**Common Compliance and Tax Issues Found During Distilled Spirits Plant (DSP) Audits**

In furtherance of TTB’s mission to assist industry members in understanding and complying with the Federal tax, product, and marketing requirements associated with the commodities we regulate, we present here some of the common compliance and tax issues we have encountered during distilled spirits plant (DSP) audits conducted over the past few years.  We have grouped the issues into four categories:

* Records,
* Inventory,
* Reporting, and
* Application, Equipment, and Security.

Within these four categories we list common audit issues, beginning with the ones we encounter most frequently.  We then provide advice about how to avoid these problems at your DSP.

If you have questions about this tutorial, please contact the closest Tax Audit Division office.  [View map](http://www.ttb.gov/tax_audit/tad-map.pdf).  For general questions regarding recordkeeping, reporting, excise tax, or other compliance matters, please contact the National Revenue Center at 1–877–882–3277.  You also may contact TTB by email at ttbquestions@ttb.treas.gov.  You may directly access the Federal regulations TTB enforces via our Website [http://www.ttb.gov](http://www.ttb.gov/).

***Using This Tutorial***

This tutorial details common tax and compliance issues associated with distilled spirits production and discusses how to avoid these problems.  We also include links to the applicable TTB regulations in Chapter I of Title 27 of the Code of Federal Regulations (CFR), TTB forms, and other helpful resources.

[TTB forms used in this tutorial](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22_COMMON_FORMS_frequently).

[Statutes and regulations cited in this tutorial.](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22_SUMMARY_of_Issues_1)

[Additional resources for DSPs](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22_Helpful_Tutorials_and).

***Common Compliance and Tax Issues at DSPs***

**Records**

1. [Physical Inventory Records](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22r1)
2. [General Records and TTB Reports](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22r2)
3. [Type of Records Required](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22r3)
4. [Transfers Between Bonded Premises](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22r4)
5. [Finished Product Records](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22r5)
6. [Record of Tax Determination](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22r6)
7. [Record of Destruction](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22r7)

**Inventory**

1. [Storage Inventory](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22i1)
2. [Processing Inventory](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22i2)
3. [Denatured Spirits Operations Inventory](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22i3)
4. [Production Inventory](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22i4)
5. [Beverage and Industrial Spirits Case Identification Markings](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22i5)
6. [Gauge Records for Production, Storage, and Packaged Spirits](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22i6)

**Reporting**

1. [Monthly Reports Submitted to TTB](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22reporting1)
2. [Losses in Bond](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22reporting2)
3. [Timing for Submitting Excise Tax Return TTB F. 5000.24](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22reporting3)

**Application, Equipment, and Security**

1. [Registration and Permits of DSP and Identification of Structures, Areas, Apparatus, and Equipment](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22s1)
2. [Security](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22s2)

**Records Issue 1 — Physical Inventory Records**

TTB finds that the most common recordkeeping issue among distilled spirits plant (DSP) operators is failure to keep adequate records of physical inventories in support of the Monthly Report of Production Operations ([TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf%22%20%5Ct%20%22_blank)), Monthly Report of Storage Operations ([TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank)), Monthly Report of Processing Operations ([TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)), and Monthly Report of Processing (Denaturing) Operations ([TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank)).  Inventory record requirements are discussed in [27 CFR 19.774](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.34).
The most frequent violation of inventory recordkeeping requirements found at small and new DSPs is the lack of a signature on the inventory summary along with the written *penalties of perjury statement* as described in [27 CFR 19.100](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.5.140.33).  Another problem found  at even large DSPs is that the inventory summaries do not provide all of the information required by [27 CFR 19.774(a)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.34), such as the type of spirits in the tank, identification of the container(s), and the date of the inventory.

Some DSPs do not provide sufficient detail relating to losses, gains, or shortages reported on the production, storage, and processing forms.  This violation often occurs if there are no inventory controls in place.  Even when controls are in place, they may not be effective due to employee turnover, sickness, vacations, or lack of adequate training.

If a loss, gain, or shortage is found when taking inventory, DSPs sometimes erroneously fail to show it on the storage report ([TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank)) or sometimes record only the calculated figure, e.g., the book value minus the physical inventory count, instead of the actual figure disclosed by the physical inventory.  Regulations require that proof gallons reported as losses on [TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank) be derived from total losses, which must be calculated:

* Each time a tank or bulk conveyance is emptied;
* On the basis of required physical inventories; and
* Upon discovery of accidents or unusual variations in gauges.
(See [27 CFR 19.562(a)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=7a6d90befcc8259fb5cac67cf4880662;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.18.169.2).)

