



What to Expect on a TTB Audit

THE NATIONAL SHOOTING SPORTS FOUNDATION

SHOT SHOW 2020



TTB Disclaimer

This information is being presented to help the public to understand and comply with the laws and regulations that the Alcohol and Tobacco Tax and Trade Bureau (TTB) administers.

It is not intended to establish any new, or change any existing definitions, interpretations, standards, or procedures regarding those laws and regulations.

In addition, this presentation may be made obsolete by changes in laws and regulations.

Please consult the applicable laws and regulations for the most current requirements.



Agenda

- TTB's Tax Audit Division (TAD) Mission & Structure
- Overview of TAD's Audit Process
- The Three Excise Tax Audit Phases
- Common Audit Findings
- How to Prepare for Your Next TTB Excise Tax Audit
- Informational Resources

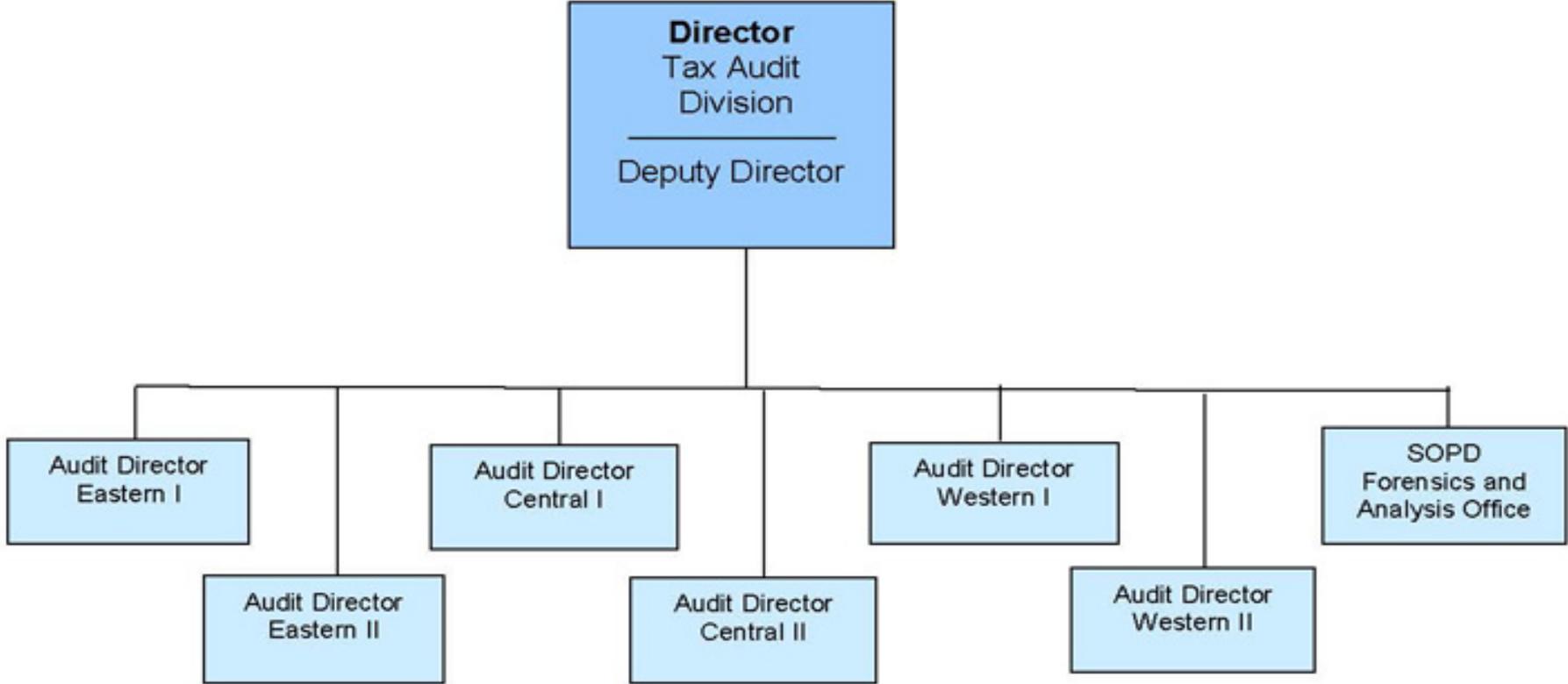


Tax Audit Division

TAD's mission is to ensure the proper payment of Federal excise taxes and compliance with laws and regulations in a manner that protects the tax revenue and prevents unlawful activity in the commodities TTB regulates.



