TTB Boot Camp for Distillers

WHAT TO EXPECT IN A DISTILLED SPIRITS PLANT EXCISE TAX AUDIT

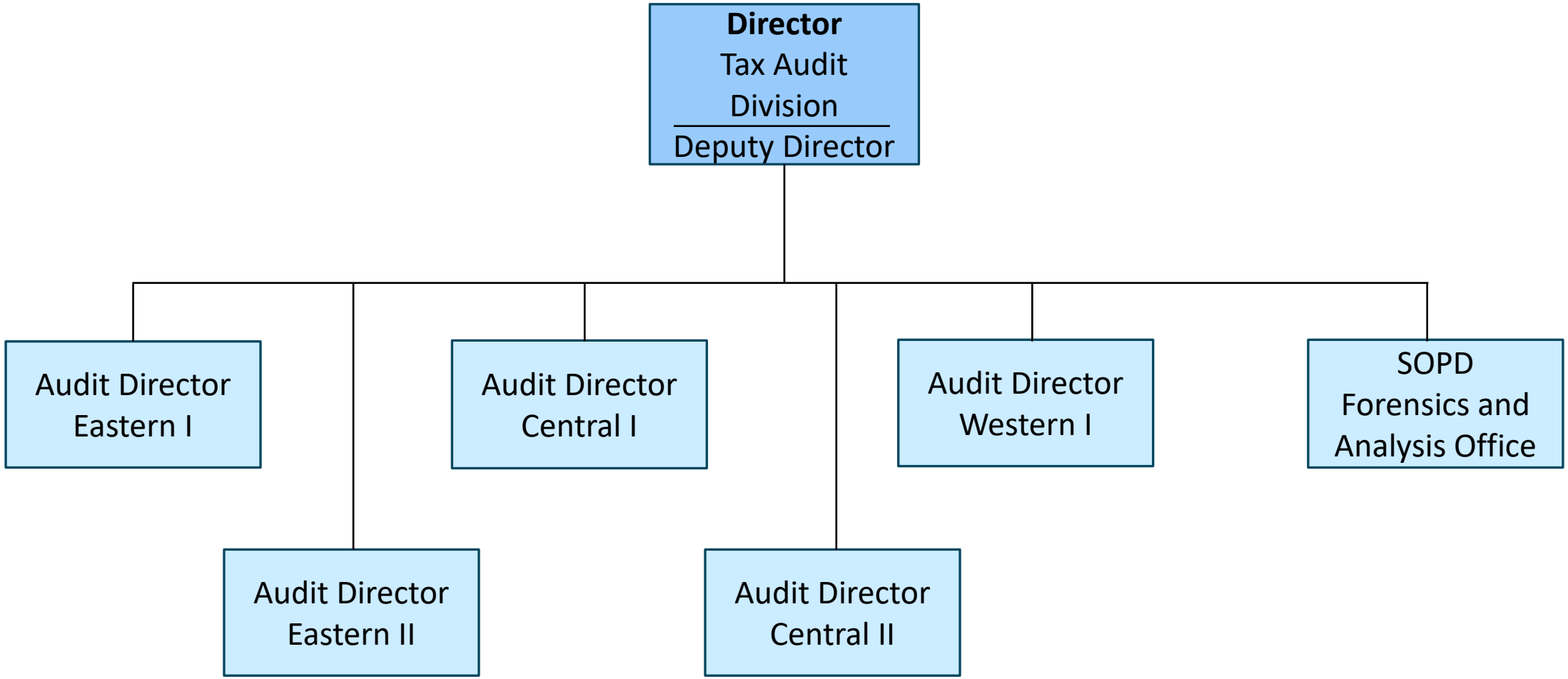
TTB Disclaimer

- 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 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 regulations for the most current regulatory requirements
- Sample documents (such as records, returns, and labels) are for illustrative purposes only and contain fictitious data

Tax Audit Division (or TAD)

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



Professional Audit Standards

- Our audits are conducted following auditing 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

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

All permitted industry members are subject to an audit or a review **at any time**

- In other words, prior notification is not required.

