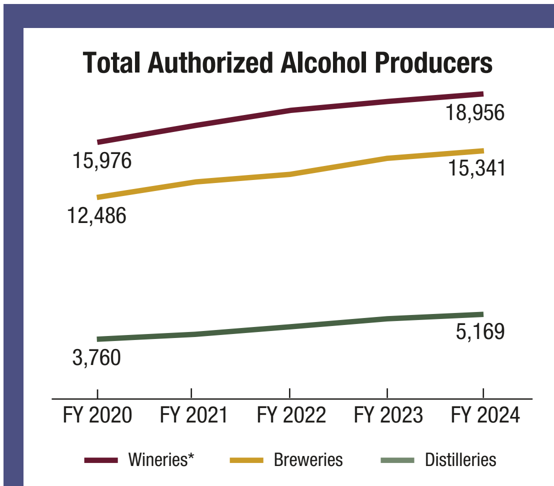
TTB's diverse program activities support U.S. economic growth and financial stability. The *TTB Strategic Plan for FY 2023–2027* charts a course to fulfill the Bureau's mission in a manner that addresses critical risks and is responsive to stakeholders. The following performance overview reflects TTB's accomplishments and challenges towards achieving the Bureau's strategic goals to facilitate business growth and innovation by issuing permit and label approvals, improving taxpayer experience, ensuring access to tax refunds for eligible businesses, and building its workforce readiness.

GOAL 1: FACILITATE BUSINESS GROWTH ON A LEVEL PLAYING FIELD

TTB facilitates growth in the U.S. economy by ensuring that only qualified applicants enter business as an alcohol producer, wholesaler, importer, or as a tobacco product manufacturer, importer, or export warehouse proprietor. In all, TTB issues over 20 types of permits or registrations for the alcohol, tobacco, firearms, and ammunition industries. TTB uses risk-based screening procedures 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 process plays an important role in protecting Federal revenues.

In FY 2024, TTB received nearly 8,000 applications for a Federal permit or registration, and qualified approximately 6,200 new businesses. These are predominantly small businesses, which often lead the industry in product innovation and contribute to local job opportunities. Today, TTB regulates more than 128,000 authorized industry members.

Alcohol beverage industry growth has slowed in recent years, including the number of new wineries, breweries, and distilleries. Prior to 2020, TTB generally experienced year-over-year increases in application volumes, with annual increases as high as 25 percent. In FY 2024, however, the number of new permit applications decreased 7 percent, driven by a significant drop in brewer's notice submissions. While the rate of growth has slowed, the industries TTB regulates continue to demonstrate resilience in adapting to evolving market and economic conditions.



*Includes bonded wine cellars; excludes industrial and experimental distilled spirits plans

The total number of businesses with a TTB permit, brewer's notice, or registration continues to increase. Since FY 2020, the number of authorized wineries increased 19 percent, breweries increased 23 percent, and distilleries increased 38 percent. However, the annual rate of growth rate is slowing, particularly for breweries, with submission volumes declining in recent years, and down nearly 15 percent in FY 2024 compared to FY 2023.

Providing prompt service to these new businesses remains a priority for TTB. In FY 2024, TTB continued to exceed its performance goal by issuing permits within the 75-day service standard for 85 percent of applicants. Approval times are holding around 40 days on average.

Sustaining service levels over the long-term will require a comprehensive approach to modernizing the permit application process. In the year ahead, TTB will continue efforts to simplify Federal permit applications and transform the online filing experience. In FY 2025, TTB will transition from Permits Online to myTTB, adding its permitting services to TTB's modern and integrated online platform. Together, these changes will enable continued service improvements while providing data to support the Bureau's efficient and effective qualification of new entrants to preserve the level playing field.

In FY 2024, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Improve Industry Experience
- Attain High Voluntary Compliance
- Deliver Integrated System Experience
- Maximize Simplicity and Clarity of Regulatory Requirements
- Ensure Fair Market Competition

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GOAL 1 PERFORMANCE HIGHLIGHTS

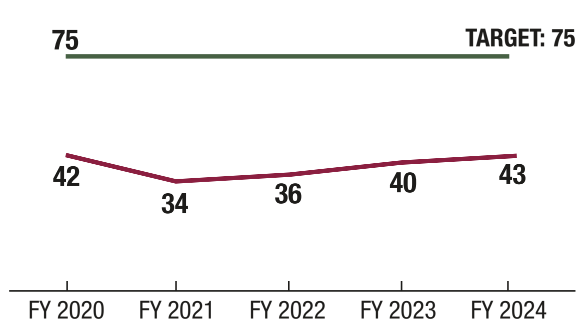
In FY 2024, TTB met its service goal to timely issue permits to qualified applicants. Despite challenges with employee turnover, and engagement in broader program modernization efforts, TTB achieved its performance target to issue permits within the 75-day service standard for 85 percent of applicants. Across permit types, TTB achieved average approval times of 43 days in FY 2024, down over 40 percent since FY 2019 and holding within service expectations over the last five years.

TTB has sustained these recent performance improvements by cross-training staff and employing new analytic tools to support more effective workload management and oversight. Combined, these strategies enabled TTB to redirect staff as necessary for short term surges to maintain timely processing across permit types.

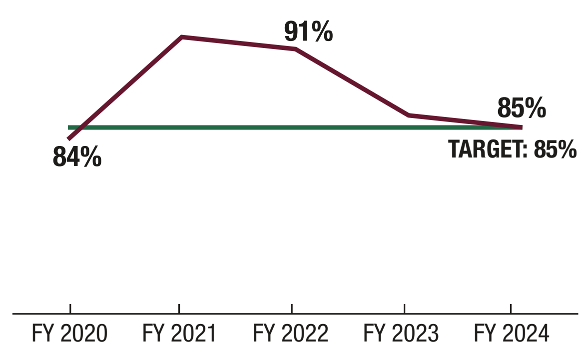
In FY 2024, TTB also continued to refine its risk-based screening of permit applications. New procedures and analytics dashboards help to facilitate timely permit approvals while also ensuring that high-risk applications are flagged to receive additional review and potential field referral, allowing for more efficient application processing. Going forward, TTB will continue to enhance its internal processes to improve the quality and timeliness of TTB application approvals.

While TTB focused on advancing near-term improvements in service delivery, the Bureau continued its broader program improvements to sustain these performance levels in the future. This includes undertaking system, policy, and process improvements to transform the permitting experience for prospective businesses.

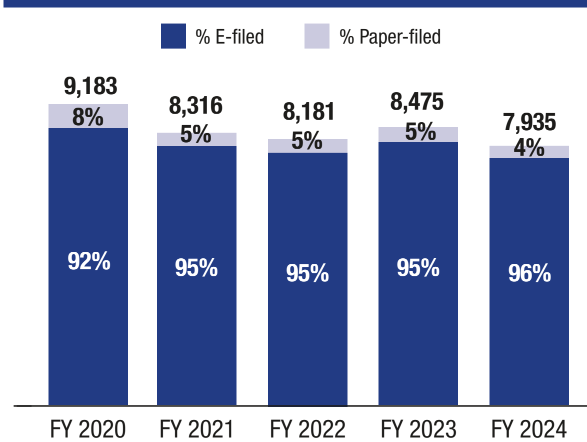
Average Permit Approval Time (in calendar days)



Permits Meeting Service Standard (75 Days)



Permit Application Submissions by Filing Method

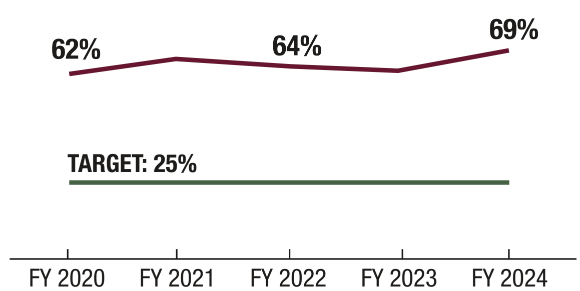


Modernizing TTB's online filing systems is a key strategy and will support industry members in filing complete and compliant applications the first time they submit. In FY 2025, TTB plans to transition from the legacy system, Permits Online, to the modernized myTTB IT platform, with the goal of providing an integrated online filing experience for industry members, ultimately across TTB service areas. While the legacy system has enabled TTB to achieve high electronic filing rates, which increased to 96 percent for new permit applications, error rates on applications remain high, and are contributing to declining user satisfaction scores.

Reducing errors on permit applications is critical to improving timely service, as time spent working with applicants to make corrections or obtain additional supporting information adds to overall service times. TTB set a performance target to reduce application errors to 25 percent or less, underscoring the importance of addressing this challenge. TTB tracks common errors on applications to guide targeted improvements to industry guidance and improve consistency in TTB application reviews. Despite these efforts, in FY 2024, overall error rates increased to 69 percent, remaining above target but below the high point of 82 percent in FY 2017.

Error rates on wholesaler and importer applications are driving the trend, up from around 50 percent last year to 62 percent in FY 2024. TTB plans to address this trend through additional outreach and training. At the same time, TTB gained ground this year on reducing errors on alcohol producer applications, the more complex application types, with notable improvements in brewer's notices, down from over 90 percent in the first quarter of FY 2024 to 78 percent at year-end.

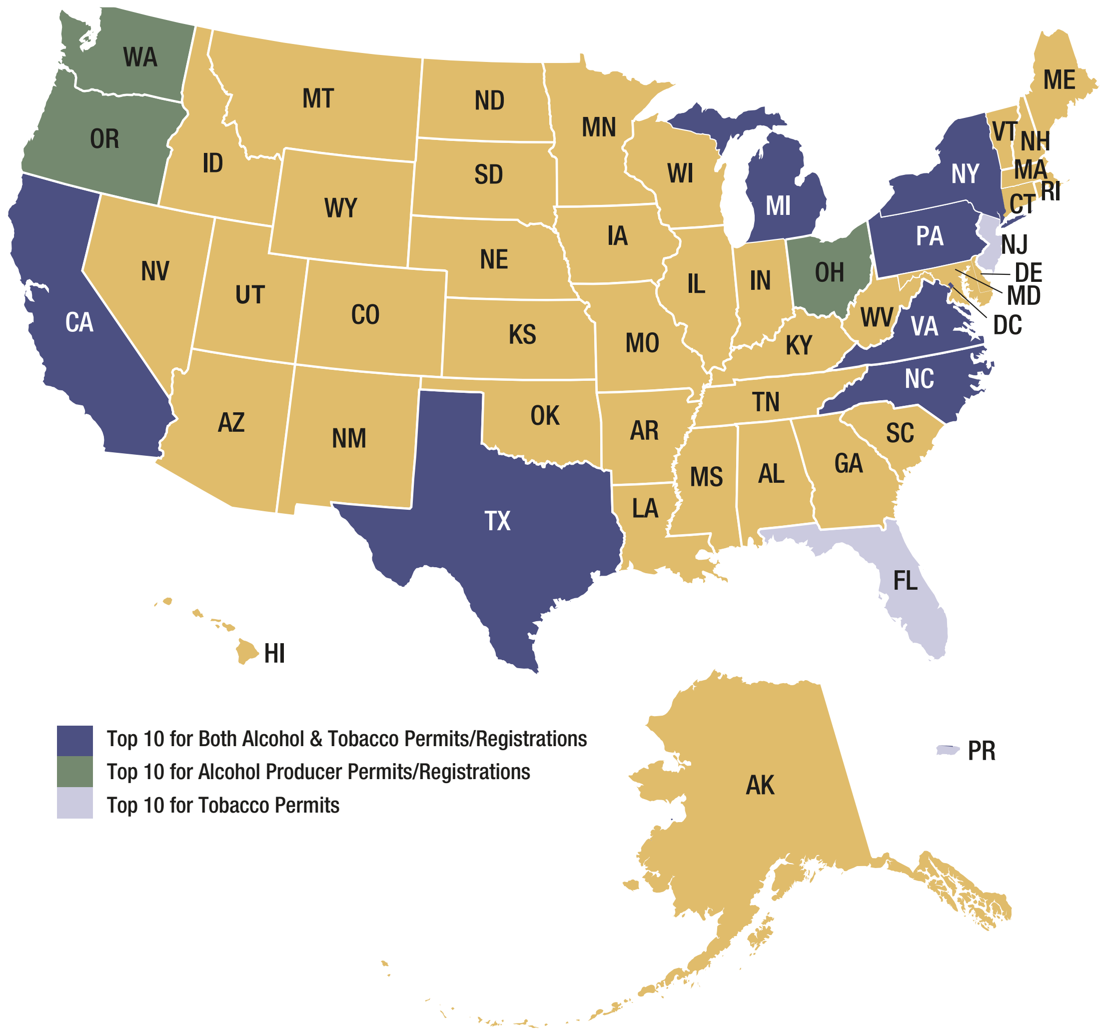
Permit Application Initial Error Rate



TTB expects that the Permit Modernization initiative will accelerate these improvements by transforming the overall permitting experience through policy, process, and system enhancements. This includes rulemaking to eliminate or simplify permit application requirements, reducing regulatory burden for industry while also streamlining TTB review. To date, TTB has published two proposed rulemakings to simplify permit applications and registrations, starting with distilled spirits plants, followed by a similar notice for breweries; the notice for wineries is on track for publication in early FY 2025. In the year ahead, TTB plans to issue final rules on these notices.

TTB anticipates that implementation of these newly simplified requirements within the modernized myTTB Permits system, which is being developed with industry input, will optimize system usability, reduce the likelihood of errors and contribute to improved service times. TTB plans to launch myTTB Permits as part of transitioning from the legacy Permits Online system in FY 2025. This multi-year IT modernization initiative, which is dependent on the continued availability of funding, will eventually incorporate all business transactions related to permitting, tax, and labeling in a single, modern system to streamline filings, empower users through self-service options, and make compliance easier for industry.

FY 2024 ALCOHOL AND TOBACCO PRODUCERS BY STATE



Top 10 States by Number of Alcohol Producer Permits/Registrations	
State	**# Permit Holders**
California	10,139
Washington	2,829
New York	2,697
Texas	2,691
Pennsylvania	2,311
Michigan	2,108
Oregon	1,887
Ohio	1,798
Virginia	1,579
North Carolina	1,432

FY 2024 data reflects new method based on ongoing data validations

Top 10 States by Number of Tobacco Permits	
State	**# Permit Holders**
Florida	245
California	96
New York	86
Texas	76
North Carolina	72
Virginia	53
New Jersey	45
Pennsylvania	37
Michigan	29
Puerto Rico	27

TTB TRADE PRACTICE PROGRAM

The FAA Act prevents unfair competition in the alcohol beverage market by prescribing rules relating to how products are labeled and advertised as well as prohibiting certain trade practices that impede market access and limit consumer choices. TTB enforcement continues to be important to ensuring fair competition within the alcohol beverage industry, especially for newly established companies and small businesses attempting to introduce products in the market. Both on- and off-premises retail sales of alcohol beverage products are highly regulated and often restricted by States and localities, so a level playing field for industry members is imperative to fair competition.

Since 2017, TTB's enacted budget has included directed funding to increase education and enforcement of the trade practice provisions of the FAA Act (27 U.S.C. 201 et seq.). 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 also bolstered its trade practice educational and outreach efforts for both its internal and external stakeholders, including State alcohol beverage enforcement agencies and organizations.

TTB started FY 2024 with eight open trade practice cases and initiated five new cases this year. 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 2024, TTB closed five cases, with four resulting in administrative action or warning letters, including an offer in compromise of $450,000, and one resulting in a permit surrender in lieu of adverse action. These enforcement actions are intended to drive increased market compliance and deter future violations. For more information on TTB's administrative actions to resolve willful violations of the FAA Act, see **www.ttb.gov/fo/administrative-cases**.

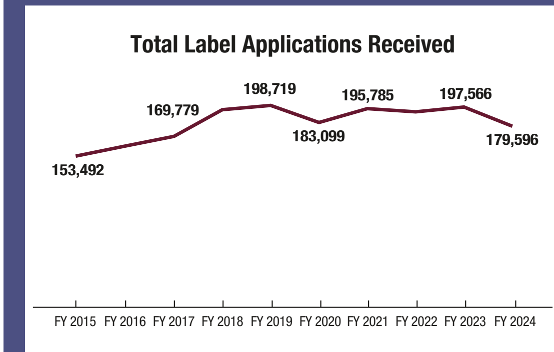
TTB is also committed to preventing anti-competitive conduct by increasing industry outreach and education so that businesses understand their obligations and can voluntarily comply. TTB guidance is informed by actual cases to provide industry with specific examples of conduct that TTB has found to violate the trade practice rules. In FY 2024, TTB continued its outreach to TTB's regulated industry as well as State alcohol beverage enforcement agencies to increase voluntary compliance and facilitate joint trade practice enforcement operations. In the year ahead, TTB will continue these critical efforts to help industry members avoid practices that have the potential to stifle industry growth and undermine competition.

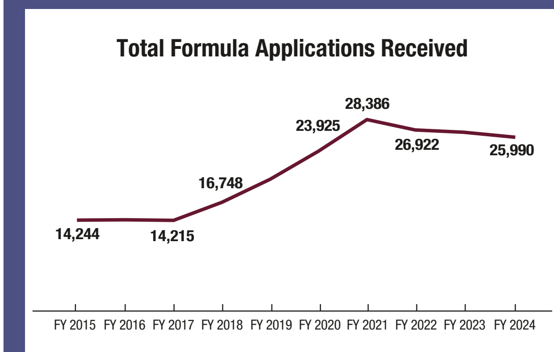
In addition, as required by Executive Order 14036, Promoting Competition in the American Economy (2021), the Treasury Department released a report on competition in the markets for beer, wine, and spirits that recommended TTB consider rulemaking in areas including trade practice regulations, available on **www.ttb.gov/trade-practices**. In response to the report, in FY 2023, TTB published an advanced notice of proposed rulemaking to obtain public comment and determine whether to proceed in developing specific regulatory proposals related to current prohibitions on exclusive outlets, tied house arrangements, commercial bribery, and consignment sales. TTB is planning to proceed with a notice of proposed rulemaking to address the report recommendations and public comments received in FY 2025.

GOAL 2: FACILITATE BUSINESS INNOVATION IN A FAIR MARKETPLACE

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.





Label submission volume has fluctuated in recent years in response to economic and market factors. Formula submission volume has decreased from its peak in FY 2021 but remains high due to the popularity of formulated alcohol products among consumers.

Alcohol beverage industry growth and product innovation continue to result in high volumes of alcohol beverage label and formula applications submitted to TTB for approval. This year, TTB received nearly 180,000 label and 26,000 formula applications. TTB maintains a strategic focus on improving its ability to provide timely and quality service to avoid the negative impact of service delays on U.S. businesses. This includes managing overall workload by reducing application errors that delay approvals as well as improving the consistency of application reviews.

Historic annual growth in label application submissions was disrupted in FY 2020 due to the COVID-19 pandemic. Industry showed signs of recovery with increased submission volumes beginning in FY 2021; however, subsequent years have been impacted by increased costs for shipping, labor, and raw materials used to produce or bottle products, as well as declining consumer demand. In FY 2024, label submissions declined across alcohol commodities, particularly for malt beverages, which have declined around 15 percent over the last five years. Although down slightly in FY 2024, the relative high volume of distilled spirits label applications indicates continued consumer interest in new distilled spirits products, including ready-to-drink cocktails and hard seltzers.

At the same time, the volume of formula applications may have plateaued, indicating that rising material and operating costs may be inhibiting product research and development. While market trends continue to indicate consumer demand for alcohol products that require a TTB formula approval, such as flavored wine, hard cider, and malt-based beverages, formula submissions are holding near prior year levels. This year, increased submissions for formulated distilled spirits products were offset by ongoing declines in wine and malt beverage formula applications.

In FY 2024, TTB continued to focus on service levels to facilitate industry operations, including through modernizing regulations, clarifying guidance, and increasing outreach to support business and product expansion. This includes rulemaking to implement recommendations from Treasury's Report on Competition in the Markets for Beer, Wine, and Spirits, published in February 2022 in response to E.O. 14036.

Additionally, TTB held virtual listening sessions to gather public input on the labeling of wine, distilled spirits, and malt beverages, including potential mandatory disclosures of alcohol and nutritional information, major food allergens, and ingredients. These sessions ensured the broadest possible feedback from all interested stakeholders about consumer interest in the proposed labeling information, how new requirements would affect competition, and potential strategies to mitigate burdens on small producers. In the year ahead, TTB plans to publish proposed rules in these areas to improve competition in the alcohol beverage market.

In FY 2024, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Improve Industry Experience
- Attain High Voluntary Compliance
- Improve Public Guidance and Outreach
- Deliver Integrated System Experience
- Ensure Fair Market Competition

GOAL 2 PERFORMANCE HIGHLIGHTS

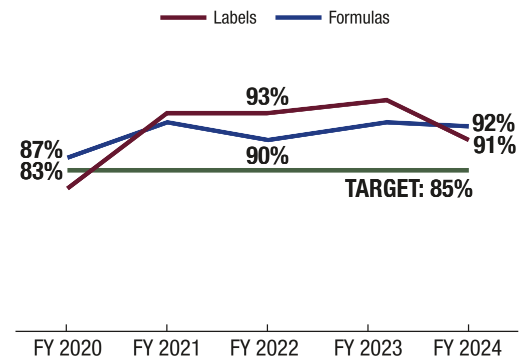
In FY 2024, TTB continued to sustain targeted service levels for alcohol beverage label and formula approvals, with timely approvals critical for U.S. alcohol producers and importers to build their businesses. TTB's performance goal is to issue these approvals within 15 days for 85 percent of applicants. This year, TTB again exceeded this target for both label and formula approvals, with 91 percent of label and 92 percent of formula applications approved within 15 days. This performance is particularly notable given staffing challenges, including turnover and hiring delays.