DSPs must insure that they record transfer-in-bond losses and gains before they enter the gain or loss into the bulk inventory account.

DSPs must take a physical inventory of bulk tanks, processing tanks, and bottling tanks as required by:

* [27 CFR 19.401](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.14.172.26" \t "_blank), “Inventories of wines and bulk spirits (except in packages) in processing account;”
* [27 CFR 19.353](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.13.152.10" \t "_blank), “Storage inventories;”
* [27 CFR 19.329](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.11.149.17" \t "_blank), “Production inventories;” and
* [27 CFR 19.464](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.15.160.14" \t "_blank), “Denatured spirits inventories.”

DSPs also must provide to TTB on demand a record of each inventory containing all information (including date of the inventory, container identification, type of spirits, losses, and signature) listed in [27 CFR 19.774](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.34).  DSPs must retain the inventory records required in [§ 19.774](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.34) for TTB inspection.

**How to avoid problems caused by poor general inventory records**

1. Review [27 CFR 19.774](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.34).  This regulation details the types and contents of records required.
2. As part of the DSP’s standard operating procedures, at least annually check the information recorded at inventory time against the required information listed in [27 CFR 19.774](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.34) to insure a match.  If employees do not follow these procedures, take action to insure compliance.
3. Keep DSP records well organized and readily available.  [27 CFR 19.723(c)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.177.3) requires DSPs to retain records for not less than three years.
4. Train employees who take inventory to properly record all required information.  If you experience high employee turnover, vacations during inventory, or other reasons why well qualified employees do not take the inventory, train employees before every inventory.
5. Always summarize source documents monthly and timely reconcile them to the Monthly Report of Storage Operations ([TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank)), Monthly Report of Processing Operations ([TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)), and Monthly Report of Processing (Denaturing) Operations ([TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank)).  We recommend that DSPs update records as the process occurs, rather than waiting until later in the month, quarter, or year.

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**Records Issue 2 — General Records and TTB Reports**

General recordkeeping requirements for DSPs are discussed in [27 CFR 19.731](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.191.1" \t "_blank).  DSPs must prepare daily records that “accurately and clearly reflect the details of each operation or transaction.”

[27 CFR 19.731](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.178.7) specifies certain requirements for daily records, including entries, content, and format.  Entries in daily records must be made on the day on which the transaction occurs, although such entries may be temporarily deferred under certain circumstances where a DSP prepares supplemental or auxiliary records as provided in [27 CFR 19.731(a)(2)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.178.7).  All entries in the daily records must show the date of the operation or transaction, the details of each operation or transaction, including all data necessary to enable identification of spirits, and preparation of summaries, reports, and returns.  Content information should be sufficient to allow a TTB officer to verify and trace the movement of materials involved in each operation, verify tax determinations and claims, and determine compliance with law and regulations.  DSPs must keep complete daily records either using the prescribed TTB forms or, where a form is not prescribed, using commercial records bearing all required details.

A typical records violation found during an audit occurs when the amounts recorded in the daily records do not equal the summary amounts recorded in the Monthly Report of Production Operations ([TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf%22%20%5Ct%20%22_blank)), Monthly Report of Storage Operations ([TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank)), Monthly Report of Processing Operations ([TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)), and Monthly Report of Processing (Denaturing) Operations ([TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank)).

The differences between daily records and monthly reports often result from common *errors* (inaccuracies) or *omissions*.
Examples of common *errors* are:

* More inventory is removed than is reported to TTB;
* Alcohol Transfer Sheets (Daily Logs) and tank records do not agree;
* Dates on the Daily Distillation Log do not match the dates on the Monthly Summary Production Log;
* Detailed blending and bottling reports are inaccurate or do not provide an adequate explanation for reported losses and gains; and
* Inaccurate cutoffs are used when summarizing the final daily entry for transfer to the monthly report.