TTB Audit Process

- Audit Planning – Engagement Letter
- Opening Conference
- Audit Fieldwork – On-site
- Closing Conference
- Management Letter

Audit Planning

After we select an industry member for audit, our planning process typically includes:

- Review and analysis of monthly operational reports, excise tax returns & other data filed with TTB's National Revenue Center (NRC)
- Review of prior TTB audits/investigations, if applicable
- Notification to the industry member of the planned audit or review through issuance of **Engagement Letter**
- Make industry member contact and prepare and forward **Taxpayer Information Request List** to the industry member
  - This list outlines the information that we will review during the audit

Audit Planning

Taxpayer Information Request List

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

- Powers of attorney
- Organizational charts and premises maps
- Bonds/surety files with proof of premium payments
- Approved Notice of Registration
- Chart of accounts, general ledger, financial statements, bank statements
- Documented internal control procedures

Audit Planning

Taxpayer Information Request List (cont.)

- Historical physical inventory records
- Removals records – sales invoices and bills of lading, or similar in electronic format (e.g., Excel, Access)
- Supporting documentation for items reported on excise tax returns, including any increasing/decreasing tax adjustments
- Supporting documentation for items reported on monthly operations reports
- IT/plant security procedures/disaster recovery plan

Opening Conference First Day

- Introductions between industry members and TAD auditors
- Discuss housekeeping items and projected length of audit or review
  - Any remaining questions can be asked at this time
- Status of assistance list items
- Complete a tour of the premises

Audit Fieldwork

Records (audit trail) – To SUPPORT operations reported on the monthly reports, we must be able to VERIFY and TRACE the quantity and movement of materials, spirits, denatured spirits, wines, or alcoholic flavoring materials involved in each transaction

- Daily transaction records
- Summary records and reports
- Physical copies of monthly operational reports
- Excise tax returns

Closing Conference

Closing Conference:

- Audit issues or findings discussed with the industry member
- Audit recommendations/instructions provided by the audit team
- Industry member addresses any corrective actions that need to be implemented

Management Letter

- Management letter to industry member
  - Tax adjustments
  - Compliance violations
  - Internal control weaknesses
  - Whether administrative permit action will be recommended

- Written response to management letter from industry member (if any) – not required but suggested

Common Audit Findings

Some examples of common TTB audit findings include:

- Failure to timely file excise tax returns & failure to timely pay tax due
- Failure to timely file TTB monthly operational reports
- Incomplete or missing taxable removals documentation in support of excise tax determinations
- Incomplete or missing documentation for exported spirits
- Failure to gauge the receipts or removals of spirits by transfer in bond
- Incomplete or missing documentation for receipts or removals of spirits by transfer in bond

Common Audit Findings (cont.)

- Not performing required physical inventories
- Incomplete or missing inventory records
- Failure to pay excise tax due on physical inventory shortages found
- Incomplete or missing documentation for destructions

Record-Keeping Tips

Organization: Separate records by DSP account (i.e., production, storage, processing)

Production	Production Records (27 CFR 19.584-586)
Storage	Storage Records (27 CFR 19.590-593)
Processing	Processing Records (27 CFR 19.596-604)

Record-keeping Tips

Traceability: Auditors must be able to follow transactions from daily records, summary records, DSP monthly reports, and federal excise tax returns

Completeness: For each operation you conduct, create a dedicated record that contains all the mandatory information listed in the corresponding regulation (See 27 CFR 19.571- 19.627)

Retention: Maintain required supporting TTB records for a minimum of 3 years

Accessibility: Records can be in any format, so long as they are readily retrievable in a hardcopy format for review by TTB

How to Prepare for Your Next TTB Excise Tax Audit

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

Informational Resources

- Title 27 Code of Federal Regulations (CFR), Part 19
- Chapter 51, Internal Revenue Code (Title 26, U.S. Code)
- TTB National Revenue Center (NRC)
- TTB.gov – www.ttb.gov

Tax Audit Division Contact Information

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