Certain alcohol beverage products also require lab analysis prior to applying for formula and label approval. TTB set a performance goal to complete these lab analyses within 15 days for 85 percent of submissions. This year, TTB achieved its target, completing 91 percent of lab analyses within 15 days. For products that require all three TTB approvals—lab analysis, formula, and label—TTB maintained the overall average review time at 26 days in FY 2024, down from as high as 40 days in FY 2019.

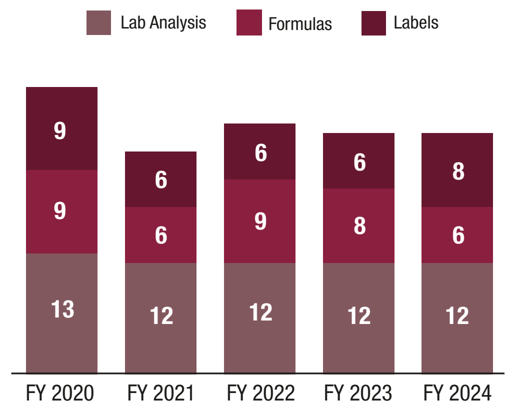
TTB continues to focus on sustaining timely service by using data-driven strategies to reduce high error rates on label and formula applications. Application errors are a key driver of processing times, as additional review is required for each resubmitted application. TTB's performance goal is to reduce error rates to 25 percent or less.

Results indicate that policy, guidance, and system changes implemented in recent years are having a positive effect in reducing application error rates. Since FY 2020, TTB has reduced overall error rates from 35 percent to roughly 30 percent for label applications and 27

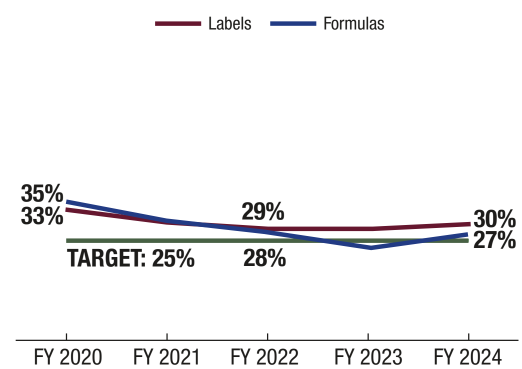
Labels and Formulas Meeting Service Standard (15 days)



verage Review Time by Approval Type (in calendar days)



Label and Formula Application Initial Error Rate



percent for formula applications. Notably, in FY 2023, TTB achieved a significant milestone by meeting the 25 percent error rate target for formula applications for the first time, both overall and for each commodity type. However, error rates increased this year, with only wine formula applications remaining at target, signaling the need for continued strategic improvements.

In FY 2024, TTB focused on reducing errors on malt beverage and distilled spirits applications, which have the highest error rates, including through industry guidance and education. User-friendly guidance is critical to helping industry submit compliant label submissions and reduce the burden of resubmissions on industry and TTB. This year, TTB continued efforts to improve the guidance available on TTB.gov, developing a new interactive web-based tool for distilled spirits to make it easier to understand formula requirements, planned for publication in FY 2025. TTB also continued its TTB Boot Camp webinar series, which covers all TTB compliance topics, including sessions dedicated to alcohol beverage labeling requirements. TTB held the series for brewers in FY 2024, now available on-demand on TTB.gov, and kicked off the series for wineries. Additionally, the Bureau continued to enhance internal guidance and conduct additional staff training to improve the quality of reviews and ensure that determinations on applications are consistent with TTB policy and precedent.

TTB also continued its multi-year plan to modernize Federal alcohol beverage labeling and advertising regulations. When finalized, the updated regulations will facilitate industry compliance by simplifying and clarifying regulatory standards and reduce burden on industry where possible. To date, TTB has published two of three final rules in its phased labeling modernization rulemaking covering malt beverages, distilled spirits, and other crosscutting issues. In the year ahead, TTB plans to publish a final rule to address wine labeling and clarify the issues that will be reserved for future rulemaking. With each phase, TTB is updating industry guidance on TTB.gov to implement the new rules and ensure industry realizes the benefits of these changes.

IT modernization also remains a key strategy to achieving performance goals in the labeling program. In recent years, TTB has focused on enhancing the COLAs Online and Formulas Online legacy systems to include more compliance validations and improved help features to address frequent application errors. System-based solutions implemented to date have proven effective in addressing targeted error types. However, IT modernization progress for these systems in FY 2024 was limited due to competing priorities related to implementing tax mandates and transitioning from TTB's legacy permitting system before it reaches end of life in 2025. Moving forward, TTB plans to take a user-centered approach to prioritize and design new system features and functionality as part of its myTTB IT modernization initiative.

Finally, in FY 2025, TTB will continue to focus on improving its market oversight programs to preserve a level playing field for all industry members. This includes conducting random and risk-based product sampling to detect where issues may exist in the marketplace and evaluate products that may have a higher likelihood of non-compliance. TTB will also review alcohol beverage advertisements to ensure they comply with TTB regulations. These results will inform decisions on enforcement actions, policies, and priorities to effectively direct investigative and regulatory resources going forward. TTB is also enhancing industry guidance, adding advertising issues to its popular TTB Boot Camp series.

AMERICAN VITICULTURAL AREAS

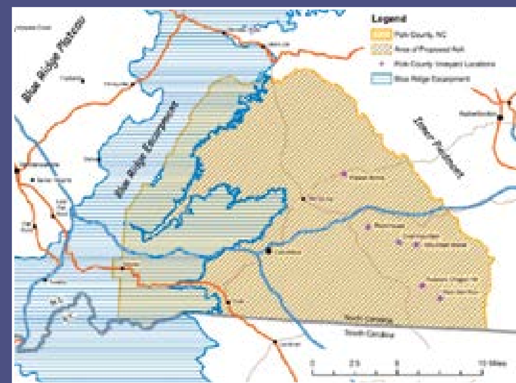
An American Viticultural Area (AVA) is a delimited grape growing region that has a name, a delineated boundary, and distinguishing features (defined in Part 9 of TTB regulations). Distinguishing features may include climate, geology, soils, physical features, and elevation.

An AVA designation allows vintners to more accurately describe the origin of their wines to consumers and helps consumers identify wines that they may purchase.

During FY 2024, TTB published 11 AVA-related rulemaking documents, including 5 proposed rules and 6 final rules. As a result of these final rules, at the end of FY 2024, TTB and its predecessor agency, the Bureau of Alcohol, Tobacco, and Firearms, have established a total of 274 AVAs.

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

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



Location of proposed Tryon Foothills AVA in relation to the Blue Ridge Mountains.

FY 2024 Proposed Rulemakings

- ***Mendocino Ridge*** *name change, proposing to change the name of the established AVA to* ***Mendocino Coast Ridge****.*
- ***Conneaut Creek****, proposing a new AVA in Ashtabula County, Ohio.*
- ***Tryon Foothills****, proposing a new AVA in Polk County, North Carolina.*
- ***Nashoba Valley****, proposing a new AVA in Worcester County, Massachusetts.*
- ***Rancho Guejito****, proposing a new AVA in San Diego County, California.*
- ***Wanapum Village****, supplemental notice proposing name change to Beverly, Washington AVA in Grant County, Washington.*

FY 2024 Final Rules

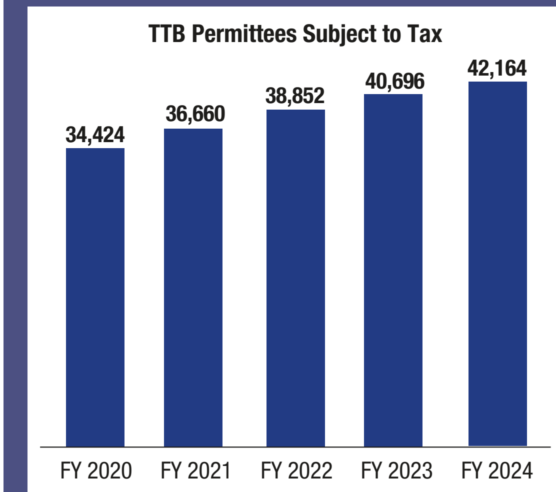
- ***Red Hills Lake County*** *expansion, expanding the established* ***Red Hills Lake County*** *AVA in Lake County, California.*
- ***Contra Costa****, establishing a new AVA in Contra Costa County California.*
- ***Comptche****, establishing a new AVA in Mendocino County, California.*
- ***Yucaipa Valley****, establishing a new AVA in San Bernardino County, California.*
- ***Upper Cumberland****, establishing a new AVA in portions of eight counties in the Middle Tennessee region of Tennessee.*
- ***San Luis Rey****, establishing a new AVA in San Diego County, California.*

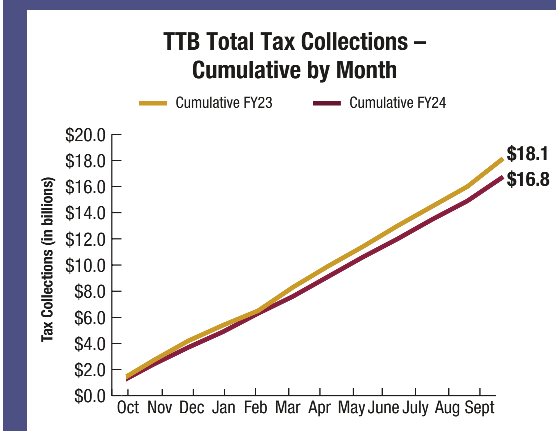
GOAL 3: IMPROVE TAXPAYER EXPERIENCE AND TAX ADMINISTRATION

In FY 2024, TTB collected $16.8 billion in revenue from the alcohol, tobacco, firearms, and ammunition industries. As the number of TTB permittees continues to expand, and as market competition increases, TTB must continue to pursue innovative tax administration policies and processes to ensure all taxpayers meet their excise tax obligations.

TTB is committed to the fair enforcement of tax laws so all businesses have an equal opportunity to thrive. TTB will continue to focus on facilitating voluntary compliance by making it easier for industry to navigate Federal tax requirements, supporting the growth of thousands of small wineries, breweries, and distilleries.

TTB is taking a comprehensive approach to transforming the taxpayer experience. This includes modernizing tax filing requirements and tax systems to reduce burden on industry and improve TTB's ability to timely detect non-compliance. Through updates to its filings, processes, and systems, TTB will maximize its analytics potential for tax administration and fraud detection, a key strategy to maximize the reach of TTB's enforcement resources and protect Federal revenues.





TTB tax collections declined from $18.1 billion in FY 2023 to $16.8 billion in FY 2024, driven by reduced tobacco revenues related to shifts in production and consumption.

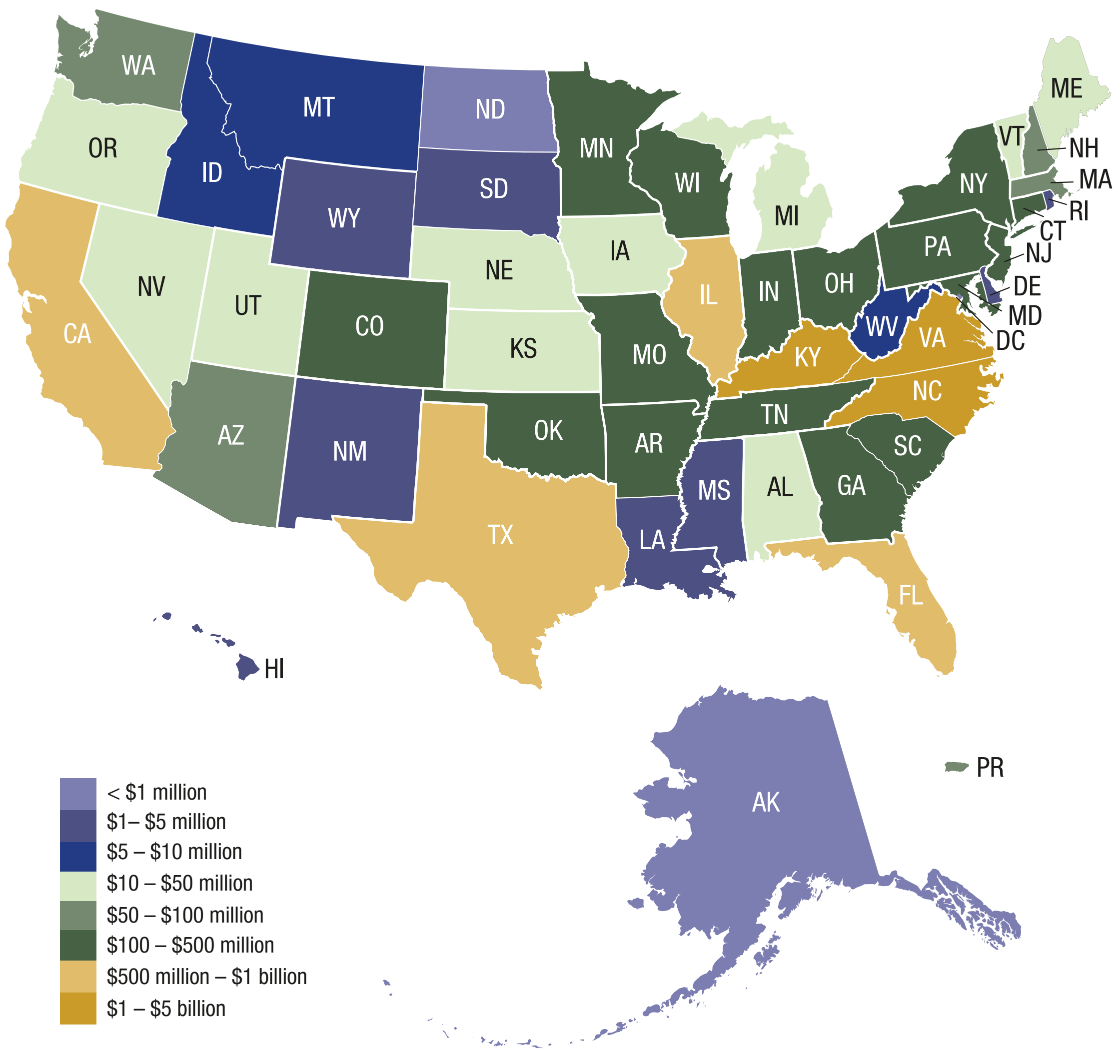
These strategic changes are especially critical to effectively administer the reduced rates and credits available to TTB taxpayers under the CBMA. These provisions included some of the most significant changes to the tax code relating to alcohol in almost 40 years. Among other things, the provisions altered the effective tax rates for all three alcohol commodities by introducing new reduced rates and credits. The law also made all domestic producers eligible for reduced rates and credits and, for the first time, extended eligibility for those reduced rates and credits to importers.

The tax changes that CBMA provided, combined with shifts in production and consumption, have impacted TTB excise tax collections, which are down roughly 7 percent since last year and 16 percent since the CBMA provisions became permanent in 2020. While overall revenue declines are primarily driven by long-term declines in tobacco collections, alcohol revenues have also declined. TTB data indicates that market trends are having a disparate effect on TTB industry members, depending on commodity and other factors, with collections for wine and beer decreasing at two to three times the rate of distilled spirits on average over the last three years. Rising costs are also causing operational challenges for all industry members, slowing product development and business expansion.

In FY 2024, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Attain High Voluntary Compliance
- Maximize Simplicity and Clarity of Regulatory Requirements
- Improve Public Guidance and Outreach
- Deliver Integrated System Experience

FY 2024 TAX COLLECTIONS BY STATE



GOAL 3 PERFORMANCE HIGHLIGHTS

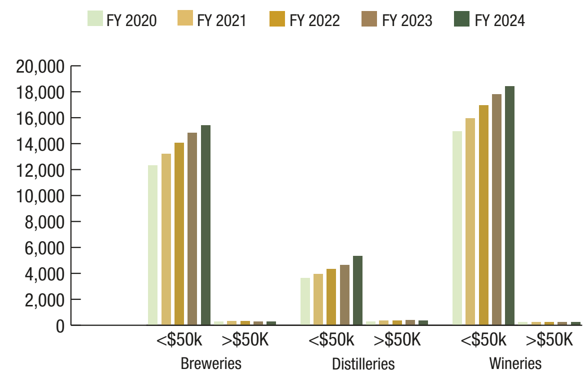
In FY 2024, despite competing tax administration priorities and other exigencies, TTB made progress toward its goal to transform the taxpayer experience and tax administration, including priority efforts to reverse negative trends in tax compliance.

The industries TTB regulates have grown significantly in recent years, which has created tax oversight and enforcement challenges, particularly in light of recent tax reforms. This growth has cut across industry types, including significant increases in small wineries, breweries, and distilleries. In the last five years, the TTB tax base has increased nearly 20 percent, now exceeding 42,000 taxpayers.

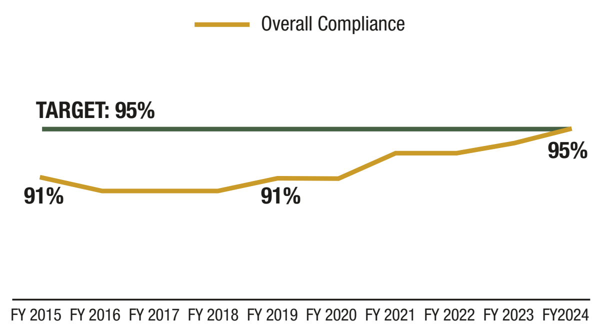
At the same time, filing compliance by TTB taxpayers has remained below target, with missing or late filings hindering TTB's ability to timely detect underreporting or fraud. TTB calculates taxpayer compliance rates based on filings of tax returns, operational reports, and payments. TTB uses this information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

In FY 2024, TTB met its target rate of compliance for its large taxpayers, defined as those with $50,000 or more in annual tax liability. Given the revenue exposure, TTB set a high target for filing compliance for its largest taxpayers at 95 percent. Through a mix of outreach and focused enforcement, TTB has increased large taxpayer filing compliance from 90 percent in FY 2018 to 95 percent in FY 2024.

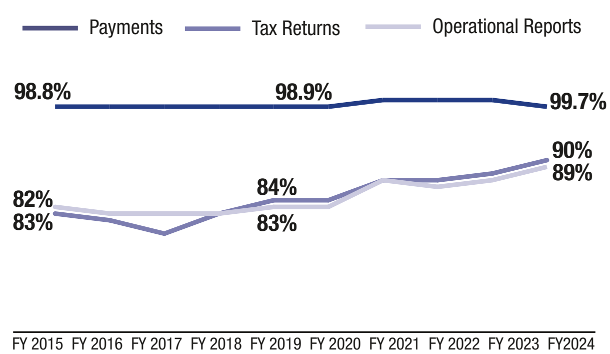
Number of Alcohol Producers – By Tax Liability



Large Taxpayer Filing Compliance Rate – Overall

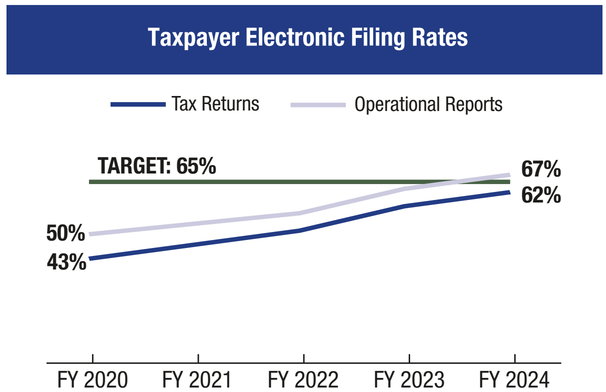


Large Taxpayer Filing Compliance Rate – By Filing Type



TTB continues to mitigate the overall revenue risk related to current large taxpayer noncompliance, as indicated by the 99.7 percent compliance rate for tax payments. In FY 2024, 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. Filing compliance for both tax returns and operational reports have increased nearly 10 percent since FY 2018, from the low 80s to 90 percent and 89 percent, respectively.

These efforts to improve filing compliance, combined with improved criteria and coordination for field referrals, have resulted in the identification of nearly $97 million in tax liabilities and $77 million in collections in the last four years. In FY 2024, TTB will continue to integrate and enhance these tools and procedures, addressing egregious non-compliance across taxpayer segments.



Despite this progress, TTB's ability to timely address delinquent filings remains impeded by relatively low electronic filing rates, with many TTB taxpayers still unaware of or unclear on how to submit their tax filings through Pay.gov, the current TTB tax filing system. Increasing electronic filing rates is critical to addressing inefficiencies and increasing timely access to quality data for tax reconciliation and advanced analytics. In FY 2024, the electronic filing rate of both tax returns and operational reports increased by 7 percent, achieving 62 percent and 67 percent, respectively. Effective promotion of Pay.gov, as well as the streamlined self-enrollment process to create a Pay.gov account implemented in FY 2022, contributed to these ongoing gains.

