



TTB Boot Camp for Wineries

BEYOND THE BASICS: WHAT TO EXPECT IN A TTB AUDIT



TTB Disclaimer

Notice:

- This information is being presented to help the public understand and comply with the laws and regulations that the Alcohol and Tobacco Tax and Trade Bureau 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 become obsolete due to future changes in the laws and regulations - please consult the most recent version of our regulations for current requirements
- Sample documents (such as records, returns, and labels) are for illustrative purposes only and contain fictitious data



Agenda

In this *Beyond The Basics* session, we will cover what to expect during a TTB audit:

- Tax Audit Division Overview
- Audit Process
- Common Audit Findings
- TTB Resources

Tax Audit Division Overview



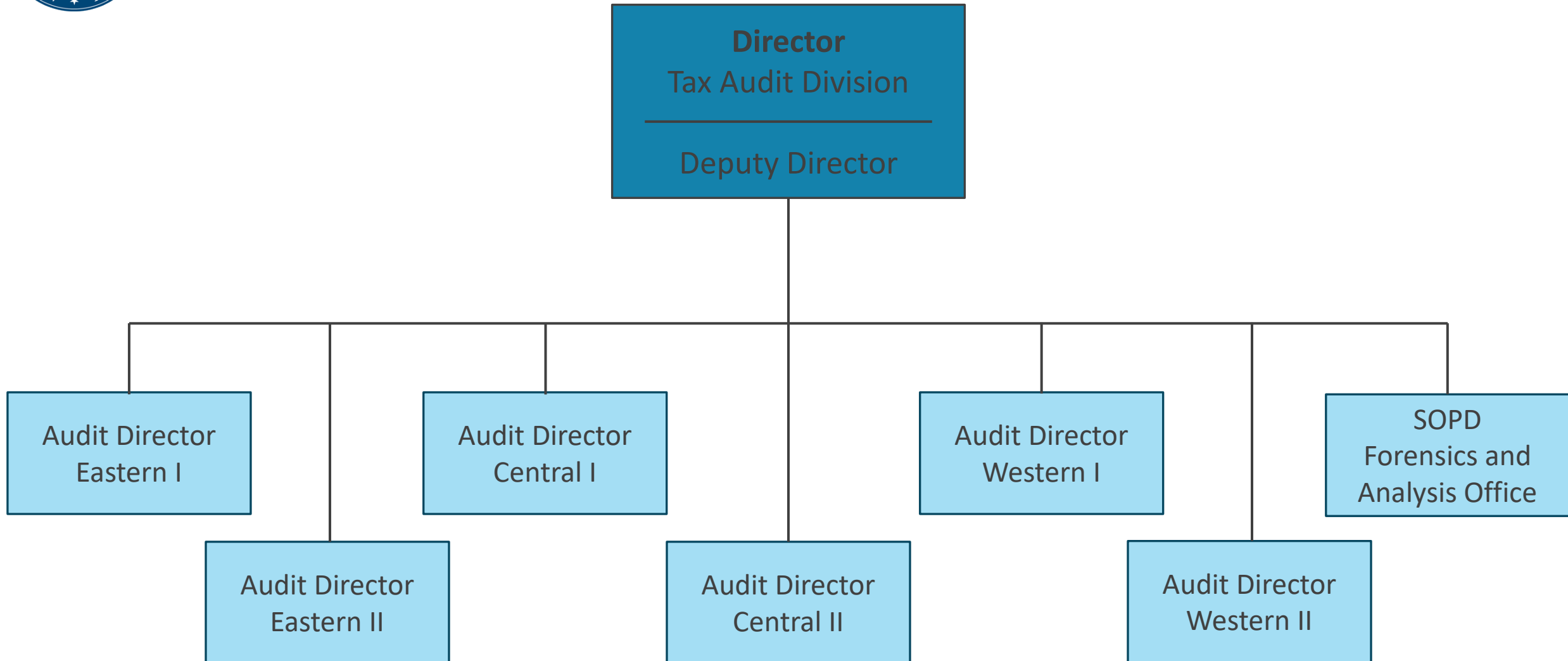


Tax Audit Division (TAD)

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



Tax Audit Division Overview





Professional Audit Standards

- Our audits are conducted according to standards that incorporate Generally Accepted Government Auditing Standards (Yellow Book), published by the U.S. Government Accountability Office
- Our audits focus on promoting voluntary compliance by using a **no surprises approach** that provides a value-added service for industry members and TTB



Types of Assignments

- Full-scope audit
- Limited-scope review
- Desk reviews

All permitted industry members are subject to an audit or a review **at any time**, meaning prior notification of the audit or review is not required.