Examples of common *omissions* are:

* Daily storage and tank records are not kept;
* Batch records are not kept;
* Gauging records are not maintained;
* Tank records show only withdrawals, not deposits into the tank;
* Records are incomplete and some data fields are left blank;
* Records of accidents are not kept;
* Final Alcohol Operations Logs are not all maintained;
* Wine gallons and proof gallons are not calculated; and
* Export documentation is not kept or is kept improperly.

[27 CFR 19.92(a)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.5.137.27" \t "_blank) states, in part, that, except in cases where the proof changes as a result of a storage or processing operation, the initial determination of proof for distilled spirits, wine, or eligible flavor may be used whenever a subsequent gauge is required.  Under [27 CFR 19.92(b)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.5.137.27), such required gauges include when spirits, wine, and alcoholic flavoring are:

* Entered for deposit;
* Filled into packages from storage tanks;
* Transferred or received in bond;
* Transferred between operational accounts;
* Mixed in the manufacture of a distilled spirits product;
* Reduced in proof prior to commencement of bottling;
* Destroyed;
* Removed or withdrawn from bond;
* Returned to bond; or
* As otherwise required by the appropriate TTB officer.

The regulation governing storage inventories, [27 CFR 19.353](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.13.152.10" \t "_blank), states that the DSP “shall take a physical inventory of all spirits and wines held in the storage account in tanks and other vessels (except in packages) at the close of each calendar quarter.”

**How to avoid problems with errors and omissions in general records**

1. Make sure that all source records are complete and contain sufficient information to accurately trace the quantity and movement of inventory and raw materials through plant operations.
2. Verify that the figures on your source records match the amount reported in the Monthly Report of Production Operations ([TTB F.5110.40](http://www.ttb.gov/forms/f511040.pdf%22%20%5Ct%20%22_blank)), Monthly Report of Storage Operations ([TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank)), Monthly Report of Processing Operations ([TTB F.5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)), and Monthly Report of Processing (Denaturing) Operations ([TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank)).
3. Have your compliance officer review the DSP’s records for form and completeness on a periodic basis.
4. Make routine gauging of spirits in storage and processing part of your standard operating procedures, specifically when carrying out the operations listed above and those in [27 CFR 19.92](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.5.137.27" \t "_blank).

*Additional Resources:*

TTB 2009 Expo presentations:

* [Monthly Reports for Beverage Distilled Spirits Plants](http://www.ttb.gov/expo09/presentations/s07.pdf).
* [Monthly Reports for Industrial Distilled Spirits Plants](http://www.ttb.gov/expo09/presentations/s08.pdf).

**Records Issue 3 — Type of Records Required**

DSPs are required to maintain extensive source records to support required reports, tax assessments, and claims.  When records that support TTB reports are missing or do not exist, the DSP is in violation of [27 CFR 19.721](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.191.1" \t "_blank).
Each DSP must maintain certain supporting records, including:

* All supplemental, auxiliary, and source data utilized to prepare TTB reports, returns, and claims;
* Copies of notices, reports, returns, approved applications, and other documents relating to operations; and
* Records that indicate receipts, movements between accounts, transfers in bond, or withdrawals of spirits, denatured spirits, articles, or wines.

Records should be grouped into the three primary accounts of *production*, *storage,* and *processing* to match the required operating reports:  Monthly Report of Production Operations ([TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf%22%20%5Ct%20%22_blank)), Monthly Report of Storage Operations ([TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank)), Monthly Report of Processing Operations ([TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)), and Monthly Report of Processing (Denaturing) Operations ([TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank)).
Common issues found during TTB audits are:

* The monthly summary reports do not agree with the amounts reported on the Monthly Production, Storage, or Processing reports ([TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf%22%20%5Ct%20%22_blank), [TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank), [TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank), and [TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank));
* The daily distillation logs do not agree with monthly summary production logs in dates or amounts, or the logs are incomplete or blank;
* The proprietor does not follow proper reporting procedures which includes reporting on time and as instructed on the reporting forms, resulting in the submission of erroneous monthly TTB reports;
* The DSP does not possess proper records for finished goods breakage and finished goods inventory in the remnant area.  The DSP does not properly log damaged inventory into and out of “leaker areas” where damaged inventory is stored; and
* There are a variety of errors on the returns and reports, including mathematical errors like footing (adding down columns), cross-footing (adding across rows), and subtraction, and entry errors like manual input errors, entry of amounts on the wrong lines, omission of totals, and lack of agreement between beginning inventory for one month and ending inventory for the prior month.