With recent industry growth, TTB is also focused on strategies to improve taxpayer guidance, recognizing the need for clear and easy-to-use compliance information and tools to support businesses as they grow. In FY 2024, TTB developed new tax compliance pages for TTB.gov and completed user testing to ensure that the design and structure improves the taxpayer experience. In the year ahead, TTB will publish the redesigned pages on TTB.gov and begin addressing priority content, informed by web analytics as well as compliance and call center data to target high frequency issues and errors.

At the same time, TTB is continuing its efforts to modernize tax filing requirements to increase tax compliance. Once complete, the updated requirements will lessen burden on industry while improving the information available to TTB for tax administration. Due to capacity limits, TTB continues to take a phased approach, developing proposals by commodity and testing new consolidated tax forms prior to implementation. This year, TTB continued to pilot new tax forms for breweries, and implemented an online filing option for participants in Pay.gov. In FY 2025, TTB plans to expand this pilot to additional participants in Pay.gov, incorporating user feedback to continuously refine requirements. TTB also plans to collect user feedback on new tax forms for wineries, and initiate outreach for the initial proposals for distilled spirits plants.

In the years ahead, TTB plans to proceed with rulemaking to implement these broad-based changes and integrating the new forms in myTTB to enable the online submission and management of all TTB tax-related filings and payments.

TTB OUTREACH PROGRAM

TTB's Outreach Program strives to effectively connect, educate, and make it easier for industry members to stay compliant.

TTB representatives at the Unified Wine and Grape Symposium in Sacramento, CA in January 2024

Each year, TTB provides educational presentations that break down the basics for our regulated industries—from how to obtain a permit, to getting an alcohol product formula or label approved, to submitting timely and accurate operational reports and tax returns.

This year, TTB bolstered its educational efforts, continuing in-person sessions at industry events and expanding the Bureau's virtual presence through webinars and videos. We completed the popular Boot Camp for Brewers series and launched the next edition—Boot Camp for Wineries—which will run through 2025.

The Outreach Programs also focused outreach and educational efforts on high-impact topics. In response to industry requests, we added Alcohol Beverage Advertising to the Boot Camp series. TTB also continued to help industry understand the new CBMA import provisions with a webinar focused on common errors on importer claims. TTB also offered a webinar on the new myTTB Export Certificate system to increase adoption of the new self-service option to obtain an electronic certificate, replacing paper submissions and reducing time and costs for industry.

TTB also responded to what industry members shared through survey feedback, which indicated an interest in more chances to interact with TTB experts—both in-person and online. In FY 2024, TTB hosted or attended a total of 64 events—38 in-person and 26 virtual. These events covered all of TTB's regulated areas, from firearms and ammunition to tobacco, wine, beer, and distilled spirits. Additionally, for those who unable to join live, we posted recordings on our website. By sharing the event recordings on our website, TTB managed to connect with twice as many industry members.

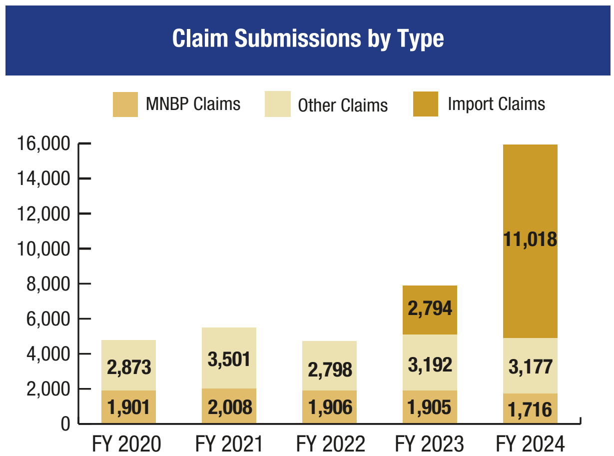
With industry continuing to grow, TTB also added new fact sheets to TTB.gov tailored specifically for new taxpayers in the firearms and wine industries. TTB plans to post new fact sheets for beer and spirits in 2025.

In the year ahead, TTB plans to continue to use participant feedback to enhance its Outreach Program as well as continue working closely with State partners, teaming up to ensure the best possible support for industry members.

Please visit **www.ttb.gov/outreach/outreach-program** for a list of FY 2025 events.

GOAL 4: ENSURE ACCESS TO TAX REFUNDS FOR ELIGIBLE BUSINESSES

Timely refunds are critical to the financial and operational well-being of the businesses TTB regulates, particularly for the small businesses that represent the vast majority of TTB's taxpayers. TTB administers claims for a wide variety of tax credits and benefits, issuing approximately $700 million in tax refunds and drawback payments each year. At the same time, TTB must balance timely refunds against the inherent revenue risks of claimants either erroneously or intentionally improperly claiming that they are entitled to a tax refund. This risk is compounded by the complexity of the CBMA tax provisions, making it difficult for taxpayers to determine their eligibility for a tax refund and presenting challenges to TTB's ability to timely detect non-compliance and fraud.



When Congress permanently enacted the CBMA tax rates, it also changed the paradigm for how importers receive CBMA tax benefits. As of January 1, 2023, rather than paying the reduced CBMA tax rate to CBP when products enter the United States, importers now pay the full rate at entry and file refund claims with TTB to receive CBMA benefits. This shift nearly tripled annual claims submissions in FY 2024. To avoid service disruptions, TTB has taken a data-driven approach to administering the new import claims program to ensure access to CBMA tax benefits for alcohol producers and importers while protecting Federal revenues.

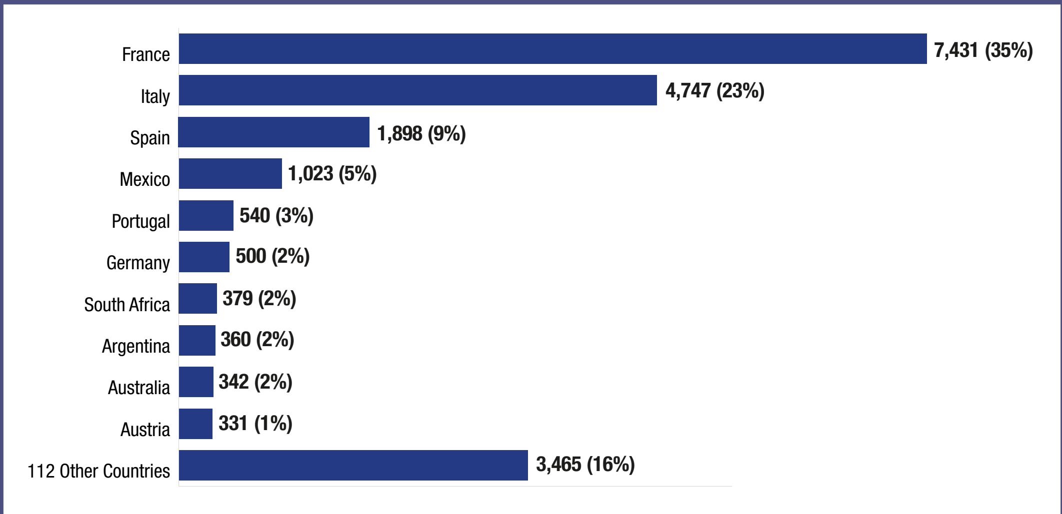
Through its new myTTB systems, TTB has registered nearly 21,000 foreign alcohol producers, allowing them to assign CBMA tax benefits to alcohol importers, and received more than 11,000 refund claims from U.S. importers on imported alcohol products. In the first full year of the program, these import claims totaled more than $330 million. Both systems incorporate external data sets and initial system-based validations of registrants and claims submissions—a first-of-its-kind IT development effort enabled by myTTB.

TTB has continued to implement critical program elements for import claims, most importantly, additional system-based validations to automate risk flags and efficiently screen for ineligible or fraudulent claims. This new feature has helped to speed the approval of eligible and valid refunds and facilitate timely and proper payments. Moving forward, TTB plans to develop similar myTTB claims systems for the submission and processing of other claim types, which will facilitate TTB's ability to deliver timely refunds despite workload increases. In addition, TTB will apply customer experience principles in developing tax systems and guidance to make it as easy as possible for taxpayers to understand if they are eligible for a refund and submit an approvable claim.

In FY 2024, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Improve Industry Experience
- Improve Public Guidance and Outreach
- Increase Data Quality and Integration
- Deliver Integrated System Experience
- Advance Noncompliance Prevention, Detection, and Resolution Methods

TOP COUNTRIES FOR TTB-REGISTERED FOREIGN PRODUCERS



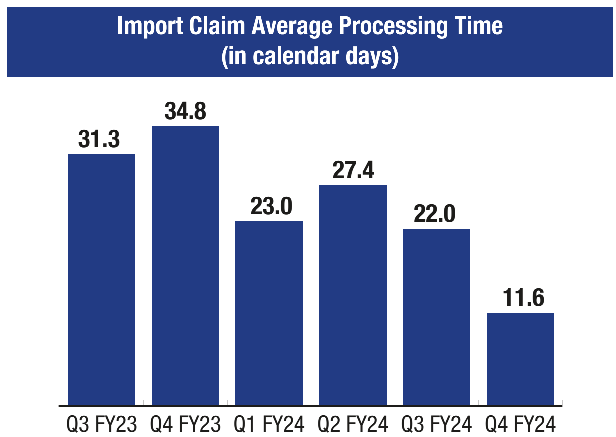
CBMA tax benefits extend to imported alcohol. To ensure access to these benefits for eligible importers, TTB registers foreign alcohol producers through myTTB. Once registered, foreign producers may then make assignments to importers, which allows the importers to file claims for a refund on some of the taxes paid on those imported products. Since launching the program, TTB has received registrations from nearly 21,000 foreign alcohol producers from more than 120 countries.

GOAL 4 PERFORMANCE HIGHLIGHTS

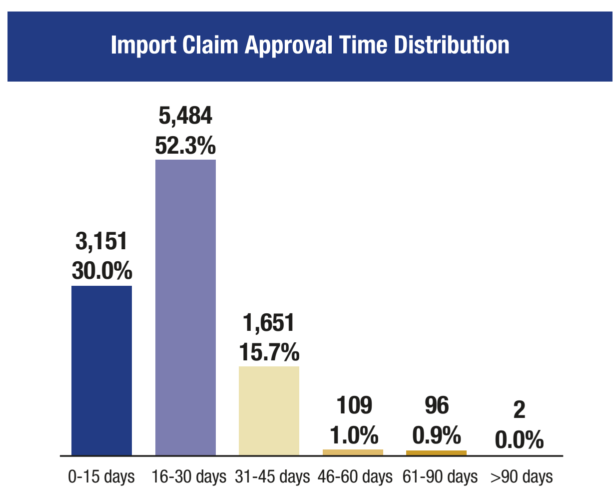
In FY 2024, TTB made significant progress in its goal to ensure timely tax refunds to eligible businesses, while also continuing to implement the statutory mandate to administer a new refund program for import claims. In FY 2024, TTB processed over 11,000 claims from U.S. importers, totaling over $330 million; as of year-end, TTB had issued nearly $300 million in refund payments. Annual import claim volume is higher than expected, at more than double initial projections in FY 2024, as industry continues to adjust to the new paradigm for receiving CBMA tax benefits.

With many unknowns in the first full year of the program, TTB continued to prioritize its system-based validations to automate risk flags and efficiently screen for ineligible or fraudulent claims. TTB deployed this new feature in myTTB Import Claims in May 2024, achieving an auto-validation rate for eligible claims of nearly 30 percent in the first month, and reaching as high as 70 percent at year-end.

With its myTTB systems deployed, and new claims specialists onboard and trained, TTB was able to achieve timely service levels, generally issuing import claim refunds within an average of 20 days in FY 2024. Additionally, since releasing the auto-validation feature, service times have trended positively, ending the year averaging around 10 days. Timely service is particularly critical for importers accustomed to receiving CBMA tax benefits upon product entry in the U.S.



Additionally, TTB paid nearly all import claims within the 90-day statutory threshold for interest payment, minimizing government costs in administering the new program. This year, TTB modified its service standard to account for both processing and payment time—providing more transparency and assurance for when importers will receive their refund. TTB also published its import claims service standard and actual refund payment times on TTB.gov in FY 2024 to support industry operational planning.

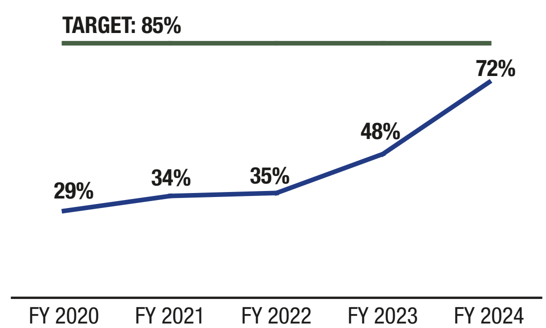


TTB also continued to focus on improving claims service levels across other claim types, recognizing the importance of timely tax refunds on business cash flow. Since the onset of the pandemic, TTB has focused on system enhancements to address outdated and largely paper-based claims processes, starting with claims submitted by manufacturers of nonbeverage products (MNBP), the highest volume claim type. However, progress this year was limited due to intervening priorities to replace the aging Permits Online software.

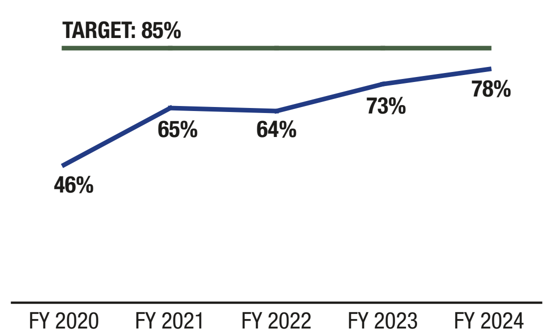
System improvements implemented to date have continued to help reduce backlogs and substantially increase MNBP drawback claims meeting the 45-day service standard, up from 35 percent in FY 2022 to 72 percent in FY 2024. For other TTB claim types, TTB met the 45-day standard for 78 percent of submissions, up 14 percent from 64 percent in FY 2022. Addressing claims backlogs was essential to preparing TTB for the influx of new CBMA import claims submissions in FY 2024 and contributed to overall service improvements despite increased workloads.

In the year ahead, TTB aims to achieve a 45-day standard across its claim types, and is cross-training staff to increase management's flexibility to redeploy staff as necessary to maintain timely and consistent tax refunds for all taxpayers.

Drawback Claims Meeting Service Standard (45 days)



Other Claims Meeting Service Standard (45 days)



Going forward, to support compliance with the CBMA import provisions, TTB will continue to update its online guidance related to claims to provide current information on rules and requirements, informed by common industry questions. These efforts will include outreach to importers, customs brokers, and relevant trade associations to support compliance with new import refund requirements and facilitate timely payments.

Additionally, as part of ongoing CBMA implementation efforts, TTB remains focused on improving its ability to identify corporate controlled groups among foreign and domestic alcohol producers, information necessary to determine whether taxpayers are eligible to claim reduced rates and credits. This year, TTB continued to enhance its data sources and analytic tools to identify company relationships. By integrating this data with TTB tax data, the Bureau is improving its ability to determine whether the applicable CBMA reduced tax rate and credit eligibility limitations may have been exceeded across affiliated domestic and foreign producers. These efforts have proven critical to TTB's administration and enforcement of the new import claims program. In the year ahead, TTB will continue developing and implementing data-driven strategies to address compliance risks and speed the payment of eligible claims.

VALUE OF U.S. ALCOHOL IMPORTS AND EXPORTS

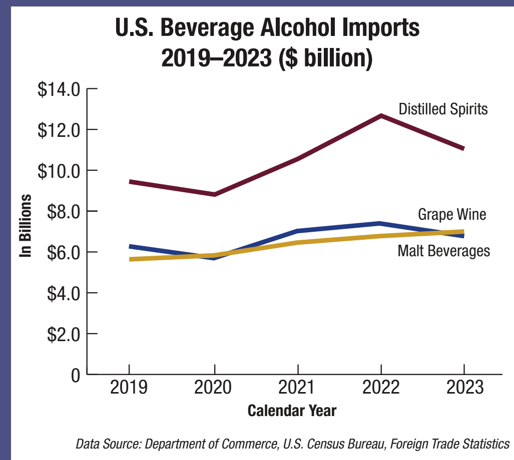
TTB actively engages with U.S. trade officials to facilitate fair and open alcohol beverage trade to support new and continuing opportunities for U.S. businesses in overseas markets.

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

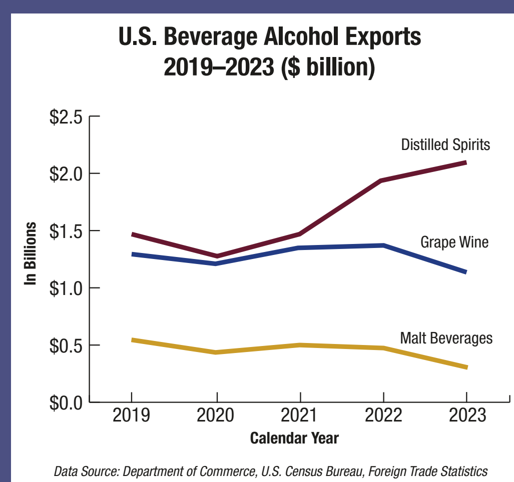
In FY 2024, TTB facilitated alcohol beverage exports through the issuance of nearly 13,000 export certificates to accompany U.S. alcohol beverage shipments, which are required in certain foreign markets. To aid exporters, TTB also enhanced online guidance and outreach to reduce common export certificate submission errors and improve processing times, which averaged 2 days in FY 2024.

In addition, TTB implemented an electronic filing option for export certificates in the myTTB system that allows U.S. exporters to generate and download export certificates required by certain foreign markets for U.S. alcohol beverages. This myTTB enhancement will reduce time and costs for U.S. exporters associated with the transmittal of paper-based certificates. To date, TTB has issued roughly 5 percent of certificates via myTTB, with additional industry outreach planned to expand use of the new system in FY 2025.

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



The value of U.S. import trade for all alcohol beverages in 2023, the most recent full year of data available, decreased 8 percent compared to 2022, totaling $24.7 billion, as consumer demand declined, and importers sought to reduce overstocks. Both distilled spirits and wine experienced marked declines, down 12 percent and 9 percent respectively. Malt beverages continued a modest year over year gains, up another 2 percent in 2023. Generally, the five-year trend indicates ongoing significant U.S. demand for imported products.



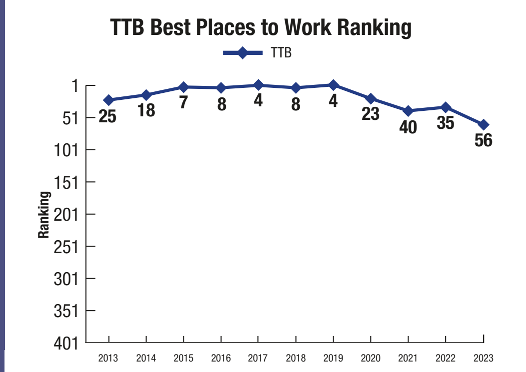
The value of U.S. exports for all alcohol beverages in 2023 decreased 8 percent compared to 2022, totaling approximately $3.6 billion, generally consistent with decreased consumer demand. Export data indicates strong growth in the distilled spirits category, which had previously been the most affected by tariffs in key export markets, with exports up 7 percent over the prior year. Both wine and malt beverages trended negatively, down 16 percent and 33 percent, respectively.

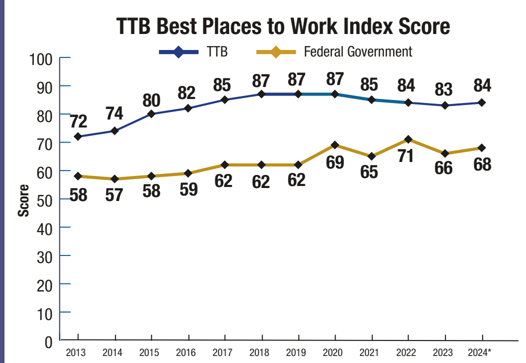
GOAL 5: WORKFORCE READINESS

The U.S. labor market is evolving, and Federal agencies must adapt to attract and retain top talent. In FY 2024, TTB continued its efforts to address existing and emerging challenges that are hindering progress toward its strategic goal to increase overall workforce readiness.

Like many government agencies, TTB is facing a substantial retirement wave, with approximately 40 percent of TTB's workforce eligible to retire within the next five years. High retirement eligibility, combined with accelerated attrition in recent years, has added urgency to efforts to mature workforce planning and employee development practices. Further, TTB has identified succession planning as a top risk due to a high number of potential retirements in critical positions. Addressing this mission risk requires TTB to use a variety of human capital policies and programs.

In FY 2024, 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. These training program improvements further serve to increase the quality of work across the Bureau. TTB also focused on improving its hybrid workplace, including leveraging available technology and tools to maintain productive and engaged employees regardless of location. The hybrid environment also opens new opportunities to reach untapped and diverse talent pools, an area TTB will continue to explore in FY 2025.





TTB ranked 56th of 459 agency subcomponents in 2023's **Best Places to Work**—maintaining its place among the top 10 percent in government.