Tax Audit Division: TTB Audit Process





TTB Audit Process

- Audit Planning – Engagement Letter, Taxpayer Information Request and Opening Conference
- Audit Fieldwork – On-site (Field Review)
- Closing Conference
- Taxpayer Management Letter



TTB Audit Planning

- Notification to the Industry Member through issuance of **Engagement Letter**
- Contact Industry Member and Provide **Taxpayer Information Request List** for the audit

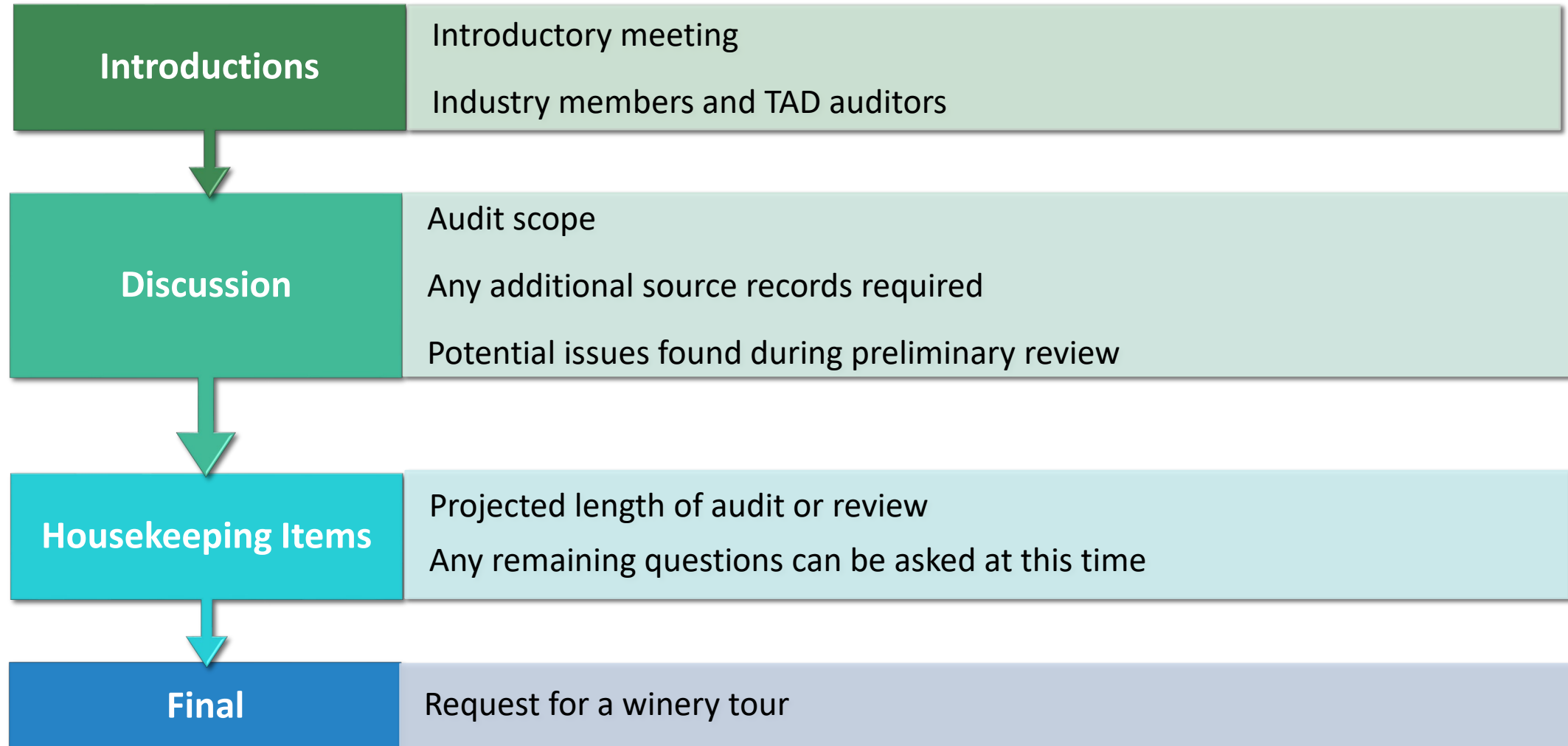


TTB Audit Planning (Taxpayer Information Request)