Tax Audit Division Organization



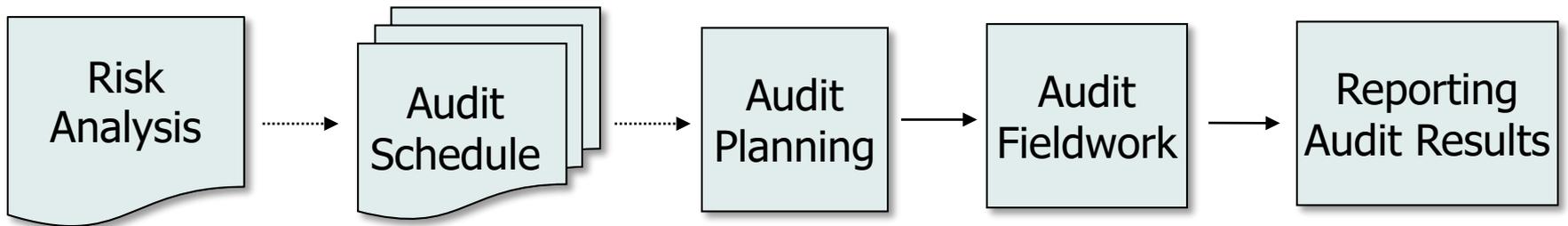


Professional Audit Standards

- Our audits are conducted in accordance with auditing standards that incorporate Generally Accepted Government Auditing Standards (“Yellow Book”) published by the U.S. Government Accountability Office (GAO).
- Our audits focus on promoting voluntary compliance by partnering with industry members using a “no surprises” approach to provide a value-added service for both the industries and TTB.



TTB Audit Process





Planning the Audit

Taxpayer Information Request List

A Taxpayer Information Request List may include requests for the following information:

- Sales register in electronic format (e.g. Excel, Access)
- Tax computation files
- Tax-free registration
- Support for tax-free and tax-exempt sales
- Support for eligible adjustments
- Support for claims for credit



Planning the Audit

Taxpayer Information Request List (Continued)

- Sales catalogs and price lists
- Federal Firearms Licenses
- ATF “Bound Book”
- Chart of accounts, general ledger, financial statements, bank statements
- Corporate income tax and sales tax returns
- Internal records such as organization charts, written internal control procedures, and corporate minutes



Audit Fieldwork

- Opening conference and tour of the operation
- Interview subject matter experts, including accounting and/or government compliance personnel
- Review of records and testing of transactions
- Assess or evaluate the effectiveness of applicable internal controls
- Identification of audit issues or findings



Audit Fieldwork

(Continued)

- For a full scope audit, a typical audit team is an auditor-in-charge plus one or two staff auditors, onsite for two weeks.
- After onsite fieldwork, audits usually continue from the auditors' home offices. More onsite fieldwork can be necessary, especially if taxpayers are not providing needed info.
- Limited scope desk reviews may require no onsite work.



Audit Fieldwork

(Continued)

Records (“Audit Trail”) – We must be able to verify that all sales and uses subject to FAET have been reported at the correct price and any reductions (tax-free or exempt, eligible adjustments, and claims for credit) are properly calculated and supported:

- FAET Returns
- Summary records and reports
- Daily transaction records
- Verify completeness of above with sales register



Reporting Audit Results

- Management Letter to industry member
 - Tax Adjustments
 - Compliance Violations
 - Internal Control Weaknesses
- Written response from industry member (if any)
- Audit Report (internal TTB)



Common Audit Findings

Some examples of common TTB audit findings include:

- Failure to file tax returns
- Failure to pay tax
- Late tax returns and/or payments
- Not reporting all sales and uses on line 8
- Reporting nontaxable articles sold separately on line 8, usually with a deduction later on the return
- Reporting activity related to prior period sales on lines 8 through 16 of the tax return (especially: netting product returns against current period sales on line 8)



Common Audit Findings

(Continued)

- Disallowed freight deduction due to not using actual costs or not having support
- Disallowed freight deduction due to not using a relative weight method or other approved method
- Disallowed nontaxable articles deduction due to obsolete or incorrect cost data or lack of support
- National Firearms Act sales – treating them as tax-exempt without paying the transfer tax or excluding them from the return entirely
- Failure to obtain a tax-free registration
- Lack of adequate support for tax-free or exempt sales



How to Prepare for Your Next TTB Excise Tax Audit

- Timely pay your Federal excise taxes and timely file your Returns!
- Be aware of and follow the laws and regulatory requirements.
- Audit yourself.



Informational Resources

- Title 27 Code of Federal Regulations (CFR), Part 53
 - Available online at www.ecfr.gov
- TTB.GOV:
 - **FAET Homepage:** <https://www.ttb.gov/firearms>
 - **Forms:** <https://www.ttb.gov/firearms/forms>
 - **Pay.gov:** <https://www.ttb.gov/what-we-do/taxes-and-filing/pay-gov>
 - **Subscribe to receive the weekly TTB Newsletter:**
www.ttb.gov/resources/publications/ttb-newsletter
- National Revenue Center
 - Full contact info (phone number, mailing address, and online inquiry form) at <https://www.ttb.gov/who-we-are/contact-us/nrc-call-center>



Summary

- All audits are completed in accordance with professional auditing standards.
- TAD's audit process begins with risk analysis and an audit schedule.
- All excise tax audits include three phases: Planning, Fieldwork and Reporting.
- Be prepared for your next excise tax audit.
- Take advantage of TTB's available informational resources!