These rankings are derived from the Best Places to Work index score, which represents the average of three EVS survey items related to job and organization satisfaction that indicate overall employee satisfaction. FY 2024 scores (*) are estimates based on initial EVS results. TTB scores are holding around 15 percent or more over government-wide results.

The 2023 Best Places to Work rankings are the most current available. Detailed results are available at **www.bestplacestowork.org**.

In addition, TTB continues to rely on employee feedback provided in the annual Employee Viewpoint Survey (EVS) to inform 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; however, recent trends indicate that new mandates and the resulting demands on TTB's workforce have taken a toll. TTB must continue to evolve and identify more responsive and effective solutions to the concerns raised by its workforce.

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

In FY 2024, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Optimize Organizational Capacity
- Strengthen Workforce Diversity and Inclusivity
- Improve Internal Communications
- Improve Resource Management and Allocation

GOAL 5 PERFORMANCE HIGHLIGHTS

In FY 2024, TTB continued to employ a variety of strategies to build the capacity and resiliency of its workforce, ongoing risk areas that require strategic focus to meet evolving mission needs.

TTB is experiencing anomalously high attrition, at more than double its historic average rate. Over the past three years, TTB has lost nearly 20 percent of its workforce, significantly affecting the Bureau's institutional and technical knowledge. Broader workforce trends are likely a factor as well as TTB-specific challenges related to expanding mission requirements and limited resources.

Recognizing that the workplace has shifted in response to the pandemic, and to maintain mission performance with a more dispersed workforce, TTB is focused on building a productive and positive hybrid work environment. With an increased number of remote and teleworkers, TTB must employ creative strategies to maintain employee engagement and a strong work culture. Going forward, TTB plans to improve internal communications to increase transparency and employee empowerment, as well as revamp online training in priority areas, including onboarding for new hires and technical training for employees.

In FY 2025, TTB will implement a comprehensive training plan based on its annual assessment of training needs to address priority skill gaps, including creating data visualizations and presentations, as well as expanding detail opportunities and rotations. Given the rapidly changing operating environment, TTB is also working to build organizational resilience through effective change management practices. TTB must also continue to build project management skills, including training specifically targeted to IT product owners to support the Bureau's system modernization efforts.

In addition, TTB recognizes the need to grow leaders within the succession pipeline. In FY 2024, TTB continued to make progress on efforts to establish effective development programs for those seeking leadership positions. TTB is implementing a tiered framework to ensure that the Bureau is identifying and engaging emerging leaders, supporting the development of high-potential employees, and fostering potential senior leaders through the completion of a Senior Executive Service Candidate Development Program.

Further, to support employee development, TTB must continue efforts to complete competency assessments and career ladder models to establish clear standards and roadmaps for advancement within each TTB job series. To date, TTB has developed these assessments for its chemists, auditors, and label and formula specialists. In FY 2024, due to capacity constraints, TTB focused on completing an initial assessment for product owners to support its IT modernization efforts. In the year ahead, to support succession planning efforts, TTB will continue refining the tools and procedures to perform these assessments across all mission-critical occupations.

Moving forward, TTB plans to employ data-driven workforce planning efforts to ensure the Bureau is structured and staffed to meet future mission needs. This includes evaluating program support functions to optimize efficiencies and identify any additional resource requirements, including within TTB's Human Resources Division. TTB has restructured and staffed this division to advance strategic and operational support for TTB hiring managers and staff. TTB will also pursue new partnerships with Treasury and other Federal agencies to better leverage human capital resources, and support new recruitment and diversity strategies.

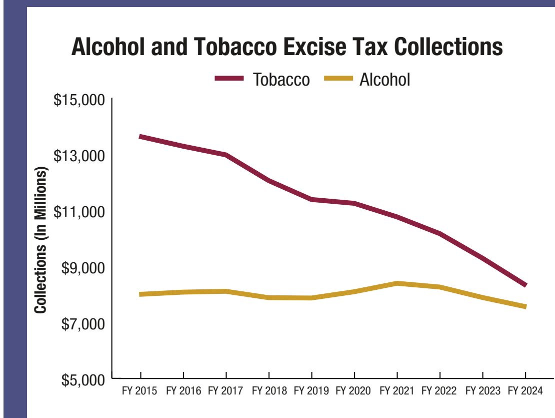
1.5 FINANCIAL HIGHLIGHTS

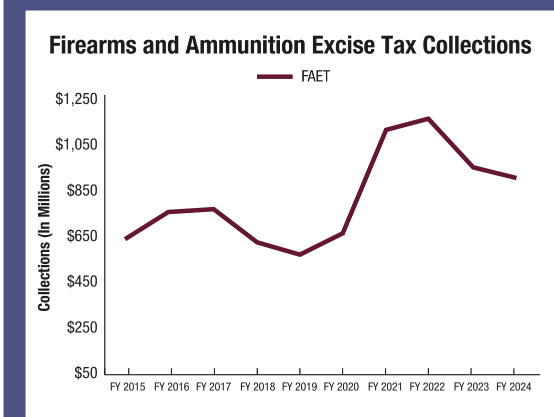
FEDERAL EXCISE TAX COLLECTIONS

During FY 2024, TTB collected $16.8 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, tobacco collections have shown significant market shifts 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 emergence of electronic nicotine products, such as e-cigarettes, which are not currently subject to Federal excise tax unless they contain tobacco, may also contribute to declining tobacco revenue in recent years.

The alcohol industry accounts for 45 percent of the excise tax revenue collected by TTB. In FY 2024, TTB collected approximately $7.6 billion in revenue from U.S. wineries, breweries, and distilleries. Alcohol collections experienced a downturn in 2018 due to the CBMA reduced tax rates and credits. After this initial decline, alcohol revenues increased in fiscal years 2020 and 2021 despite the economic effects of the pandemic. This trend reversed in FY 2022, with alcohol revenues down another four percent this year, likely tied to higher operating costs for businesses as well as decreased consumer demand.





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

FY 2024 Excise Tax Collections

Alcohol	$	7,558,324
Tobacco	$	8,328,605
FAET	$	892,843
Special Occupational Tax	$	240
Floor Stocks Tax	$	-
Other	$	-
Total	**$**	**16,780,012**

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 $0.6 million in FY 2015 to $0.9 million in FY 2024, a 40 percent increase in tax revenue over the 10-year period. FAET revenue generally correlates with increases or decreases in sales.

Refund, Cover-Over, and Drawback Payments

During FY 2024, TTB issued $1.2 billion 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 United States 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 United States.[6]

During FY 2024, cover-over payments totaled $399.6 million, with $393.9 million paid to Puerto Rico and $5.6 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 2024, these drawback payments totaled $382.9 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 drawback claim.

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

CBMA Claims

The Taxpayer Certainty and Disaster Tax Relief Act of 2020 made permanent most CBMA provisions of the Tax Cuts and Jobs Act of 2017, with several amendments, including transferring responsibility for administering CBMA benefits for imported alcohol from CBP to Treasury as of January 1, 2023. Treasury assigned the new CBMA import claims program to TTB to administer. Under the law, starting in 2023, alcohol beverage importers are no longer eligible for the CBMA tax benefits from CBP at the time of entry; rather, importers are required to pay the full tax rate at entry and submit refund claims to TTB to receive the reduced tax rates or credits assigned to them by foreign producers. In FY 2024, CBMA claim payments totaled $301.4 million.

FY 2024 Refund, Cover-Over, and Drawback Payments

Alcohol, Tobacco & Firearms Excise Tax Refunds	$	92,277,000
Cover-over Payments, Puerto Rico	$	393,907,000
Cover-over Payments, Virgin Islands	$	5,643,000
Drawbacks on MNBP Claims	$	382,904,000
CBMA Claims	$	301,352,000
Interest and Other Payments	$	4,291,000
Total	**$**	**1,180,374,000**

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, 2024.

- The Balance Sheet shows the assets, liabilities, and net position as of a point in time, in this case, as of September 30, 2024.
    - The total assets were reported as $244.3 million at the close of the fiscal year. Of this amount, $84.1 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 $183.4 million, of which total intragovernmental liabilities amount to $118.7 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, 2024, shows the total net cost of operations at $152.1 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 $70.8 million.
    - The total net cost reported as program costs under the Protect the Public program was $81.3 million.

- The Statement of Change in Net Position for the fiscal year ended September 30, 2024, shows a total net position balance of $60.9 million. That amount represents the unexpended appropriations from both prior periods and from the current operating cycle in addition to Cumulative Results of Operations.
- The Statement of Budgetary Resources for the fiscal year ended September 30, 2024, shows the budgetary resources received and the status of those resources. For TTB, the resources are primarily annual appropriations received in the amount of $157.8 million. Additionally, spending authority from offsetting collections amounted to $8.9 million. Of that amount, $4.5 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, 2024, shows the amount of revenue received during FY 2024 compared with FY 2023, along with tax refunds, drawback on MNBP claims, CBMA 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 $16.8 billion. Within this total, the Bureau processed drawback claims, over-over payments, CBMA claims, and other tax refunds in the amount of $780.8 million.
  - **Drawback claims** of $382.9 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 that are unfit for beverage purposes.
  - **Cover-over payments** were returned to Puerto Rico and the Virgin Islands in the amount of $399.6 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.
  - **CBMA claims** of $301.4 million were paid based on claims filed by alcohol beverage importers. Effective January 1, 2023, importers paid the full tax rate upon entry of imported alcohol products and may file quarterly refund claims with TTB to receive CBMA tax benefits.
  - **Interest and Other Payments** were processed in the amount of $4.3 million.
  - **The disposition of the custodial revenue**, after refunds, claims, and cover-over payments, nets to $16.0 billion. The vast majority was provided to the U.S. Treasury to fund the Federal government, except for the firearms and ammunition Federal excise taxes. Those revenues, in the amount of $892.8 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 2024 and 2023, 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 2024 financial statements. 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 2024 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 2024 BUREAU BUDGET

BUDGET HIGHLIGHTS BY FUND SOURCE

This section highlights TTB program activity in FY 2024 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 2024 Salaries and Expenses	
Fund Source:	
Salaries & Expenses FY 2024 One-Year Appropriation (P.L. 118-47 Further Consolidated Appropriations Act, 2024)[1]	**$ 152,795,000**
Obligations Incurred in FY 2024 from Current Year Appropriations	*$ 152,337,943*
Salaries & Expenses FY 2024/26 Three-Year Appropriation (P.L. 118-47 Further Consolidated Appropriations Act, 2024)[2]	**$ 5,000,000**
Obligations Incurred in FY 2024 from Current Year Appropriations	*$ 482,708*
Salaries & Expenses FY 2023/24 Two-Year Appropriation (P.L. 117-328 Consolidated Appropriations Act, 2023)[2]	**$ 4,319,892**
Obligations Incurred in FY 2024 from Prior Year Appropriations	*$ 4,319,714*
Salaries & Expenses FY 2023/24 (50% Prior Year Recovery)[3]	**$ 583,000**
Obligations Incurred in FY 2024 from Prior Year Appropriations	*$ 583,000*
Transfer in From Other Appropriations (TEOAF Strategic Support and Secretary's Enforcement Funds)	**$ 1,000,000**
Obligations Incurred in FY 2024 from Current Year Appropriations	*$ 998,871*
Offsetting Collections Puerto Rico Cover-Over	**$ 5,200,000**
Obligations Incurred in FY 2024 from Current Year Appropriations	*$ 4,438,588*
Reimbursable Authority (Various Customers)	**$ 4,339,200**
Obligations Incurred in FY 2024 from Current Year Appropriations	*$ 3,443,373*

1 The 2024 Further 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 The 2024 Further Consolidated Appropriations Acts included $5 million in three-year direct funding for TTB to enforce trade practice provisions of the FAA Act. The 2023 Consolidated Appropriations Acts also 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 2023 shall remain available through September 30, 2024.

In FY 2024, TTB received $157.8 million in discretionary appropriations under the FY 2024 Further Consolidated Appropriations Act (Public Law 118-47) and an authorized staffing level of 551 full-time equivalent (FTE) positions. Of this amount, $152.8 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 three-year funding (available until September 30, 2026) to enforce the trade practice provisions of the FAA Act.

TTB also carried over $4.3 million in two-year funding from the prior year appropriation (FY 2023/2024) for trade practice enforcement. Additionally, TTB was reapportioned $583 thousand of the prior year's appropriation, as the FY 2023 appropriation law (Public Law 117-328) made 50 percent of its unobligated balance available in the subsequent year. This funding was dedicated to updating TTB's computer hardware and eliminating TTB's dependency on Virtual Desktop systems that are reaching their end of life.

In FY 2024, the Bureau obligated or expended more than 99.7 percent of the $152.8 million of discretionary funding from its one-year Salaries and Expenses appropriation. TTB obligated or expended 99.9 percent of the $4.3 million in two-year Salaries and Expenses funding carried over from the prior year (FY 2023/2024), and 100 percent of the 50 percent reapportionment of the prior year FY 2023 unobligated balance. The Bureau obligated 9.7 percent of the $5 million from its FY 2024 three-year Salaries and Expenses appropriation, with the year-end balance of $4.5 million being available for FY 2025/2026 program spending.

Anticipated Collections, Reimbursements, and Other

During FY 2024, TTB had $10.5 million in current year spending authority from offsetting collections, reimbursable activity, and transfers from other agencies. Of that amount, TTB incurred obligations and expenditures of $8.9 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; and
- 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 Strategic Support and Secretary's Enforcement Funds to enforcement programs at TTB's laboratory.

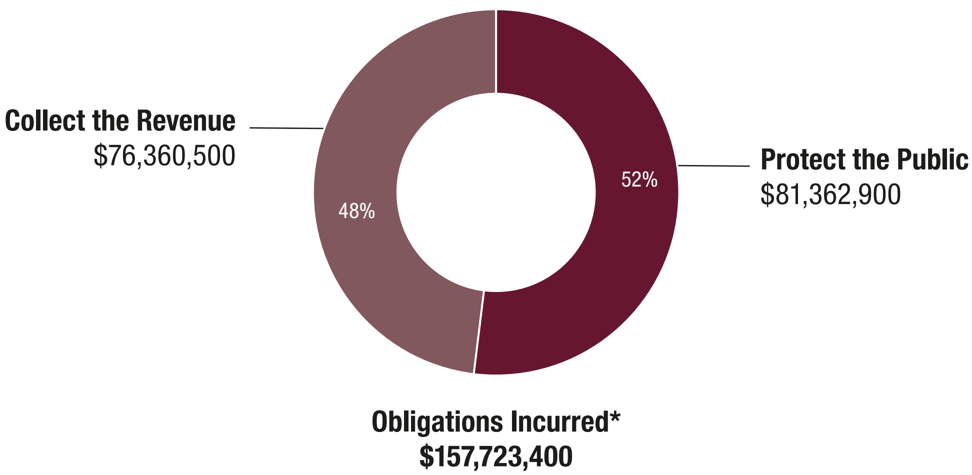
Budget Fiscal Year 2024 Anticipated Offsetting Collections, Reimbursements, and Other

	Apportioned Authority	Obligations and Expenditures
Puerto Rico Cover Over Operations and Enforcement Activities (Offsetting Collections)	$ 5,200,000	$ 4,438,588
Community Development Financial Institutions Fund (CDFI) (Reimbursable)	$ 3,400,000	$ 3,013,509
Treasury Executive Office for Asset Forfeiture–Mandatory Account (Reimbursable)	$ 939,200	$ 429,864
TEOAF–Strategic Support and Secretary's Enforcement Funds (Other/Transfer)	$ 1,000,000	$ 998,871
Budget Fiscal Year 2024 Totals	**$ 10,539,200**	**$ 8,880,832**

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 2024 data stemming from the account code structure shows that TTB incurred obligations of $157,723,400 of its salaries and expenses appropriation, of which 48 percent was spent on the Collect the Revenue budget activity and 52 percent was spent on Protect the Public budget activity.

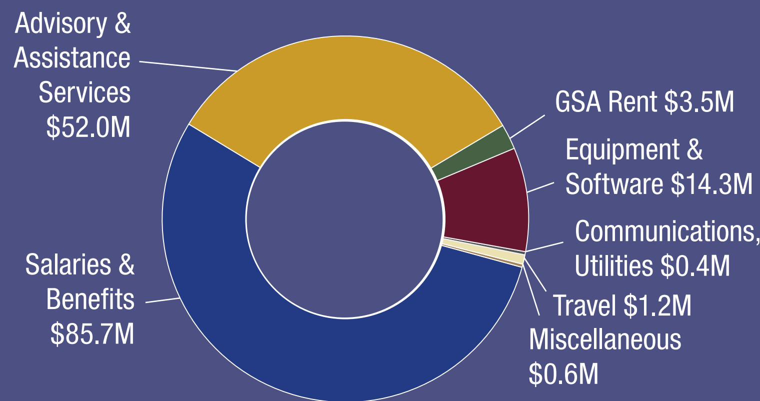


*Amounts include obligations incurred in FY 2024 from the FY 2024 annual appropriation; obligations incurred in FY 2024 from two-year (FY 23/24) and three-year funding (FY 24/26); and 50 percent of the prior year FY 2023 recovery.

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

Spending by Major Object Class

OBLIGATIONS INCURRED FROM FY 2024 APPROPRIATION BY MAJOR OBJECT CLASS, ($ MILLION) TOTAL FY 2024 $157.7 MILLION*



**Amounts include obligations incurred in FY 2024 from the FY 2024 annual appropriation; obligations incurred in FY 2024 from two-year funding (FY23/24), and three-year funding (FY 24/26); and 50 percent of the prior year FY 2023 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 (87 percent) fall into two principal major object classes: Salaries & Benefits and Advisory & Assistance Services (Contracts).

Salaries & Benefits comprise 54 percent of total obligations incurred by object class, and cover the cost of TTB's roughly 507 onboard positions at the end FY 2024. The Advisory & Assistance Services object class constitutes 33 percent of FY 2024 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 data analytics, 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 2024, the Bureau's travel costs were primarily in support of core mission activities for audits and investigations. The remaining object classes that cover the FY 2024 obligations incurred include cost categories for rent, communications, equipment, and other miscellaneous categories.

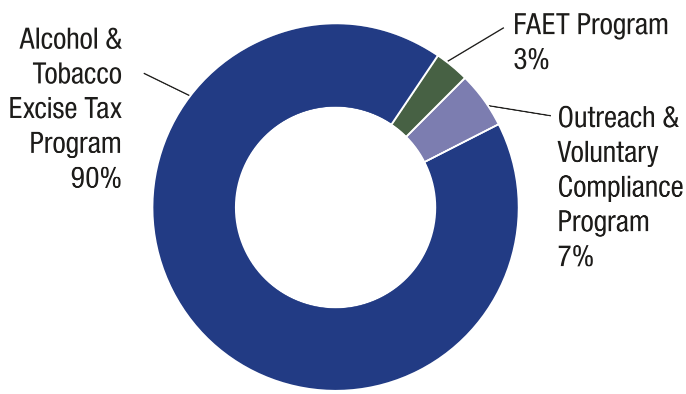
Obligations Incurred from FY 2024 Appropriations by Budget Activity

Collect the Revenue.....$76,360,500

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

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

FY 2024 Collect the Revenue
Cost Allocation



TOTAL: $76,360,500

In FY 2024, TTB expended 90 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 included activities relating to the processing of tax returns and operational reports as well as audits and investigations conducted on alcohol, tobacco, and firearms, and ammunition industry members.

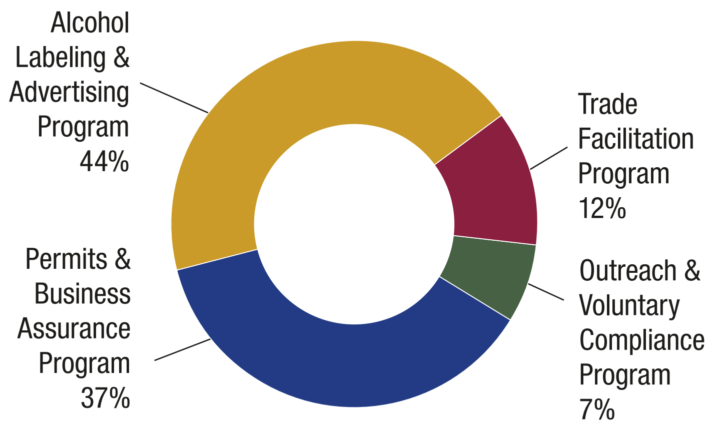
Costs for the Outreach and Voluntary Compliance Program totaled 7 percent of Collect the Revenue resources. These resources supported efforts to educate and train industry members regarding their tax compliance obligations.

Protect the Public.....$81,362,900

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

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

FY 2024 Protect the Public
Cost Allocation



TOTAL: $81,362,900

In FY 2024, TTB expended 81 percent of its Protect the Public resources on two programs: Permits and Business Assurance (37 percent) and Alcohol Labeling & Advertising (44 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 for new and amended permits. These activities may include a field investigation. A TTB-issued permit, IRC registration, or brewer's notice is necessary to conduct operations in TTB-regulated industries.