- Supporting documentation for items reported on Federal excise tax returns, including any increasing/decreasing tax adjustments
- Supporting documentation for items reported on Monthly Report of Wine Operations
- Electronic data downloads (as an Excel or other spreadsheet) for removals/sales
- Records of Removals – sales invoices and bills of lading
- Inventory records (inventory variances, current on-hand inventory sheets, count sheets, reconciliation & adjustment worksheets)
- CBMA calculations & supporting documents
- Claims (allowances of loss, allowance of credit, exports, abatements & refund)



Opening Conference





Audit Fieldwork

Records (audit trail) – To support operational activities reported to TTB, submitted records must be verifiable and traceable by quantity and movement of materials, spirits, wines, or alcoholic flavoring materials.

- Daily/Monthly summary transaction records and reports
- Source documents (e.g., taxpaid, bond to bond, inventory records, production records)





Closing Conference

Discussion of:

- Audit findings
- Audit recommendations
- Internal control weaknesses
- Industry member may address any concerns and/or corrective actions that need to be implemented



Taxpayer Management Letter

Taxpayer Management letter outlines:

- Tax adjustments
- Compliance violations
- Internal control weaknesses
- Whether administrative permit action will be recommended

A written response from the industry member is not mandatory but is recommended

Common Audit Findings





Common Audit Findings (Examples)



Failure to timely file Federal excise tax returns

(TTB Form 5000.24)

Failure to timely pay Federal excise tax

Failure to timely file required reports

(TTB Form 5120.17)

Inaccuracy in Filing and Transcribing reports
(TTB Form 5120.17)

Incomplete or missing taxable and non-taxable removals documents



Common Audit Findings (Examples)



Failure to perform required annual physical inventories

Incomplete inventory records

Failure to pay inventory shortages

Failure to file claims on bulk wine losses (TTB Form 5620.8)

Failure to file notice of destructions



Common Audit Findings (Examples)



Failure to gauge receipts or removals of spirits by transfers in bond

Incomplete documentation for receipts or removals of spirits by transfers in bond

Failure to maintain production records

Failure to update Permits and Registrations

Insufficient bond coverage



Common Audit Findings (Examples)



Failure to obtain proof of exports

Failure to complete export documents

Errors in computing CBMA

Unsubstantiated CBMA documents

Unsupported inventory breakages



Craft Beverage Modernization Act (CBMA)

- Effective as of January 1, 2018
- Provides tax credits on wine produced and removed or imported into the U.S. during the calendar year:
 - \$1 per wine gallon on the first 30,000 wine gallons removed or imported
 - 90 cents on the next 100,000 wine gallons removed or imported
 - 53.5 cents on the next 620,000 wine gallons removed or imported



Recordkeeping Tips

What the regulations require:

- An audit trail – auditors must be able to follow transactions from daily records → summary records → monthly reports and federal excise tax returns
- A dedicated record for each operation which contains all mandatory information corresponding to the regulation
- Records are maintained for a minimum of 3 years



Prepare for Your Next TTB Excise Tax Audit

- Timely pay federal excise taxes and timely file returns!
- File all required monthly operations reports in a complete, accurate, and timely manner
- Be aware of and follow the laws and regulatory requirements

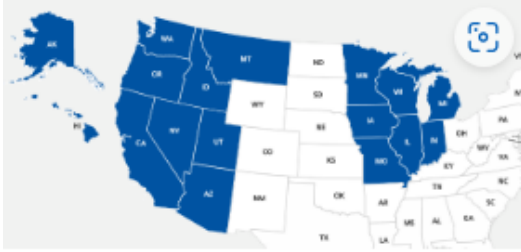
Resources





TTB Informational Resources

- Chapter 51, Internal Revenue Code (Title 26, U.S. Code)
- Title 27, Code of Federal Regulations (CFR), Part 24
- TTB National Revenue Center (NRC)
- TTB.gov – www.ttb.gov



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