



What to Expect on a TTB Audit

F.A.I.R. TRADE GROUP AND THE NATIONAL SHOOTING
SPORTS FOUNDATION

18TH ANNUAL FIREARMS IMPORT/EXPORT CONFERENCE



What to Expect on a TTB Audit

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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

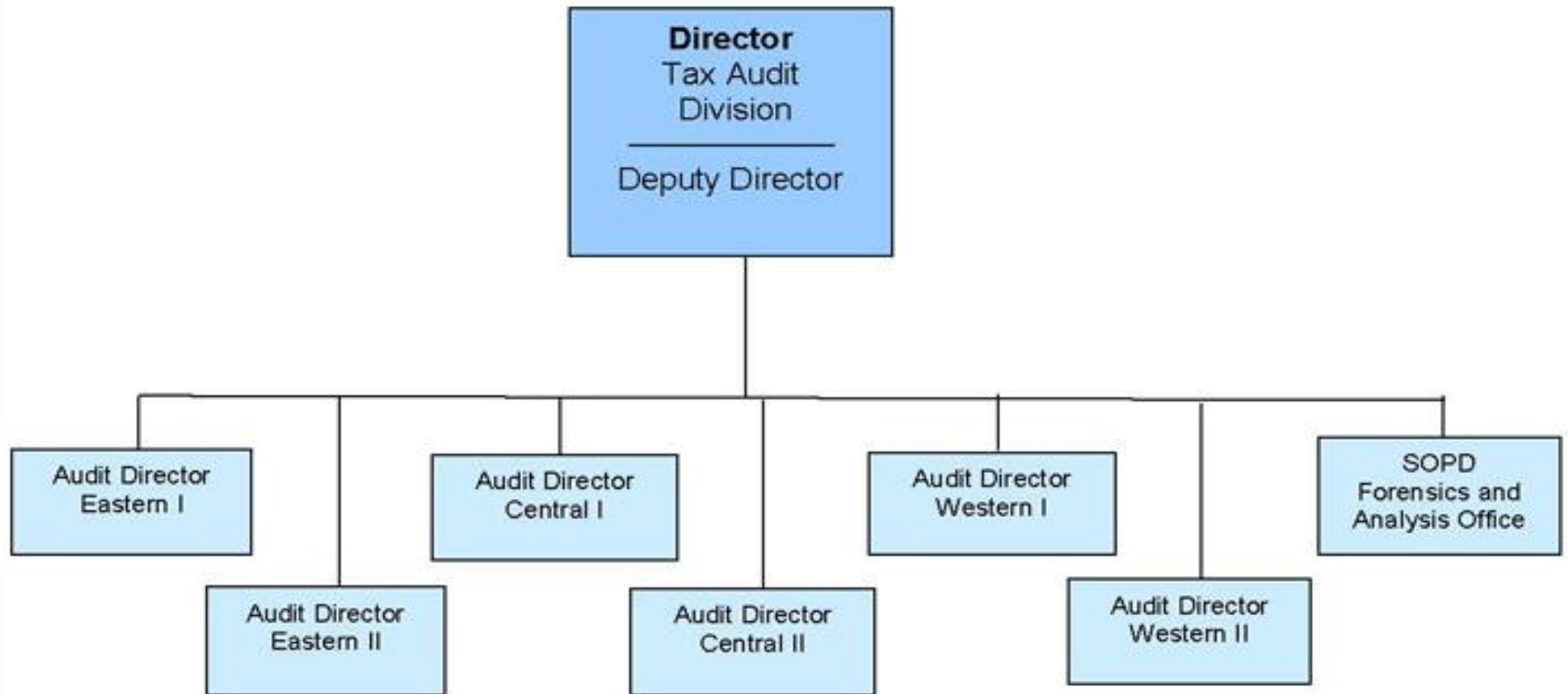


Tax Audit Division

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



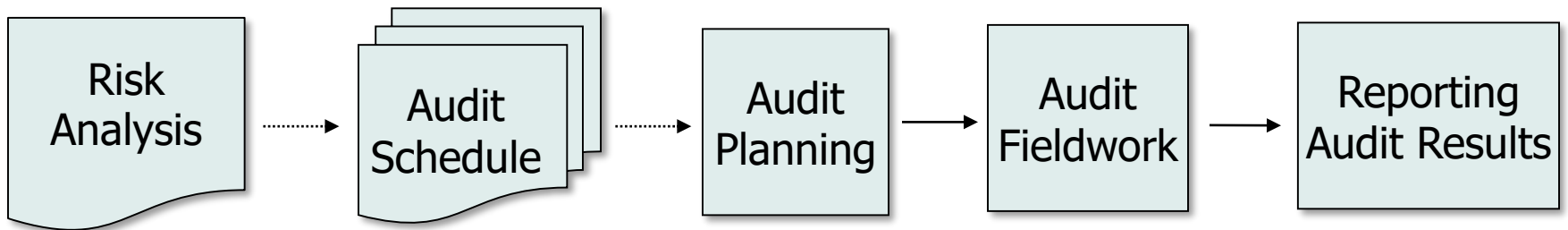


Professional Audit Standards

- 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/index.shtml>
 - **Forms:** <https://www.ttb.gov/firearms/faet-forms.shtml>
 - **Pay.gov:** <https://ttb.gov/epayment/epayment.shtml>
 - **Subscribe to receive the weekly TTB Newsletter:**
www.ttb.gov/newsletters/ttb-news.shtml
- National Revenue Center
 - Full contact info (phone number, mailing address, and online inquiry form) at <https://ttb.gov/nrc/contact-nrc.shtml>



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!