The Alcohol Labeling & Advertising Program includes activities designed to ensure that beverage alcohol labels fully and accurately describe the products on which they appear and are not misleading. It also encompasses activities relating to verifying that alcohol advertisements contain all mandatory information and do not mislead consumers. The Product Safety component of this program 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 (12 percent) and the Outreach and Voluntary Compliance Program (7 percent). TTB's Trade Facilitation Program includes identifying and addressing barriers to trade in the domestic and international marketplace. The Outreach and Voluntary Compliance Program promotes compliance by providing regulatory standards and guidance and supporting industry members through outreach and education efforts.

1.7 MANAGEMENT ASSURANCES, SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

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

During FY 2024, TTB also applied its custom risk management tools to its Revenue Accounting Section to identify risks in the accounting and tracking of TTB's annual Federal excise tax collections and to the Office of Permitting and Taxation, 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 2024. That report is included on pages 71–73. Additionally, the independent auditor's report on internal control over financial reporting identified no significant deficiencies or material weaknesses in TTB's internal controls.

Accounting Systems and Controls

During FY 2024, 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 2024 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 of our revenue accounting activities.

This increased emphasis on management controls has had a positive impact on programs and enabled the Bureau to achieve its intended results. The process also ensures that the utilization of resources is consistent with mission priorities and that programs and resources are being used without waste, fraud, or mismanagement. Also, in addition to the A-123 review, TTB conducted an internal control assessment during FY24 of TTB's Revenue Accounting Section and TTB's Office of Permitting and Taxation.

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. The Bureau plans to revisit and revise these risk management tools, as appropriate, to ensure they reflect the key business processes in operation within TTB's Office of Permitting and Taxation and Revenue Accounting Section. 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 business growth and innovation. In this report, TTB presents its performance information by mission area and strategic goal. Further details are provided by the key strategic objectives that represent the Bureau's FY 2024 continuous improvement efforts.

In FY 2024, TTB met or exceeded its performance targets for 8 of its 20 performance measures. TTB also monitored its performance through several indicators that support data-informed decision making across TTB's strategic goals. Despite falling short in 12 performance goals this year, TTB made notable improvements and is approaching its targets in many key service and operational measures.

In FY 2025, TTB will be reaching the midpoint of its FY23-27 strategic plan, and intends to implement an aggressive strategic agenda that integrates modern technology, process improvements, and data-driven policies, outreach, and enforcement. TTB performance goals for FY 2025 reflect planned business process and technology improvements, as well as workload projections and resource levels. In year ahead, TTB will also continue to develop a comprehensive suite of measures to effectively monitor the Bureau's progress toward its strategic and priority goals.

All performance results are subject to internal management review and periodic audit by the Department of the Treasury. TTB also continues to improve its data reporting platform, as well as data governance policies and procedures, which enable TTB to more timely detect and address data quality issues across its critical data sets. TTB will report any necessary updates to TTB's performance measures or indicators that result from its improved data validations in FY 2024.

FY 2024 Performance Measure Status	
Performance Targets Met	8
Performance Targets Not Met	12
Total Performance Measures	20

2.2 PROTECT THE PUBLIC PERFORMANCE

In FY 2024, TTB met four of its nine annual targets for the performance measures under its Protect the Public mission. TTB uses these measures to monitor progress toward meeting strategic and priority goals to facilitate lawful commerce for the protection of U.S. businesses and consumers. These measures also help TTB monitor the extent to which it is meeting established service standards for permit, label, and formula applications; the error rate on applications; the usage rate of TTB's online systems; and the level of satisfaction that users have with these online systems.

GOAL 1: FACILITATE BUSINESS GROWTH ON A LEVEL PLAYING FIELD

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 *Facilitate Business Growth on a Level Playing Field* calls for TTB to facilitate the startup and growth of businesses through timely and quality service while maintaining a level playing field through effective qualification processes.

Performance Discussion by Strategic Objective

Improve Industry Experience

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.

High submission volume, particularly in the more complex permit application types related to producing alcohol beverage products, continues to present service challenges. TTB has maintained a priority focus on timely approvals, recognizing the financial consequence of delays on applicants, many of whom make significant upfront investments prior to applying. TTB's performance goal is to issue new permit applications within 75 days for 85 percent of applicants.

TTB has achieved and sustained significant improvements in its service levels for permitting. Average approval times are holding around 40 days, and are down by more than 40 percent since FY 2019. This year, TTB also demonstrated its ability to provide consistent service, despite staffing challenges. In FY 2024, TTB again met its target to achieve the 75-day service standard for 85 percent of permit applicants.

This progress is largely due to TTB's improved management of in-process permit applications, employing dashboards that display key metrics on the status and age of applications to proactively identify and address any processing delays. TTB also continues to cross-train specialists to allow management to redeploy staff as necessary to cover fluctuations in application types.

Sustaining these performance improvements will require continued progress on several crosscutting initiatives, including program modernization efforts to simplify permit applications and improve our IT systems. In FY 2025, TTB will continue its multi-year myTTB IT modernization initiative to improve the customer experience in filing and amending TTB permits or registrations. In FY 2025, TTB will transition its online permitting system, Permits Online, to the modern myTTB platform. The legacy Permits Online system, initially built on a commercial software platform, has limited TTB's ability to optimize the application filing and processing experience for users. With the transition to myTTB, the Bureau will incorporate the new simplified application requirements, engaging users throughout development and testing to design a seamless and integrated permitting experience.

Attain High Voluntary Compliance

TTB measures the *Initial Error Rate on Permit Applications* to track how many applications are submitted either incomplete or with errors. These results inform strategies to maintain timely service by increasing the number of permit application approvals upon initial review. Errors on applications increase the overall workload volume, requiring extensive back-and-forth with applicants to verify or correct the information provided, which adds to the total processing time.

TTB's ability to meet its service standard for new permit applications continues to be hindered by high error rates on submissions, which exceeded 80 percent in prior years. Error rates are highest for prospective breweries, wineries, and distilleries, which have more complex applications compared to non-manufacturers (i.e., wholesalers and importers). Over time, TTB has reduced total permit application errors by roughly 20 percent, with rates holding in the low 60 percent range since FY 2020, indicating the effectiveness of efforts to streamline applications and processes.

In FY 2024, however, error rates increased 6 percent over the prior year—from 63 to 69 percent—driven by increased errors on wholesaler and importer applications. Historically, TTB has achieved the greatest improvements on these application types, cutting error rates by 25 percent from as high as 75 percent in FY 2017 to nearly 50 percent last year. In FY 2024, error rates for these application types increased to 62 percent, underscoring the need for additional education and training, as well as the planned myTTB system enhancements to support accurate submissions. At the same time, TTB made progress this year on brewer's notices, reducing application errors by 5 percent compared to last year—down from 83 to 78 percent.

To meet its permitting performance goals, TTB will continue to focus on reducing errors on permit applications that delay processing and frustrate applicants. In FY 2024, TTB leveraged greater access to data on permit error types to guide program improvements. TTB is using this information to direct plans for improved online guidance and system support, as well as ensure consistency in TTB application reviews. Looking ahead, the Bureau expects its plans to simplify permit requirements and incorporate the new applications in myTTB will result in transformative changes that will enable TTB to achieve its 25 percent error rate target.

Additionally, TTB's call center will focus on improving the level of service provided to customers seeking live assistance with the permit application process. Going forward, TTB plans to use call center data to understand customer pain points to develop effective guidance and support strategic system enhancements to improve the overall customer experience with TTB services.

Deliver Integrated System Experience

According to its measure of the *Percent of Electronically Filed Permit Applications—Originals*, which tracks the electronic filing rate for new business applications, TTB received 96 percent of permit applications via Permits Online in FY 2024. TTB attributes the high rate of electronic filing to ongoing system promotion at industry conferences and seminars.

TTB's measure of the *Percent of Electronically Filed Permit Applications—Amendments* provides similar visibility into electronic filing rates for applications to amend an existing TTB permit, a requirement following certain changes to a business premises, operations, and/or ownership. These submissions represent both a critical service to existing industry members and a significant workload for TTB, with roughly 16,000 amendments filed annually. In FY 2024, TTB achieved a 94 percent e-filing rate for permit amendments, continuing incremental progress toward its 95 percent target.

myTTB IT modernization efforts, combined with improved online guidance to help first-time filers navigate the application process, will support TTB in achieving its targets to sustain electronic filing rates at or above 95 percent for original permits and permit amendments, as well as support efforts to reduce error rates on permit applications to 25 percent.

As part of its strategy to optimize electronic filing systems, TTB measures *Customer Satisfaction with the Permits Online eGov System* through an email survey to assess how satisfied businesses are with applying for a permit or registration through Permits Online. In FY 2024, TTB achieved a system satisfaction rate of 74 percent, generally holding at prior year levels, and below the 80 percent target. Notably, satisfaction generally rises and falls in line with permit approval times, demonstrating a strong correlation between service levels and system satisfaction. TTB expects system satisfaction to improve as it initiates broader system modernization efforts to provide applicants with a single integrated online filing experience.

Maximize Simplicity and Clarity of Regulatory Requirements

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

TTB has made significant progress in its multi-year regulatory modernization efforts. TTB published the first in its series of proposed rulemakings to simplify permit applications in early FY 2022, starting with distilled spirits plants, followed by a proposed rule to simplify the brewer's notice process in June 2022. In FY 2025, TTB plans to publish its proposed rule for wine in October 2024, followed by Final Rules for all three commodities in line with the planned myTTB rollout. These changes should dramatically reduce open text fields and requirements to upload supporting documentation, streamlining the application process. TTB also expects that simplifying and clarifying regulatory requirements will reduce errors on permit applications, and contribute to improved approval times in the years ahead.

Ensure Fair Market Competition

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 2024, TTB continued to refine its risk-based screening procedures for permit applicants. The procedures employ risk indicators to flag applications that warrant further review and potential field referral. For existing taxpayers applying for a new permit or certain amendments, TTB also reviews tax compliance history to advise taxpayers of late filings, address issues, and ensure future compliance. Going forward, TTB will continue implementing process improvements to its risk-based screening to help manage workloads and improve service delivery.

GOAL 1 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024		Result vs Target
		Actual	Actual	Actual	Actual	Actual	Target	
Percent of Original Permit Applications Processed within Service Standards (75 days)	SO 1	84%	92%	91%	86%	**85%**	85%	Met
Initial Error Rate for Permit Applications	SO 2	62%	67%	64%	63%	**67%**	25%	Unmet
Percent of Electronically Filed Permit Applications - Originals	SO 13	92%	95%	95%	95%	**96%**	95%	Met
Percent of Electronically Filed Permit Applications - Amendments[1]	SO 13	87%	92%	92%	93%	**94%**	95%	Unmet
Customer Satisfaction Rate with eGov Systems - Permits Online	SO 13	78%	79%	78%	73%	**74%**	80%	Unmet

1 Results represent amendment submissions, with multiple permit amendment types often submitted on a single submission.

GOAL 2: FACILITATE BUSINESS INNOVATION IN A FAIR MARKETPLACE

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 *Facilitate Business Innovation in a Fair Marketplace* 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 Industry Experience

In FY 2024, TTB received nearly 180,000 label and 26,000 formula applications for new alcohol beverage products. Given the importance of timely TTB approvals and the negative impact that delays have on U.S. businesses, TTB monitors its ability to provide timely and consistent service through its measure of the *Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards*. TTB combines label and formula applications in this measure given the interdependent nature of these approvals.

Label and formula submission volume remains high, reflecting continued industry expansion and product innovation. After several years of growth, however, volume declined in FY 2024. Label submissions decreased by 9 percent overall, driven by declines in malt beverage labels (down 13 percent) and wine labels (down 9 percent). After years of double-digit growth, formula applications appear to have plateaued, with another modest reduction in submission volume for the third year in a row in FY 2024. Despite these declines, industry continues to demonstrate its resilience and ability to innovate. Total formula submissions have more than doubled over the last decade, largely due to the use of novel ingredients and market trends toward flavored alcohol beverage products.

In light of customer expectations, and supported by set-aside funding again enacted in the FY 2024 budget to accelerate approval times, TTB maintained a 15-day service standard for alcohol beverage label and formula applications in FY 2024. TTB ended the year with 91 percent of label applications meeting the 15-day standard, exceeding the target of 85 percent. This was achieved through effective monitoring and management of application backlogs combined with strategic workforce management to efficiently deploy staff in response to submission fluctuations. TTB employed similar strategies to overcome staffing challenges and exceed the targeted performance level, ending the year with 92 percent of formula applications meeting the 15-day standard. By year-end, label and formula applicants received approvals in less than 10 days on average, well below the 15-day standard, and a significant improvement over the 30- to 45-day standards that the Bureau set and struggled to achieve in the past.

TTB expects performance to continue to trend positively in FY 2025 through continuous queue management and strategic resource alignment. As a result, TTB intends to maintain its 15-day service standard for label and formula applications in the coming year. TTB will also work toward its FY 2025 target of meeting this standard for 85 percent of applications through initiatives to modernize IT systems and guidance, with particular focus on reducing errors on applications that increase total workload and challenge timely processing. However, TTB expects to continue to face tradeoffs in IT modernization priorities due to competing needs in both permitting and tax administration.

Attain High Voluntary Compliance

Application errors are a key driver of label and formula processing times due to the additional review required for each resubmitted application. TTB uses its measure of the *Initial Error Rate of Label and Formula Applications* to monitor error trends and evaluate the effect of system and guidance enhancements on approvals upon initial submission. In FY 2024, error rates for label and formula applications increased to 30 percent, reversing prior year progress toward the targeted performance level of 25 percent. Formula application errors, which met the 25 percent target in FY 2023, increased 4 percent to 27 percent in FY 2024. Only wine formulas remained at target this year. Label error rates similarly trended negatively, increasing 2 percent to 30 percent overall, driven by an increase in wine label errors. These trends underscore the need for continued focus on reducing errors through policy, process, and system improvements.

In FY 2024, TTB continued to use a data-driven approach to address the most frequent application errors, aiming to reduce the number of applications that are returned for correction. Distilled spirits and malt beverage submissions continue to be the most prone to errors. To tackle these challenges, TTB focused on improving industry outreach and education, including webinars and guidance on TTB.gov. TTB continued its TTB Boot Camp webinar series, which began with sessions for distilleries and expanded to breweries and wineries in FY 2024. The series includes information on labeling requirements, and was updated this year to include guidance on advertising alcohol beverage products. In the year ahead, TTB will complete the TTB Boot Camp for Wineries series, and promote the recorded versions available online for those unable to attend the live presentation or need a refresher.

TTB also continues to make progress in issuing improved guidance on TTB.gov for each alcohol beverage commodity. This includes detailed examples of compliant label and formula submissions by commodity as well as web-based tools to make it easier to determine if products require TTB formula approval prior to filing a label—a high frequency error. In FY 2025, TTB also plans to update its web-based tool to assist distilled spirits producers and importers in determining whether their products require formula approval.

Maximize Simplicity and Clarity of Regulatory Requirements

In FY 2024, TTB continued its initiative to modernize Federal alcohol beverage labeling regulations to reflect current TTB policy and modern industry practices. When finalized, the updated regulations will facilitate industry compliance by simplifying and clarifying regulatory standards, incorporating guidance documents and other current policies into the regulations, and reducing regulatory burden on industry members where possible.

To date, TTB has published two final rules in its phased labeling modernization rulemaking, starting in FY 2020 with a final rule reflecting areas of broad consensus and industry support, and an additional final rule in FY 2022 that addressed malt beverages, distilled spirits, and certain crosscutting labeling issues. This year, TTB continued to update industry guidance on TTB.gov to aid industry compliance with the regulatory requirements. TTB also continues to prioritize internal training to improve the quality of its reviews and ensure determinations on label and formula applications are consistent with current policy.

In the year ahead, TTB plans to make progress toward addressing wine-specific issues and advertising for all commodities. With this final phase, TTB will also make clear which topics will be reserved for future rulemaking and close other issues that we do not plan to pursue.

Additionally, TTB continues to pursue regulatory modernization that will further stimulate trade and market competition. Executive Order 14036, Promoting Competition in the American Economy, and Treasury's related report on **Competition in the Markets for Beer, Wine, and Spirits**, seek to address market conditions and practices that hinder competition and act as a barrier to new entrants. In line with Treasury report recommendations, TTB published an advanced notice of proposed rulemaking in November 2022 to evaluate current trade practice regulations. Treasury report recommendations also include TTB rulemaking on Alcohol Facts Labeling (akin to food nutritional labels), Allergen Labeling, and Ingredient Labeling. In FY 2024, TTB held listening sessions to engage stakeholders and inform rulemaking on these topics, ensuring that a broad range of perspectives are considered in the proposed rulemaking that TTB plans to publish in the year ahead.

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

Deliver Integrated System Experience

Sustaining service levels for label and formula approvals requires rethinking the online filing experience. In FY 2024, according to its measure of the *Percent of Electronically Filed Label and Formula Applications*, TTB now receives nearly 100 percent of applications via COLAs Online and Formulas Online. Despite high user adoption rates, the legacy systems are siloed, outdated, and increasingly difficult to maintain, slowing modernization efforts designed to support accurate applications and accelerate approval times.

Customer reviews of these legacy systems reflect these challenges, trending negatively over time. Through its measures of *Customer Satisfaction with COLAs Online and Formulas Online*, TTB continues to monitor user satisfaction with the process of submitting an application through its systems, collecting data via e-mail survey to assess factors such as ease of access, guidance, and overall experience. In FY 2024, satisfaction rates declined to 80 percent for COLAs Online users, down 3 percent but still at the 80 percent performance target; however, satisfaction rates for Formulas Online users continued to steadily decline to 77 percent. Feedback continues to highlight industry interest in simplifying the label and formula submission process and better online guidance and support.

Substantial improvements to the customer experience are contingent on modernizing and integrating these systems in myTTB to better meet user expectations and provide a seamless filing experience for formula and label approvals. With high electronic filing rates, TTB has the opportunity to leverage its systems to guide users through requirements and address a top pain point for customers—the frequent return of applications for additional information or correction.

Over the last several years, TTB has introduced certain compliance validations and help features in its legacy COLAs Online and Formulas Online systems to reduce frequent application errors. These system releases have targeted both application errors (e.g., incomplete form fields) and label compliance errors (e.g., use of prohibited terms or images). FY 2024 results indicate that the changes implemented to date have proven effective, with error rates down for certain targeted application error types down by more than 70 percent.

Through its myTTB IT modernization efforts, TTB plans to expand and improve system-based validations. Legacy systems limit current opportunities to implement broader system-based validations, but TTB will continue to evaluate common errors and engage its customers to identify technical solutions to support applicants and prevent submissions with errors as it modernizes its IT systems. Going forward, as part of the myTTB initiative, TTB will also employ user testing and feedback to make iterative enhancements to COLAs Online and Formulas Online to reduce application errors. However, progress in FY 2025 will be limited due to competing demands for IT development resources for the new myTTB permitting system.

Ensure Fair Market Competition

After alcohol beverages enter the marketplace, TTB reviews 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 products to its laboratory 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 the industry member takes corrective action. Frequent violations in FY 2024 included disparities between the actual alcohol content of certain wine, spirits, and malt beverage products and the alcohol content stated on the label of those products, as well as discrepancies between the approved label and the label on the bottle.

In FY 2025, TTB's market sampling program will continue to include both a random and risk-based sample. The risk-based sample will allow TTB to evaluate products that may have a higher probability of being non-compliant based on certain risk factors. These results will be used to help inform decisions on enforcement actions, priorities, and guidance and allow the Bureau to employ its investigative resources in a more efficient and effective manner. TTB also plans to increase advertising reviews to ensure compliance with the TTB laws and regulations.

GOAL 2 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024		Result vs Target
		Actual	Actual	Actual	Actual	Actual	Target	
Percent of Alcohol Beverage Label and Formula Applications Processed within Service Standards (15 days)[2]	SO 1	83%	92%	93%	93%	**91%**	85%	Met
Initial Error Rate for Label and Formula Applications	SO 2	34%	31%	29%	28%	**30%**	25%	Unmet
Percent of Electronically Filed Label and Formula Applications	SO 13	99%	99.5%	99.6%	99.6%	**99.6%**	IND	N/A
Customer Satisfaction Rate with eGov Systems - COLAs Online	SO 13	80%	83%	83%	83%	**82%**	80%	Met
Customer Satisfaction Rate with eGov Systems - Formulas Online[3]	SO 13	73%	80%	78%	78%	**77%**	80%	Unmet

Key: IND – Indicator

2 Service standards are set annually based on TTB analysis of submission volume, error rates, and resource levels. TTB has maintained a 15-day service standard for both labels and formulas since FY 2018.

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

2.3 COLLECT THE REVENUE PERFORMANCE

In FY 2024, TTB met four of its eight annual targets for its performance measures under the Collect the Revenue mission. TTB combines measures and indicators to demonstrate the effectiveness and efficiency with which TTB operates its tax administration function, including through facilitating voluntary compliance, as well as enforcement efforts to address critical threats to Federal revenues.

GOAL 3: IMPROVE TAXPAYER EXPERIENCE AND TAX ADMINISTRATION

TTB's strategic goal to *Improve Taxpayer Experience and Tax Administration* calls for the Bureau to facilitate tax compliance by improving the key points of service for TTB taxpayers, improving taxpayer experience by redesigning tax reporting requirements and filing options, and enhancing tax enforcement to improve market competition and address inequities that disadvantage small businesses.

Performance Discussion by Strategic Objective

Attain High Voluntary Compliance

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

To ensure adequate protection of Federal tax revenue, TTB established a high standard for its largest taxpayers, with a targeted overall filing compliance rate of 95 percent. In FY 2024, TTB achieved this target for the first time, with an overall compliance rate of 95 percent from its large taxpayers in meeting all tax filing requirements, continuing a positive year-over-year performance trend. The overall compliance rate has increased from 90 percent in FY 2018 due to strategic program improvements. Payment compliance rates remain high at over 99 percent, indicating that most reported liabilities were paid on time. Filing compliance rates for tax returns increased to 90 percent in FY 2024 and operational reports increased to 89 percent, warranting continued focus on these requirements in the year ahead to achieve targeted performance.

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 not kept pace with industry growth. 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. Since then, TTB has prioritized trade practice enforcement to address anti-competitive conduct as well as related industry outreach and education so that businesses understand their obligations and can voluntarily comply.

In FY 2024, to improve tax oversight, TTB continued to refine its analytics tools and internal procedures to address non-compliance. By partnering its tax experts with its analytics team, TTB has developed robust risk models to identify high-risk non-filers for enforcement action and will continue to enhance taxpayer compliance dashboards that include information about each compliance factor (i.e., late/missing returns, late/missing reports, late payments, and underpayments). TTB is also streamlining procedures for reconciling taxpayer accounts and issuing assessments, enabling greater taxpayer oversight. At the same time, TTB continued to improve its coordination of taxpayer referrals for field audits to address serious non-compliance issues that undermine the level playing field. This year, this included addressing repeat offenders, or those taxpayers who continue to miss filing obligations despite repeated TTB contacts. Taken together, these policy and process improvements have proven effective, resulting in approximately $97 million in tax liabilities and $77 million in collections over the last four years.

In FY 2025, improving compliance rates will remain a priority for TTB. Plans over the next year include continuing TTB's risk-based reviews of taxpayer accounts, with a focus on continued enhancements to analytics tools and risk models to expand analysis and develop strategies to address additional taxpayer segments. TTB also plans to focus on improving taxpayer compliance notices, identifying routine filing mistakes by taxpayers that can have tax consequences if not timely addressed. Additionally, TTB plans to improve its education and outreach strategies to drive compliant behavior across TTB taxpayers, using compliance data to inform its annual outreach plan as well as to prioritize the development of new online tax guidance. These strategies will prove critical to supporting and increasing compliance by the thousands of small businesses that TTB regulates.

Improve Public Guidance and Outreach

Given that TTB.gov remains the Bureau's primary industry resource for guidance, improvements to online tax resources continue to be a priority. In FY 2024, TTB continued to improve its online guidance on TTB.gov to help industry comply with the CBMA provisions and avoid unanticipated tax bills. TTB plans to publish rulemaking in FY 2025 to codify these permanent provisions for domestic producers, incorporating industry feedback and experience administering the new rules and requirements. TTB will also continue to update its online guidance, informed by common taxpayer questions and compliance findings.

In FY 2024, TTB also continued to improve its outreach and education efforts. TTB attended trade conferences both virtually and in-person, delivering presentations on current issues and trends, and staffing booths to provide real-time answers to questions from industry members. In addition, TTB continued to expand its online training offerings. This included commodity-focused TTB Boot Camps, a new series of webinars to improve industry compliance with tax and regulatory requirements. In FY 2025, TTB will continue to maximize the reach and effectiveness of its industry training and outreach, improving virtual options along with in-person conference attendance.

Additionally, in the year ahead, TTB plans to focus on using customer feedback and user testing to help prioritize and design effective web guidance and industry educational materials. In FY 2024, TTB published a new tax guidance home page based on feedback to help taxpayers more easily find the content they need. To support the thousands of small businesses it regulates, TTB plans to focus on increasing and improving tax guidance on TTB.gov in FY 2025, a key area that has been delayed due to competing Bureau priorities.

Optimize Resource Management and Allocation

The *Amount of Revenue Collected per Program Dollar* indicator uses annual collections data and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2024, TTB achieved a return on investment of $216 for every program dollar spent on collection activities, down from $254 in FY 2023.

In FY 2024, Federal tax revenue decreased year-to-year across the TTB-regulated commodities, the third consecutive year of declines. Tobacco collections continued to steadily decline, down another 10 percent in FY 2024, in line with shifts in the market and declining consumption of traditional tobacco products. Alcohol collections also trended down 4 percent, driven by reduced CBMA tax rates and declining consumption. Firearms and ammunition excise tax collections, which represent a small percentage of total collections, also experienced a downturn this year. Collections for these commodities declined 5 percent in FY 2024, but remained more than 30 percent greater than the collections in FY 2020.

At the same time, TTB's tax administration costs have increased in recent years due in part to higher costs for field enforcement and outreach activities. Costs related to IT development have also increased as TTB redirected resources to administer the new CBMA claims import program, including the development of two new myTTB systems to enable online filing and processing of these claims.

Going forward, TTB will continue to monitor its return on investment for its Collect the Revenue activities as a key indicator; however, results will continue to largely depend on external factors, including market and consumption trends, as well as legislative changes that impact TTB-regulated industries.

Deliver Integrated System Experience

TTB will continue to focus on improving tax compliance and administration through IT modernization. TTB currently relies on Pay.gov, a Bureau of the Fiscal Service system designed for government payments, for the electronic filing of tax returns and operational reports. TTB's two measures to monitor the *Electronic Filing Rates for Tax Returns and Operational Reports in Pay.gov* support ongoing efforts to reduce paper tax filings.

E-filing rates for tax returns and operational reports trended positively in FY 2024 but remain low compared to other TTB e-filing systems. Low e-filing 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 analytics. This year, TTB set a 65 percent target, and ended the year with 62 percent of tax returns and 67 percent of operational reports submitted electronically, up 4 percent since last year in both filing types, but still short of target for returns. TTB attributes these gains to recent Pay.gov improvements that enable new users to self-enroll, eliminating a time-consuming registration process that previously deterred users. Additional Pay.gov promotion should result in increased e-filing rates, although more significant tax system modernization is likely required for TTB to achieve its long-term target of 80 percent.

Going forward, as part of its IT modernization efforts, TTB intends to implement phased releases to its tax system, including a custom external interface for electronic tax filings and account management, as well as enhanced internal workflows to support TTB tax administration. However, the pace and scale of system modernization efforts are dependent on TTB funding levels and competing TTB priorities. In FY 2025, planned tax IT modernization efforts will continue to be postponed due to competing priorities related to migrating TTB's legacy permitting system, Permits Online, to myTTB.

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

Maximize Simplicity and Clarity of Regulatory Requirements

TTB continues to explore regulatory changes to improve tax administration and industry compliance. TTB recognizes that certain tax-related reporting requirements are burdensome on industry and, in some cases, require significant TTB resources to administer. Recent tax reforms also introduced new risks to underreporting tax liabilities. 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.

TTB is now using these findings to transform its excise tax filing requirements—consolidating two or more tax returns and operational reports into a single, simplified filing by commodity. Once implemented, TTB taxpayers will have less filing burden, which should facilitate increased tax compliance. Additionally, TTB will receive more complete and better quality data to administer and enforce its tax jurisdiction.

Proposals across beer, wine, and spirits are in various stages. In FY 2024, TTB continued piloting the proposed consolidated beer form with an expanded set of taxpayers, moving from manual to electronic submissions in Pay.gov. With competing IT development priorities, TTB is leveraging the existing electronic filing option to test the simplified forms prior to myTTB development. TTB plans to evaluate and incorporate initial brewery participant feedback prior to expanding the pilot industry-wide in FY 2025. Additionally, TTB completed its proposals for simplified tax filings for wine and distilled spirits. In FY 2025, TTB will engage these industries to obtain user input on the proposed consolidated tax filings for wineries and distilleries before proceeding to the pilot phase.

This multi-year initiative will require rulemaking to fully implement. TTB will work on these efforts in tandem with IT modernization to deliver these new requirements through a new myTTB tax system interface, further simplifying and improving the taxpayer experience. 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 facilitating overall tax compliance.

GOAL 3 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2024 Target	Result vs Target
Amount of Revenue Collected Per Program Dollar	SO 4	$380	$375	$336	$254	**$216**	IND	N/A
Percent of Voluntary Compliance from Large Taxpayers – Overall	SO 2	91%	93%	93%	94%	**95%**	95%	Met
By Payment	SO 2	99%	99%	99%	99.7%	**99.7%**	–	–
By Tax Return	SO 2	84%	87%	87%	88%	**90%**	–	–
By Operational Report	SO 2	83%	87%	86%	87%	**89%**	–	–
Percent of Electronically Filed Tax Returns – Pay.gov	SO 13	43%	47%	51%	58%	**62%**	65%	Unmet
Percent of Electronically Filed Operational Reports – Pay.gov	SO 13	50%	53%	56%	63%	**67%**	65%	Met

Key: IND – Indicator

GOAL 4: ENSURE ACCESS TO TAX REFUNDS FOR ELIGIBLE BUSINESSES

Timely tax refunds are critical to the bottom line for thousands of U.S. businesses, as delays can present cash flow challenges, particularly for small businesses. Last year, TTB's mission expanded to include a new import claim program, with timely payments critically important to U.S. importers unaccustomed to waiting for tax refunds to receive CBMA tax benefits. TTB's strategic goal to *Ensure Access to Tax Refunds for Eligible Businesses* calls for the Bureau to deliver timely tax refunds to facilitate access to tax benefits for U.S. businesses and strengthen enforcement efforts to detect and address ineligible or fraudulent claims.

Performance Discussion by Strategic Objective

Improve Industry Experience

Prior to FY 2023, TTB received approximately 5,000 claims each year, totaling approximately $400 million in tax refunds and drawback payments on taxes paid by manufacturers of nonbeverage products (MNBP). In FY 2023, the volume of claim submissions increased substantially with the implementation of the CBMA import claims program. In FY 2024, TTB received over 11,000 import claims, totaling more than $330 million, more than doubling initial projections for submissions as industry continues to adjust to the new import claim paradigm.

To ensure timely refunds, TTB measures its service levels through its measure of *Claims Processed within Service Standards*. Service standards are established by claim type and intended to reflect industry expectations while also minimizing costs to the government from interest payments on delayed claims. This year, TTB updated its method for this measure to include payment time in addition to processing to more accurately represent when industry members can expect their refunds. Further, TTB published its claims service standards and monthly processing times on TTB.gov, providing businesses with key information to support operational planning.

Despite heavy demands on the tax administration program this year, TTB made progress in timely issuing refunds across all claim types. In FY 2024, TTB processed and paid 100 percent of import claims within the initial 90-day standard, minimizing government costs in administering the new program. Additionally, since the first quarterly filing period for import claims in April 2023, TTB has sustained average processing times at or below 30 days.

For MNBP claims, another high-volume claim type, TTB met the 45-day standard for 72 percent of submissions, up from 48 percent in FY 2023, a year-to-year improvement of 24 percent. For other claim types, TTB met the 45-day standard for 78 percent of submissions, up 5 percent from 73 percent in FY 2023. TTB achieved these service gains by improving internal processes through recent IT enhancements and effectively deploying staff to address backlogs. Addressing backlogs was particularly essential to preparing TTB for the influx of new CBMA import claims submissions in FY 2024.

Across claim types, TTB made significant progress in lowering average processing times, reducing times by half over the past 4 years from approximately 50–60 days in FY 2020 to 20–30 days in FY 2024. This performance was possible due to an infusion of funding initially enacted in FY 2023 to provide the staffing, IT, and analytics resources necessary to administer the new CBMA import claims program. With these resources, TTB has hired and trained an additional 40 positions, and developed and deployed two new myTTB systems to enable importers to receive assignments for CBMA tax benefits from foreign producers and to file refund claims with TTB.

Given performance improvements to date, and within existing resources, TTB expects to meet its service target to process 85 percent of all claims within a 45-day service standard in FY 2025. TTB is cross-training staff to help meet this standard for all claim types and to ensure that TTB is prepared to redeploy staff as necessary to respond to any influxes in claims. In the years ahead, planned myTTB system enhancements will achieve further efficiencies by expanding electronic claims filing and introducing additional system-based validations to significantly streamline internal processing.

Deliver Integrated System Experience

In FY 2024, TTB continued to make progress in its myTTB IT modernization initiative, focusing development efforts on tax refund claims to improve existing processes in the new CBMA import claims program.

In FY 2023, TTB implemented two new myTTB systems to implement its data-driven approach to CBMA import claims filing and processing, including the associated security and data enhancements to facilitate implementation of the statute. To date, nearly 21,000 foreign alcohol producers have registered through the myTTB Foreign Producer Registration system, enabling more than 49,000 assignments of CBMA tax benefits to alcohol importers. Additionally, the myTTB Importer Claims system has allowed over 1,900 importers to file over 14,000 refund claims on imported alcohol products, totaling over $492 million.

Both of these systems incorporate external data sets to validate foreign producer registrants and importer eligibility for refunds, critical features to prevent the submission of ineligible or fraudulent claims. TTB is using data sets from CBP and the U.S. Food and Drug Administration that, in combination with TTB data, help to detect and prevent improper registrations, assignments, and claims. These initial system-based validations also support efficient claims processing and enabled TTB to provide timely service across claim types despite the increased volume of submissions.

In FY 2024, TTB continued enhancing the CBMA myTTB systems, including by deploying additional automated validations and risk flags to prevent improper payments and speed the approval of eligible refunds. Given the criticality of effective system-based validations to service times, TTB established a new measure of the *Auto-Validation Rate of Import Claims* and set a priority goal target of 50 percent by the end of FY 2025. Planned for release in early FY 2024, TTB deferred deployment to ensure data quality and conduct additional testing. TTB deployed the new feature in May 2024, and achieved a 19 percent auto-validation rate for the full fiscal year, accounting for the delayed release. Early results are promising, with auto-validation rates between 30 and 70 percent in the first four months. In the year ahead, TTB will continue to use system-based validations to support more timely review and processing of import refund claims.

Increase Data Quality & Integration

TTB also continued its efforts to improve data access to support the use of analytics to effectively identify risk and direct its enforcement resources. In FY 2024, TTB continued to improve the utility of its internal and external data sets to help address challenges posed by the controlled group rules under CBMA, including confirming eligibility for reduced tax rates and credits for imported products.

By integrating external data sets with TTB data, TTB is better able to determine whether producers who are part of controlled groups are exceeding the applicable CBMA tax benefit quantity limitations. These tools are also critical to improving TTB's ability to verify effective tax rates in audits and other taxpayer account reconciliations for domestic producers, and support risk determinations in TTB enforcement planning. In FY 2024, TTB continued to enhance its information on domestic and multinational controlled groups to support tax administration and enforcement, integrating both government and commercial data sources to improve the completeness and reliability of this critical data set, and implementing myTTB system enhancements to improve access to controlled group information across programs.

Advance Noncompliance Prevention, Detection, and Resolution Methods

Given the revenue risk posed by the CBMA import provisions, TTB continued to focus its data-driven enforcement efforts in FY 2024 on imported 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 2024, TTB continued to coordinate with CBP to improve import trade oversight and enforcement, including through the exchange and use of data needed by both agencies to enforce both the prior and new CBMA import provisions. Recognizing that CBMA import claims would present a high potential for fraud, TTB and CBP partnered to develop analytics-driven validation and risk monitoring tools.

This year, TTB continued to enhance its analytics tools to identify domestic industry members at risk of exceeding the relevant CBMA reduced rate and credit thresholds for subsequent field referral. In addition, TTB continued its efforts to mine import data 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.

These tools enabled TTB to nearly meet its performance target to initiate 30 percent or more of its revenue cases based upon leads generated by analytics tools. This year, approximately 28 percent of all TTB revenue cases were generated by analytics. Historically, TTB has been particularly successful in using analytics to generate leads for revenue cases involving import activity, deriving the leads for roughly 50 percent of these cases from analytics. This rate declined significantly starting in the second half of FY 2023, as TTB directed audit resources to import claims validations and testing other internal controls related to CBMA implementation.

Despite this shift, the overall success rate of these cases remains high at 65 percent, down from last year but holding near the performance target of 70 percent. Results continue to indicate that analytics-driven cases compare favorably to the success rate of cases generated through other leads and intelligence sources. In the year ahead, TTB will continue to refine its risk-based enforcement strategies to identify and address areas of revenue exposure, including those related to CBMA, and expects performance in both measures to exceed target.

Improve Public Guidance and Outreach

Industry outreach and educational efforts related to the new CBMA import provisions are also ongoing. In FY 2024, TTB delivered presentations and training sessions, both remotely and in-person, to help ensure that foreign producers and importers are aware of and able to comply with the new statutory and regulatory requirements to assign and obtain CBMA tax benefits for imported products.

In FY 2025, TTB plans to publish rulemaking before the temporary rule expires in October 2025, incorporating industry feedback and experience administering the new import claims program. TTB will also continue to update its online guidance to provide current information on these requirements, informed by common taxpayer questions. These efforts will include outreach to importers, customs brokers, and relevant trade associations to support compliance and facilitate timely processing. TTB will also hold webinars to educate importers and customs brokers to reduce the volume of claims that require file uploads due to errors in import entry data, which can delay timely refunds.

GOAL 4 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2024 Target	Result vs Target
Percent of Claims Processed within Service Standard[4]	SO 1	39%	54%	52%	75%	**92%**	85%	Met
CBMA Import Claims	SO 1	–	–	–	100%	**100%**	–	–
Drawback Claims	SO 1	29%	34%	35%	48%	**72%**	–	–
Other Claims	SO 1	46%	65%	58%	73%	**78%**	–	–
Percent of Electronically Filed Claims - Overall	SO 13	–	–	–	35%	**68%**	60%	Met
Auto-Validation Rate for Import Claims[5]	SO 9	–	–	–	BASE	**19%**	50%	Unmet
Percent of Revenue Cases Initiated through Analytics	SO 9	45%	45%	43%	29%	**28%**	30%	Unmet
Success Rate of Closed Revenue Cases Initiated through Analytics	SO 9	48%	75%	64%	72%	**65%**	70%	Unmet

Key: IND – Indicator: BASE–Baseline

4 Claims service standards are set annually and vary by type: CMBA Import Claims = 90 days (initial standard established in FY 2023 for year one of new program); Drawback Claims for Manufacturer of Nonbeverage Products (MNBP) = 45 days; Other Claims = 45 days. The standards account for when interest starts to accrue to the government, as defined by statute. Data reflect revised method implemented in FY 2024 to include payment time in the service standard, which is generally issued within 14 days.

5 TTB implemented new CBMA Import Claims program in FY 2023, including a myTTB system for filing and processing claims; additional system-based validations were released in Q3 FY 2024, and TTB is on track to meet its target by FY 2025.

GOAL 5: ENHANCE WORKFORCE READINESS

TTB's strategic goal to *Enhance Workforce Readiness* underpins its success in the other four strategic goals. TTB's small size, breadth of program responsibilities, and evolving mission requirements require a workforce that is diverse, engaged, and results driven. Through this goal, the Bureau aims to prepare the TTB workforce by continually assessing and addressing the structure, staffing, and skills needed to meet mission needs. 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

Optimize Organizational Capacity

TTB continues to identify high retirement eligibility, particularly in critical positions, as one of the Bureau's top risks. In the next five years, approximately 40 percent of TTB employees will be eligible to retire. This risk has been exacerbated in recent years by high attrition rates, which have resulted in the loss of nearly 20 percent of TTB's workforce since FY 2021 through a combination of retirements and separations. Broader workforce trends likely also contributed to increased attrition rates, but TTB is also undergoing a period of mission expansion, increasing mandates, and shifting priorities that may have contributed to elevated turnover. This trend slowed in FY 2024, with attrition returning to historic norms of roughly 5 percent.

TTB intends to continue its proactive approach to addressing these mission risks by strategically employing a variety of human capital policies and programs, with current emphasis on improving recruitment and hiring strategies to tap into new talent pools. With competition high in major metropolitan areas, TTB is leveraging opportunities to open job vacancies nationwide to reach talent in underserved communities. Further, TTB is focused on addressing hiring delays that strain existing staff and present program challenges. TTB hiring times in FY 2024 averaged 116 days, an increase of nearly 20 percent since FY 2022, and well over the OPM standard of 80 days. Given its size and structure, with many positions or programs staffed by only a few individuals, TTB needs to reduce hiring times and improve its training and development programs to be able to sustain organizational performance despite the anticipated staff turnover and retirements in the year ahead.

To this end, TTB continues to focus on enhancing the technical knowledge and leadership skills of its workforce. In FY 2024, TTB maintained 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 80 percent in FY 2018 to 83 percent in FY 2024. In FY 2020, the Office of Personnel Management (OPM) modified the survey to account for new questions related to organizational response and workforce reaction to COVID-19. TTB accounted for these revisions in its FY 2020 and 2021 results, which affected two of six survey questions TTB uses in calculating this measure.

Progress in this area has been driven by improved annual processes to ensure that TTB's priority training needs are identified and met. TTB again completed its Bureau-wide training needs assessment, which informs TTB's annual training plan. TTB actively managed its training plan through regular reviews with its Training Advisory Group, a crosscutting team tasked with representing division training needs. In FY 2024, TTB continued to invest in its long-term strategy to increase capacity for delivering priority training, engaging a training vendor that offers online, in-person, and hybrid offerings to address these critical training needs. TTB also leverages internal training opportunities as well as those available across Treasury to expand options available to its workforce. For example, in FY 2024, TTB continued to participate in Lean Six Sigma training opportunities offered by Treasury's Office of Strategic Planning and Process Improvement to build capacity in continuous process improvement. In addition, TTB participated in Treasury's pilot training programs for data scientists to increase its evidence-building capacity.

TTB also continued a multi-year initiative to develop career development models to define the required competencies and proficiency levels for all mission-critical occupations. Based on resources, TTB is phasing these efforts and, to date, has initiated or completed models in the chemist and auditor job series (21 percent of the workforce), and initiated the specialist job series, starting with label and formula specialists (35 percent of the workforce). In FY 2024, due to capacity constraints, TTB deferred work on career models, and initiated an assessment of IT product owners, a priority to facilitate hiring and recruitment for its IT modernization efforts. These tools and assessments provide transparent and clear expectations for the capabilities employees must demonstrate to advance by job series and grade, and are an important part of TTB plans to prepare candidates for leadership positions.

In addition, TTB remains focused on developing its next generation of leaders, with ongoing efforts to improve succession planning to enhance practical leadership capabilities and the Bureau's leadership pipeline. In FY 2024, TTB continued to build its framework for a three-tiered approach to leadership development to better address the needs of emerging leaders through the executive ranks. This year, TTB launched its second cohort from its Leadership Exploration Program, with 46 participants to date. TTB also continued to develop a new program designed to support the development of high-potential employees, including an executive mentoring component, and launched the program pilot this year. Further, TTB plans to continue participating in a Treasury-wide Senior Executive Service Candidate Development Program (SES CDP) to build TTB's leadership bench and provide new opportunities for employees seeking certification of their Executive Core Qualifications.

Strengthen Workforce Diversity and Inclusivity

Employee engagement and satisfaction are critical to developing and sustaining a workplace culture where diverse talents are embraced and empowered. Each year, OPM administers the EVS to measure the satisfaction of the Federal workforce. Based on this survey data, the Partnership for Public Service compiles and publishes 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 high performance in recent years.

Over the past five years, TTB has remained above government-wide performance, and achieved a *Best Places to Work Engagement Index Score* of 84 percent in FY 2024. TTB's Employee Engagement Action Plan for FY 2024 focused on improving training and internal communications, two areas with opportunities for improvement across TTB divisions. Specifically, TTB focused on improving training for new hires, and launched an initiative to redesign its onboarding program to improve the new employee experience, starting from initial orientation to a full year-long onboarding journey. TTB also formed an IDEEA Council–Inclusion, Diversity, Engagement, Equity and Accessibility–to engage TTB employees in improving the TTB work environment, including developing and implementing recruitment and outreach strategies to reach diverse talent.

Since the onset of the pandemic, engagement scores have trended down from a peak of 87 percent. However, after three consecutive years of decline, TTB engagement scores increased to 84 percent in FY 2024, although still below the performance target of 85 percent. These recent trends indicate that employee satisfaction and engagement may have been negatively affected by statutory and other mandates that have resulted in shifting priorities and strained resources. TTB is evaluating 2024 survey results by directorate to identify additional focus areas in FY 2025.

In the years ahead, like many agencies, TTB will need to develop additional strategies to effectively onboard staff and maintain employee engagement in the hybrid work environment. TTB is also evaluating options to ensure it delivers high quality training through a mix of in-person, hybrid, and remote training. This includes 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 Resource Management and Allocation

To meet this strategic goal, TTB must focus on workforce planning to ensure that the Bureau is appropriately structured and adequately resourced to meet current and future mission requirements. In FY 2024, TTB improved its use of workforce analytics, including hiring, workforce, and diversity data, to inform strategies to attract and retain diverse talent to meet TTB's current and future mission needs.

In FY 2025, TTB will continue to pursue data-informed workforce planning efforts by analyzing key programs and staffing levels. TTB plans to specifically assess staffing needs in program management and support functions, areas of ongoing risk. Last year, TTB evaluated its human resources program and processes, benchmarking against public and private sector organizations. As a result, TTB restructured and increased staffing to improve its capacity for strategic human capital management. TTB also plans to partner with Treasury and other Federal agencies to achieve economies of scale in establishing effective recruitment strategies, including outreach to universities and professional organizations, as well as exploring student internships.

GOAL 5 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024		Result vs Target
		Actual	Actual	Actual	Actual	Actual	Target	
Best Places to Work Engagement Index Score[6]	SO 11	87	85	84	83	**84**	85	Unmet
FEVS Positive Response Score - Workforce Development/ Training Index[7]	SO 11	87	88	84	83	**83**	85	Unmet
FEVS Positive Response Score - Internal Communications Index[8]	SO 6	84	83	82	82	**84**	85	Unmet

6 Estimated based on initial FEVS results. For full results, see www.bestplacestowork.org.

7 Due to OPM FEVS survey modifications, items included in results vary by year. Results reflect three training-related questions in FY20-21 and four in FY22-24.

8 Due to OPM FEVS survey modifications, items included in results vary by year. Results reflect five training-related questions in FY20-21, eight in FY22, and nine in FY23-24.

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 $17 billion in annual excise tax collections from the alcohol, tobacco, firearms, and ammunition industries.

In FY 2024, for the fifteenth consecutive year, TTB obtained an unmodified (clean) audit opinion on its financial statements from an independent Certified Public Accounting firm, demonstrating our dedication to financial reporting excellence. This audit provides reasonable assurance that TTB's financial statements are free from material misstatement and were prepared in accordance with generally accepted accounting principles.

FY 2024 was another busy year for TTB, as we completed our first full year administering the CBMA import provisions. We invested in staffing and new systems that have enabled the Bureau to timely process claims submitted by importers to receive tax benefits assigned to them by foreign producers. In FY 2024, we approved and paid more than 11,000 import claims, totaling over $330 million. In addition, this ongoing investment has allowed TTB to reduce the average import claim processing time from 30 days down to less than 10 days by the end of FY 2024, despite receiving a higher than anticipated volume of claim submissions.

In addition, like many organizations, TTB recognizes the importance of its most critical asset, its workforce. While TTB has always embraced a flexible work environment, this year we launched a new Telework and Remote Work Flexibilities Program to support attracting and retaining top talent while continuing to promote employee productivity and well-being, including through increased in-person collaboration opportunities. To support this effort, the Bureau piloted a new collaboration environment at TTB headquarters, equipped with state-of-the-art video conferencing technology and flexible meeting spaces. These enhancements improve the quality of both in-person and hybrid meetings by allowing employees to more easily connect and interact regardless of work location.

Further, TTB again achieved its overall small business goals for acquisitions in FY 2024, demonstrating our commitment to supporting economic growth and recovery for all. This was reinforced across all subcategories, including small, disadvantaged businesses; service-disabled veteran-owned small businesses; women-owned small businesses; and HUBZone small businesses.

We are also preparing for the future. We are focusing on succession planning and other workforce readiness initiatives, which are particularly critical in anticipation of higher employee attrition driven by a long-predicted wave of retirements. As part of this, we are reimagining our new employees' onboarding and orientation experiences, key to engaging new hires and ensuring the Bureau's long-term success. We also continued to improve leadership development programs to bolster our talent pipeline and support employee development.

Additionally, in the year ahead, TTB will prioritize investments to support the priority Permit Modernization initiative, with TTB's off-the-shelf permit system reaching end of life in calendar year 2025. In FY 2024, we allocated funds to replace the legacy system in FY 2025 with a custom permit system that will reduce industry burden, improve service times, and streamline internal TTB processes.

Joseph D. Burruss
Assistant Administrator, Management/CFO

3.2 AUDITORS' REPORTS, FINANCIAL STATEMENTS, AND ACCOMPANYING NOTES

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Acting Inspector General
Department of the Treasury

Administrator
Alcohol and Tobacco Tax and Trade Bureau:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Alcohol and Tobacco Tax and Trade Bureau (TTB), which comprise the balance sheets as of September 30, 2024 and 2023, and the related statements of net costs, changes in net position, and custodial activity, and statements of budgetary resources for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the TTB as of September 30, 2024 and 2023, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the TTB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter - Interactive Data

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TTB's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, 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 GAAS, 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

Management is responsible for the other information included in the TTB Annual Report. The other information comprises the (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 but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2024, we considered the TTB's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *TTB*'s internal control. Accordingly, we do not express an opinion on the effectiveness of the TTB's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TTB's financial statements as of and for the year ended September 30, 2024 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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. 24-02.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the TTB's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
December 19, 2024

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
BALANCE SHEETS
As of September 30, 2024 and 2023
(In Thousands)

	2024	2023
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 84,148	$ 73,128
Accounts Receivable, Net (Note 3)	1,490	1,228
Due from the General Fund (Notes 5 and 8)	19,911	14,368
Total Intragovernmental Assets	105,549	88,724
Other than Intragovernmental Assets:		
Accounts Receivable, Net (Note 3)	740	572
Tax Receivables, Net (Notes 4 and 8)	117,198	117,548
General Property, Plant, and Equipment, Net (Note 6)	19,453	15,250
Advances and Prepayments (Note 7)	1,408	1,465
Total Other than Intragovernmental Assets	138,799	134,835
TOTAL ASSETS (Note 8)	$ 244,348	$223,559
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$ 1,020	$ 1,463
Payroll and Benefits Payable	501	1,154
Unfunded FECA Liability (Note 10)	16	13
Due to the General Fund (Notes 4 and 5)	97,447	101,363
Due to the Wildlife Restoration Fund (Notes 4 and 5)	19,751	16,185
Total Intragovernmental Liabilities	118,735	120,178
Other than Intragovernmental Liabilities:		
Accounts Payable	3,285	3,660
Payroll and Benefits Payable	1,579	3,615
Actuarial FECA Liability (Note 10)	93	92
Unfunded Leave Liability (Note 10)	6,072	5,657
Refunds Payable	19,911	14,368
Cash Bond Liabilities	10,870	12,355
Offers-in-Compromise not yet Accepted (Note 9)	22,864	16,444
Other Liabilities	1	-
Total Other than Intragovernmental Liabilities	64,675	56,191
TOTAL LIABILITIES (Note 10)	$ 183,410	$176,369
Commitments and Contingencies (Note 19)		
NET POSITION		
Unexpended Appropriations - Funds from other than Dedicated Collections	46,546	36,727
Cumulative Results of Operations - Funds from other than Dedicated Collections	14,392	10,463
TOTAL NET POSITION	60,938	47,190
TOTAL LIABILITIES AND NET POSITION	$ 244,348	$223,559

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, 2024 and 2023
(In Thousands)

	2024	2023
COLLECT THE REVENUE		
Program Costs		
Gross Costs	$ 77,566	$ 68,996
Less: Earned Revenue	(6,733)	(5,481)
Total Net Program Cost	70,833	63,515
PROTECT THE PUBLIC		
Program Costs		
Gross Costs	83,382	80,708
Less: Earned Revenue	(2,105)	(1,239)
Total Net Program Cost	81,277	79,469
NET COST OF OPERATIONS (Note 13)	$ 152,110	$ 142,984

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, 2024 and 2023
(In Thousands)

	2024	2023
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 36,727	$ 26,893
Budgetary Financing Sources		
Appropriations Received	157,795	148,863
Other Adjustments	(675)	(746)
Appropriations Used	(147,301)	(138,283)
Total Budgetary Financing Sources	9,819	9,834
Total Unexpended Appropriations	46,546	36,727
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	10,463	8,308
Budgetary Financing Sources		
Appropriations Used	147,301	138,283
Transfers-in without reimbursement	1,000	750
Other Financing Sources (Non-exchange)		
Imputed Financing from Costs Absorbed by Others (Note 12)	7,739	6,109
Transfers out to the General Fund and Other	(1)	(3)
Total Financing Sources	156,039	145,139
Net Cost of Operations (Note 13)	(152,110)	(142,984)
Net Change	3,929	2,155
Cumulative Results of Operations	14,392	10,463
TOTAL NET POSITION	$ 60,938	$ 47,190

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, 2024 and 2023
(In Thousands)

	2024	2023
BUDGETARY RESOURCES (Note 14)		
Unobligated Balance from Prior Year Budget Authority, Net	$ 7,278	$ 7,662
Appropriations (discretionary and mandatory)	157,795	148,863
Spending Authority from Offsetting Collections (discretionary and mandatory)	8,876	8,949
TOTAL BUDGETARY RESOURCES	$ 173,949	$ 165,474
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Note 15)	$ 167,033	$ 158,531
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	4,976	4,879
Unexpired Unobligated Balance, End of Year	4,976	4,879
Expired Unobligated Balance, End of Year	1,940	2,064
Unobligated Balance, End of Year	6,916	6,943
TOTAL STATUS OF BUDGETARY RESOURCES	$ 173,949	$ 165,474
AGENCY OUTLAYS, NET		
Outlays, Gross (discretionary and mandatory)	$ 160,472	$ 145,525
Actual Offsetting Collections (discretionary and mandatory)	(9,438)	(7,838)
Outlays, Net (discretionary and mandatory)	151,034	137,687
Distributed Offsetting Receipts	(1)	(3)
AGENCY OUTLAYS, NET (discretionary and mandatory)	$ 151,033	$ 137,684

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, 2024 and 2023
(In Thousands)

	2024	2023
SOURCES OF CUSTODIAL REVENUE		
Revenue Received		
Excise Taxes (Notes 16 and 17)	$ 16,771,909	$ 18,095,362
Interest, Fines and Penalties (Note 17)	8,103	14,189
Total Revenue Received (Note 17)	16,780,012	18,109,551
Less Refunds and Drawbacks (Note 16)	(780,824)	(517,384)
Net Revenue Received	15,999,188	17,592,167
Accrual Adjustment	(5,893)	(12,571)
Total Sources of Custodial Revenue	15,993,295	17,579,596
Amounts Provided to:		
General Fund	14,713,139	16,279,208
Wildlife Restoration Fund	886,499	944,007
Amounts Provided to Fund the Federal Government (Note 17)	15,599,638	17,223,215
Amounts Provided to Non-Federal Entities (Notes 16 and 17)	399,550	368,952
Increase/(Decrease) in Amounts Yet to be Provided:		
General Fund	(3,916)	(18,495)
Wildlife Restoration Fund	3,566	5,372
(Increase)/Decrease in Accrued Refunds	(5,543)	552
Total Disposition of Custodial Revenue	15,993,295	17,579,596
NET CUSTODIAL REVENUE ACTIVITY	$ -	$ -

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. *Reporting Entity*

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

B. *Basis of Presentation*

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

C. *Basis of Accounting*

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

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

NEW STANDARDS ISSUED IN PRIOR AND CURRENT YEARS AND IMPLEMENTED IN CURRENT YEAR

In April 2018, FASAB issued SFFAS No. 54, *Leases: An Amendment of SFFAS No. 5, Accounting for Liabilities of the Federal Government*. SFFAS No. 54 revises the financial reporting standards for federal lease accounting. It provides a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's financial statements and includes appropriate disclosures. This new standard and the related amendments are applicable to the Financial Report and have been fully implement for FY 2024.

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 16.5 to 18.4 percent of pay for regular employees. The Bureau has not employed any law enforcement employees. As such, the contribution rates associated with those types of employees are not applicable to TTB.

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

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

P. *Federal Employees' Compensation Act*

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

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

Q. *Use of Estimates*

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

R. *Tax Exempt Status*

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

S. *Changes in Presentation*

There were some changes to the presentation between fiscal 2023 and 2024 to reflect changes in prescribed form and content requirements; notably disclosures for Property, Plant and Equipment and Lease Expenses.

T. *Subsequent Events*

Subsequent events and transaction occurring after September 30, 2024 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. There were no subsequent events warranting disclosure.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2024 and 2023 consisted of the following (in thousands):

	2024	2023
Fund Balances:		
General Funds	$ 50,414	$ 44,328
Other Funds	33,734	28,800
Total	$ 84,148	$ 73,128
Status of Fund Balances:		
Unobligated Balance - Available	$ 4,976	$ 4,879
Unobligated Balance - Unavailable	1,940	2,064
Obligated Balance Not Yet Disbursed	43,498	37,385
Subtotal	50,414	44,328
Adjustment for Non-Budgetary Funds	33,734	28,800
Total Status of Fund Balances	$ 84,148	$ 73,128

The other funds and non-budgetary fund balance primarily represents cash bonds and Offers-in-Compromise (OIC). Cash bonds are cash payments made to the Bureau by taxpayers, in lieu of obtaining corporate surety bonds, guaranteeing payment of taxes. 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, 2024 and 2023 consisted of the following (in thousands):

	2024	2023
Intragovernmental Accounts Receivable:		
Due from Community Development Financial Institutions Fund	$ 263	$ 132
Due from Treasury Executive Office of Asset Forfeiture	1,227	1,082
Due from Department of Agriculture	-	14
Total Intragovernmental Accounts Receivable	$ 1,490	$ 1,228
Due from the Government of Puerto Rico	$ 725	$ 564
Due from Employees	15	8
Total Accounts Receivable Due from the Public	$ 740	$ 572

No allowance for doubtful accounts has been recognized, nor have any accounts been written off in either FY2024 or FY2023. 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 Receivables, Net

Tax Receivables as of September 30, 2024 and 2023 consisted of the following (in thousands):

2024	Gross Receivables	Allowance	Net Receivables
Excise Tax Receivables	$ 234,370	$ (175,946)	$ 58,424
Interest Receivables	91,063	(74,955)	16,108
Penalties, Fines and Administrative Fees Receivables	121,727	(79,658)	42,069
Criminal Restitution Receivables	51,918	(51,321)	597
Total Tax Receivables	$ 499,078	$ (381,880)	$ 117,198

2023	Gross Receivables	Allowance	Net Receivables
Excise Tax Receivables	$ 227,698	$ (164,105)	$ 63,593
Interest Receivables	57,872	(42,613)	15,259
Penalties, Fines and Administrative Fees Receivables	102,350	(64,278)	38,072
Criminal Restitution Receivables	51,868	(51,244)	624
Total Tax Receivables	$ 439,788	$ (322,240)	$ 117,548

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.

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, 2024 and 2023 consisted of the following (in thousands):

	2024	2023
Due from the General Fund	$ 19,911	$ 14,368

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.

	2024	2023
Due to the General Fund	$ 97,447	$ 101,363
Due to the Wildlife Restoration Fund	19,751	16,185
Total Custodial Liabilities	$ 117,198	$ 117,548

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, 2024 and 2023 consisted of the following (in thousands):

2024	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$ 33,031	$ (19,889)	$ 13,142
Equipment	4 - 6	12,348	(10,885)	1,463
Leasehold Improvements	2 - 5	3,607	(3,386)	221
Building	40	9,772	(5,145)	4,627
Total PP&E		$ 58,758	$ (39,305)	$ 19,453

2023	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$ 24,891	$ (16,691)	$ 8,200
Equipment	4 - 6	12,868	(10,991)	1,877
Leasehold Improvements	2 - 5	3,430	(3,290)	140
Building	40	9,772	(4,891)	4,881
Construction in Process		152	-	152
Total PP&E		$ 51,113	$ (35,863)	$ 15,250

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 ATF.

	2024	2023
Beginning Balance	$ 15,250	$ 12,982
Acquisitions	8,519	5,585
Depreciation Expense	(4,316)	(3,227)
Loss on Dispositions	-	(90)
Ending Balance	$ 19,453	$ 15,250

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

Note 7. Advances

Advances as of September 30, 2024 and 2023 consisted of the following (in thousands):

	2024	2023
Beginning Balance	$ 1,465	$ 785
Prepayments	835	1,339
Liquidations	(892)	(659)
Ending Balance	$ 1,408	$ 1,465

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

Note 8. Non-entity Assets

Non-entity Assets as of September 30, 2024 and 2023 consisted of the following (in thousands):

	2024	2023
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	$ 33,734	$ 28,800
Due from the General Fund	19,911	14,368
Total Intragovernmental Non-entity Assets	53,645	43,168
Tax Receivables, Net	117,198	117,548
Total Non-Entity Assets	170,843	160,716
Total Entity Assets	73,505	62,843
Total Assets	$ 244,348	$ 223,559

Note 9. Offers-in-Compromise not yet Accepted

Offers-in-Compromise (OIC) 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. As of September 30, 2024, 53 offers had been made totaling $22.9 million. As of September 30, 2023, OICs totalled $16.4 million from 48 offers.

Note 10. Liabilities Not Covered by Budgetary Resources

Liabilities not Covered by Budgetary Resources as of September 30, 2024 and 2023 consisted of the following (in thousands):

	2024	2023
Unfunded FECA Liability	$ 16	$ 13
Total Intragovernmental Liabilities not Covered by Budgetary Resources	16	13
Actuarial FECA Liability	93	92
Unfunded Leave Liability	6,072	5,657
Total Liabilities with the Public not Covered by Budgetary Resources	6,165	5,749
Total Liabilities not Covered by Budgetary Resources	6,181	5,762
Total Liabilities Covered by Budgetary Resources	177,229	170,607
Total Liabilities	$ 183,410	$ 176,369

Note 11. Future Funding Requirements

Generally, liabilities not covered by budgetary resources require future funding and can be liquidated only with the enactment of future appropriations. As of September 30, 2024, liabilities not covered by budgetary resources increased approximately $419,000 since September 30, 2023. However, the balance has a history of both increasing and decreasing over time, as it is largely a product of the size and maturity of TTB's workforce at any given point in time.

Note 12. Imputed Financing

Imputed Financing as of September 30, 2024 and 2023 consisted of the following (in thousands):

	2024	2023
Health Insurance	$ 3,924	$ 3,972
Life Insurance	12	10
Pension	3,803	2,127
Total Imputed Financing	$ 7,739	$ 6,109

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 2024 or 2023.

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 $3.8 million and $2.1 million for FY 2024 and FY 2023, 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 decreased in FY 2024 to $9,445 from $9,640 in FY 2023; resulting in the imputed cost for employees' health benefits in FY 2024 decreasing to $3.9 million from $4.0 million in FY 2023. The cost factor, as provided by OPM, for employees enrolled in the FEGLI program, remained unchanged from FY 2023 to FY 2024, at .02 percent of employees' basic pay. The FEGLI amounts totaling $12,000 and $10,000 in FY 2024 and FY 2023, 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, 2024 and 2023 consisted of the following (in thousands):

Fiscal Year Ended September 30, 2024

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$ 46,201	$ (4,404)	$ 41,797
With the Public	Central Fiscal Operations	803	114,747	(4,434)	110,313
Consolidated	Central Fiscal Operations	803	$ 160,948	$ (8,838)	$ 152,110

Fiscal Year Ended September 30, 2023

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$ 43,009	$ (2,756)	$ 40,253
With the Public	Central Fiscal Operations	803	106,695	(3,964)	102,731
Consolidated	Central Fiscal Operations	803	$ 149,704	$ (6,720)	$ 142,984

Central fiscal operations (BFC Code 803) is defined as the general tax collection and fiscal operations of the Department of the Treasury.

Consolidated Intragovernmental Lease Expenses as of September 30, 2024 and 2023 consisted of the following (in thousands):

	2024	2023
Vehicles	$ 60	$ 72
Buildings	3,706	4,237
Total Intragovernmental Lease Expense	$ 3,766	$ 4,309

Of TTB's Gross Intragovernmental Costs, Intragovernmental Lease Expenses for FY 2024 and FY 2023 totalled $3.5 million and $4.3 million, in each respective year.

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

The following chart displays balances from the FY 2023 Statement of Budgetary Resources and actual fiscal year balances included in the FY 2025 President's Budget. There were no differences related to the Salaries and Expense accounts. The FY 2026 budget, which would include FY 2024 actuals, had not been published at the time of this report.

Fiscal Year Ended September 30, 2023 (In Millions)	**Statement of Budgetary Resources**	**President's Budget**
Budgetary Resources:		
Appropriations	$ 149	$ 149
Spending Authority from Offsetting Collections	9	9
Budgetary Resources Available for Obligation	$ 158	$ 158
New Obligations and Upward Adjustments	$ 159	$ 159
Outlays:		
Outlays, Gross	$ 146	$ 146
Actual Offsetting Collections	(8)	(8)
Outlays, Net	$ 138	$ 138

Additionally, for Special and Trust Fund Receipts, the FY 2025 President's Budget disclosed budget authority of $362 million for FY 2023, 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, 2024 and 2023 consisted of the following (in thousands):

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total New Obligations and Upward Adjs
2024	Category B	$ 159,151	$ 7,882	$ 167,033
2023	Category B	$ 150,082	$ 8,449	$ 158,531

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.

	2024	2023
Undelivered Orders, Unpaid Federal	$ 3,631	$ 1,905
Undelivered Orders, Paid Non-federal	1,408	1,465
Undelivered Orders, Unpaid Non-federal	38,637	31,283
Undelivered Orders, End of Year	$ 43,676	$ 34,653

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 2024 and FY 2023, TTB collected $16.8 billion and $18.1 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 2024 and FY 2023, TTB issued $1.2 billion and $886.3 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, $4.5 million and $4.0 million in FY 2024 and FY 2023 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.

CBMA Claims

The Taxpayer Certainty and Disaster Tax Relief Act of 2020 made permanent most Craft Beverage Modernization Act (CBMA) provisions of the Tax Cuts and Jobs Act of 2017, with several amendments, including transferring responsibility for administering the CBMA provisions, related to imported alcohol, from U.S. Customs and Border Protection (CBP) to Treasury, as of January 1, 2023. Treasury assigned the new CBMA import claims program to TTB to administer. Under the law, starting in 2023, alcohol beverage importers were no longer eligible for the CBMA tax benefits from CBP at the time of entry; rather, importers were required to pay the full tax rate at entry and submit quarterly refund claims to TTB to receive the benefits.

The claims result from the change in tax rates provided by the law.

Refunds, Drawbacks and Cover-over Payments as of September 30, 2024 and 2023 consisted of the following (in thousands):

	2024	2023
Alcohol, Tobacco, and Firearms Excise Tax Refunds	$ 92,277	$ 65,243
Drawbacks on MNBP Claims	382,904	372,898
CBMA Claims	301,352	78,261
Interest and Other Payments	4,291	982
Refunds and Drawbacks	780,824	517,384
Cover-over Payments - Puerto Rico	393,907	362,417
Cover-over Payments - Virgin Islands	5,643	6,535
Amounts Provided to Non-federal Entities	399,550	368,952
Total Refunds, Drawbacks and Cover-over Payments	$1,180,374	$ 886,336

Note 17. Custodial Revenue

Collection and Disposition of Custodial Revenue as of September 30, 2024 and 2023 consisted of the following (in thousands):

FY 2024 Collections and Refunds by Tax Year and Type

Revenue Type	2024	2023	2022	Pre-2022	FY 2024 Total
Excise Taxes	$16,307,012	$ 441,653	$ 10,607	$ 12,637	$16,771,909
Fines, Penalties, Interest and Other	3,992	1,665	309	2,137	8,103
Total Revenue Received	16,311,004	443,318	10,916	14,774	16,780,012
Less: Amounts Collected for Non-federal Entities	(398,553)	(997)	-	-	(399,550)
Total	$15,912,451	$ 442,321	$ 10,916	$ 14,774	$16,380,462
Refund Type					
Excise Taxes	$ 305,579	$ 411,030	$ 30,762	$ 29,162	$ 776,533
Fines, Penalties, Interest and Other	2	23	413	3,853	4,291
Total Refunds & Drawbacks	305,581	411,053	31,175	33,015	780,824
Amounts Provided to Fund the Federal Government	$15,606,870	$ 31,268	$ (20,259)	$ (18,241)	$15,599,638

FY 2023 Collections and Refunds by Tax Year and Type

Revenue Type	2023	2022	2021	Pre-2021	FY 2023 Total
Excise Taxes	$17,534,338	$ 529,335	$ 5,010	$ 26,679	$18,095,362
Fines, Penalties, Interest and Other	4,366	1,708	887	7,228	14,189
Total Revenue Received	17,538,704	531,043	5,897	33,907	18,109,551
Less: Amounts Collected for Non-federal Entities	(338,132)	(30,820)	-	-	(368,952)
Total	$17,200,572	$ 500,223	$ 5,897	$ 33,907	$17,740,599
Refund Type					
Excise Taxes	$ 262,756	$ 220,598	$ 17,639	$ 15,409	$ 516,402
Fines, Penalties, Interest and Other	198	171	130	483	982
Total Refunds & Drawbacks	262,954	220,769	17,769	15,892	517,384
Amounts Provided to Fund the Federal Government	$16,937,618	$ 279,454	$ (11,872)	$ 18,015	$17,223,215

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, 2024 AND 2023 CONSISTED OF THE FOLLOWING (IN THOUSANDS):

2024	Federal	Non-Federal	Total
Net Cost of Operations (SNC)	$ 41,797	$ 110,313	$ 152,110
Components of Net Cost of Operations not Part of the Budgetary Outlays:			
Depreciation Expense	-	(4,316)	(4,316)
Increase in Accounts Receivable	262	168	430
(Decrease) in Other Assets	-	(57)	(57)
Increase/(Decrease) in Assets	262	111	373
(Increase) in Other Liabilities	(3)	(417)	(420)
(Increase) in Liabilities	(3)	(417)	(420)
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(7,739)	-	(7,739)
Transfers Out/(In) Without Reimbursement	(1,000)	-	(1,000)
Other Financing Sources	(8,739)	-	(8,739)
Total Components of Net Cost of Operations not Part of the Budgetary Outlays	(8,480)	(4,622)	(13,102)
Components of Budgetary Outlays not Part of Net Cost of Operations:			
Acquisition of Capital Assets	-	8,519	8,519
Decrease in Accounts Payable	443	375	818
Decrease in Salaries and Benefits Liabilties	652	2,036	2,688
Decrease in Liabilities	1,095	2,411	3,506
Total Components of Budgetary Outlays not Part of Net Cost of Operations	1,095	10,930	12,025
Outlays, Net (Calculated Total)	$ 34,412	$ 116,621	$ 151,033
Related Amounts on the Statement of Budgetary Resources:			
Outlays, Net	$ 34,412	$ 116,622	$ 151,034
Distributed Offsetting Receipts	-	(1)	(1)
Agency Outlays, Net	$ 34,412	$ 116,621	$ 151,033

2023	Federal	Non-Federal	Total
Net Cost of Operations (SNC)	$ 40,253	$ 102,731	$ 142,984
Components of Net Cost of Operations not Part of the Budgetary Outlays:			
Depreciation Expense	-	(3,227)	(3,227)
Gains/(Losses) on PP&E Disposals and Reevaluations	-	(90)	(90)
(Increase) in Accounts Payable	(270)	(336)	(606)
(Increase) in Salaries and Benefits Liabilities	(84)	(256)	(340)
(Increase) in Other Liabilities	3	(224)	(221)
(Increase) in Liabilities	(351)	(816)	(1,167)
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(6,109)	-	(6,109)
Transfers Out/(In) Without Reimbursement	(750)	-	(750)
Other Financing Sources	(6,859)	-	(6,859)
Total Components of Net Cost of Operations not Part of the Budgetary Outlays	(7,210)	(4,133)	(11,343)
Components of Budgetary Outlays not Part of Net Cost of Operations:			
Acquisition of Capital Assets	-	5,585	5,585
(Decrease) in Accounts Receivable	(166)	(56)	(222)
Increase in Other Assets	-	680	680
Increase/(Decrease) in Assets	(166)	624	458
Total Components of Budgetary Outlays not Part of Net Cost of Operations	(166)	6,209	6,043
Outlays, Net (Calculated Total)	$ 32,877	$ 104,807	$ 137,684
Related Amounts on the Statement of Budgetary Resources:			
Outlays, Net	$ 32,877	$ 104,810	$ 137,687
Distributed Offsetting Receipts	-	(3)	(3)
Agency Outlays, Net	$ 32,877	$ 104,807	$ 137,684

Note 19: Contingent Liabilities

As of September 30, 2024, TTB is party to three legal actions where legal counsel believes an unfavorable outcome is reasonably possible. Two of the legal actions claim harm resulting from the purported unconstitutionality of the Internal Revenue Code. One claims harm resulting from TTB's alleged failure to issue a timely rulemaking decision. The potential liability on the three cases cannot be estimated.

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
2015	$ 7,997,467	$ 13,620,497	$ 638,518	$ 288	$ 2,444	$ 7	$ 22,259,221
2016	8,075,476	13,274,371	749,789	258	245	505	22,100,644
2017	8,103,714	12,966,317	761,630	227	69	521	21,832,478
2018	7,877,214	12,050,283	624,802	273	7	1,006	20,553,585
2019	7,865,036	11,375,038	567,330	260	5	5,126	19,812,795
2020	8,088,717	11,239,189	665,650	250	-	6,057	19,999,863
2021	8,390,351	10,756,326	1,102,734	212	-	1,235	20,250,858
2022	8,255,829	10,158,504	1,150,848	237	-	755	19,566,173
2023	7,881,700	9,282,193	944,060	228	-	1,370	18,109,551
2024	7,558,324	8,328,605	892,843	240	-	-	16,780,012
Average	$ 8,009,383	$ 11,305,132	$ 809,820	$ 247	$ 277	$ 1,658	$ 20,126,518

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 2024 and 2023, TTB incurred $2.7 million and $2.1 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	CBMA Claims	Interest and Other	Total
2015	$ 343,429	$ 7,093	$ 27,776	$ 306,640	N/A	$ 151	$ 685,089
2016	416,815	7,975	34,799	355,668	N/A	162	815,419
2017	364,804	5,122	55,839	350,055	N/A	136	775,956
2018	446,026	8,708	44,848	273,927	N/A	635	774,144
2019	445,324	8,217	47,277	342,433	N/A	456	843,707
2020	471,073	6,906	45,709	373,438	N/A	550	897,676
2021	519,682	8,787	42,758	402,129	N/A	587	973,943
2022	414,300	6,589	74,854	421,726	N/A	1,415	918,884
2023	362,417	6,535	65,243	372,898	78,261	982	886,336
2024	393,907	5,643	92,277	382,904	301,352	4,291	1,180,374
Average	$ 417,778	$ 7,158	$ 53,138	$ 358,182	$ 189,807	$ 937	$ 875,153

AT&F – Alcohol, Tobacco, and Firearms
MNBP – Manufacturer of Nonbeverage Products
CBMA – Craft Beverage Modernization Act

OTHER ACCOMPANYING INFORMATION (UNAUDITED)

OTHER ACCOMPANYING INFORMATION
COMBINED SCHEDULE OF SPENDING
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023
UNAUDITED (IN THOUSANDS)

	2024	2023
What Money is Available to Spend		
Total Resources	$ 173,949	$ 165,474
Less: Amount Available but not Agreed to be Spent	(4,976)	(4,879)
Less: Amount Not Available to Be Spent	(1,940)	(2,064)
Total Amounts Agreed to be Spent	$ 167,033	$ 158,531
How was the Money Spent		
Collect the Revenue		
Object Class 11: Personnel Compensation	$ 32,051	$ 27,840
Object Class 12: Personnel Benefits	11,873	10,252
Object Class 21: Travel	709	1,029
Object Class 23: Rent, Utilities, and Telecommunications Services	2,063	2,239
Object Class 25: Contractual Services	26,270	22,595
Object Class 31: Equipment and Software	6,304	4,349
Other	297	418
Total Collect the Revenue	79,567	68,722
Protect the Public		
Object Class 11: Personnel Compensation	35,533	33,637
Object Class 12: Personnel Benefits	13,161	12,407
Object Class 21: Travel	545	673
Object Class 23: Rent, Utilities, and Telecommunications Services	2,090	2,506
Object Class 25: Contractual Services	23,450	22,807
Object Class 31: Equipment and Software	5,844	4,280
Other	282	493
Total Protect the Public	80,905	76,803
Total Spending	160,472	145,525
Change in Amounts Remaining to be Spent	6,561	13,006
Total Amounts Agreed to be Spent	$ 167,033	$ 158,531
Who did the Money go to		
Federal Recipients	$ 39,567	$ 36,556
Non-Federal Recipients	120,905	108,969
Total Spending	160,472	145,525
Change in Amounts Remaining to be Spent	6,561	13,006
Total Amounts Agreed to be Spent	$ 167,033	$ 158,531

INTRAGOVERNMENTAL ASSETS

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL ASSETS
AS OF SEPTEMBER 30, 2024
UNAUDITED (IN THOUSANDS)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable
Department of the Treasury	020	$ -	$ 1,490
Treasury General Fund	--	84,148	19,911
Total		$ 84,148	$ 21,401

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL ASSETS
AS OF SEPTEMBER 30, 2023
UNAUDITED (IN THOUSANDS)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable
Department of Agriculture	012	$ -	$ 14
Department of the Treasury	020	-	1,214
Treasury General Fund	--	73,128	14,368
Total		$ 73,128	$ 15,596

Agency Codes, which identify trading partners on intragovernmental transactions, are defined in Treasury's Federal Account Symbols and Titles (FAST) Book, which is a supplement in the Treasury Financial Manual.

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL LIABILITIES
AS OF SEPTEMBER 30, 2024
UNAUDITED (IN THOUSANDS)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Department of the Interior	014	$ -	$ -	$ 19,751
Department of Justice	015	900	-	-
Department of Labor	016	-	16	-
Department of the Treasury	020	119	-	-
Office of Personnel Management	024	-	-	389
General Services Administration	047	1	-	-
General Fund	--	-	-	97,559
Total		$ 1,020	$ 16	$ 117,699

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL LIABILITIES
AS OF SEPTEMBER 30, 2023
UNAUDITED (IN THOUSANDS)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Department of the Interior	014	$ -	$ -	$ 16,186
Department of Justice	015	815	-	-
Department of Labor	016	-	13	-
Department of the Treasury	020	424	-	-
Office of Personnel Management	024	-	-	899
General Services Administration	047	198	-	-
Department of Homeland Security	070	26	-	-
General Fund	--	-	-	101,617
Total		$ 1,463	$ 13	$ 118,702

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL EARNED REVENUE
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023
UNAUDITED (IN THOUSANDS)

Trading Partner	Agency Code	2024	2023
Department of Agriculture	012	$ 983	$ 15
Department of the Treasury	020	3,421	2,741
Total		$ 4,404	$ 2,756

Budget Function Classification (BFC)	BFC Code	2024	2023
Central Fiscal Operations	803	$ 4,404	$ 2,756
Total		$ 4,404	$ 2,756

INTRAGOVERNMENTAL GROSS COST

OTHER ACCOMPANYING INFORMATION
INTRAGOVERNMENTAL GROSS COST
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023
UNAUDITED (IN THOUSANDS)

Trading Partner	Agency Code	2024	2023
Government Printing Office	004	$ 144	$ 198
Department of Justice	015	595	1,011
Department of Labor	016	7	8
United States Postal Services	018	1	15
Department of the Treasury	020	10,641	10,047
Office of Personnel Management	024	24,308	21,609
General Services Administration	047	4,876	4,924
Department of Transportation	069	2	4
Department of Homeland Security	070	641	472
Department of Health and Human Services	075	3	4
National Archives Records Administration	088	9	10
Department of Defense	097	275	335
Federal Mine Safety and Health Review Commission	368	1	-
General Fund	--	4,698	4,372
Total		$ 46,201	$ 43,009

During fiscal years 2024 and 2023, TTB incurred costs with other Federal agencies totaling approximately $46.2 million and $43.0 million, in each year, respectively. The majority of those costs were associated with the five entities detailed below.

- **Department of Justice:** TTB paid ATF $0.6 million and $1.0 million in fiscal years 2024 and 2023, 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 2024 and 2023 in the amounts of $10.6 million and $10.0 million, respectively.
- **Office of Personnel Management:** TTB incurred $24.3 million and $21.6 million in costs for employee benefits during fiscal years 2024 and 2023, respectively.
- **General Services Administration:** TTB paid $4.9 million to GSA for rent and information technology services in both fiscal years 2024 and 2023.
- **General Fund:** The Bureau paid $4.7 million and $4.4 million in fiscal years 2024 and 2023, 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
Assistant Administrator, External Affairs/Chief of Staff	Amy Graydon
Assistant Administrator, Field Operations	Anthony Gledhill
Assistant Administrator, Permitting & Taxation	Carrie May
Assistant Administrator, Headquarters Operations	Amy Greenberg (Acting)
Assistant Administrator, Management/CFO	Joseph Burruss
Assistant Administrator, Information Resources/CIO	Greg Greeley
Assistant Administrator, Analytics/CDO	Anita Ko
Director, Equity, Diversity, and Inclusion	Sylvia Smith
Director, Strategic Planning and Program Evaluation	Jill Murphy
Chief Counsel	Christina McMahon

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

4.2 CONNECTING THE TREASURY AND TTB STRATEGIC PLANS

TREASURY GOAL	TREASURY OBJECTIVE	TTB STRATEGIC GOAL/ OBJECTIVE
GOAL 1: Promote Equitable Economic Growth and Recovery	**Objective 1.1. Tax Administration and Policy:** Enhance tax compliance and service; improve tax policy design.	**TTB Goal 3:** Improve Taxpayer Experience and Tax Administration
		TTB Goal 4: Ensure Access to Tax Refunds for Eligible Businesses
	Objective 1.2. Global Economic Leadership: Generate sustainable and inclusive global economic growth.	**TTB SO 3:** Ensure Fair Market Competition
	Objective 1.3. Economically Resilient Communities: Promote equitable financial recovery and growth through support and flow of capital to small businesses, households and underserved communities.	**TTB Goal 1:** Facilitate Business Growth on a Level Playing Field
		TTB Goal 2: Facilitate Business Innovation in a Fair Marketplace
GOAL 5: Modernize Treasury Operations	**Objective 5.1. Recruit and Retain a Diverse and Inclusive Workforce:** Recruit and retain a diverse workforce that represents communities Treasury serves.	**TTB Goal 5:** Enhance Workforce Readiness
	Objective 5.2. Future Work Routines: Optimize the Department's work practices and policies to enable an effective hybrid work environment.	
	Objective 5.3. Better Use of Data: Increase timely access to and use of quality data and other types of evidence to inform decision-making.	**All TTB Goals**
	Objective 5.4. Customer Experience Practices: Mature and embed strong customer experience practices across the Department, establishing Treasury's reputation for consistently positive experiences.	

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TTB P 5000.11 (2/2025)

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