**How to avoid problems caused by lack of proper records**

1. Review [27 CFR 19.721](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr%2327:1.0.1.1.15.24.177.1).
2. Make sure that there are sufficient source records to support production, storage, and processing reports ([TTB F.5110.40](http://www.ttb.gov/forms/f511040.pdf%22%20%5Ct%20%22_blank), [TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank), [TTB F.5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank), and [TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank)).
3. Double check the numbers on the daily reports and monthly reports to make sure they agree.
4. Review the returns and reports for some of the common errors listed above, especially entering information on the wrong line of the reports and reconciliation between reports.

Form Tutorials:
[TTB F 5110.11](http://www.ttb.gov/forms_tutorials/f511011/f511011_tutorial.html) – Monthly Report of Storage Operations
TTB F 5110.28 – Monthly Report of Processing Operations
TTB F 5110.40 – Monthly Report of Production Operations
[TTB F 5110.43](http://www.ttb.gov/forms_tutorials/f511043/f511043_tutorial.html) – Monthly Report of Processing (Denaturing) Operations

*Additional Resources:*

TTB 2009 Expo presentations:

* [Monthly Reports for Beverage Distilled Spirits Plants](http://www.ttb.gov/expo09/presentations/s07.pdf).
* [Monthly Reports for Industrial Distilled Spirits Plants](http://www.ttb.gov/expo09/presentations/s08.pdf).

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**Records Issue 4 — Transfers Between Bonded Premises**

When spirits are transferred in bond between qualified DSPs, as per [27 CFR 19.505](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.17.165.4), certain information is required to appear on the transfer records of both the consignor (the facility sending the spirits) and the consignee (the facility receiving the spirits).  Frequently, DSPs do not include all the necessary information on the transfer records.  The information required is very specific and is spelled out in [27 CFR 19.770](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.197.31" \t "_blank).

**Consignor:**  [27 CFR 19.508](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.17.165.7" \t "_blank) requires that the consignor (the facility shipping spirits in bond) prepare a transfer record for each bond-to-bond transfer, retaining one copy of the transfer record and one copy of any accompanying document.  Except when secure seals are used, spirits packages transferred in bond must be weighed.  Furthermore, the proprietor must assign temporary serial numbers to the packages and show its gross shipment weight on a package gauge record prepared according to [27 CFR 19.769](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.30).

[27 CFR 19.770(a)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.31) states that the transfer record of the consignor (the facility shipping spirits in bond) must show:

* A serial number, commencing with "1" on January 1 of each year;
* The serial number and date of [TTB F 5100.16](http://www.ttb.gov/forms/f510016.pdf%22%20%5Ct%20%22_blank) (“Application for Transfer of Spirits and/or Denatured Spirits in Bond”).
* The name and distilled spirits plant number of the consignor (sender);
* The name and distilled spirits plant number or bonded wine cellar number of the consignee (the facility to which the spirits are shipped);
* The account from which the spirits or wines were removed for transfer (i.e., production, storage, or processing account);
* Description of the spirits, denatured spirits, or wine, including:
	+ The name and plant number of the producer, warehouseman, or processor (This is not required for denatured spirits or wine.);
	+ Kind of spirits or wines (For denatured spirits, show the kind and formula number.);
	+ Age (in years, months, and days) and year of production;
	+ Number of packages or cases with their lot identification numbers or serial numbers and date of fill;
	+ Type of container (If spirits, denatured spirits, or wines are to be transferred by pipeline, show "P/L".);
	+ Proof gallons for distilled spirits, or wine gallons for denatured spirits or wine;
	+ Conveyance identification; and
	+ For distilled spirits products that contain eligible wine or eligible flavors, the elements necessary to compute the effective tax rate as follows:
		- Proof gallons of distilled spirits;
		- Wine gallons of each eligible wine and the percentage of alcohol by volume of each; and
		- Proof gallons of distilled spirits derived from eligible flavors;
* Notation to indicate when spirits will be transferred in bond from production facility to another plant;
* Identification of seals, locks, or other devices affixed to the conveyance or package;
* Date; and
* Signature and title of the consignor with the *penalties of perjury statement* required by [27 CFR 19.100](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.5.140.33" \t "_blank).

**Consignee:**  [27 CFR 19.510](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.17.165.9" \t "_blank) states that the consignee (the receiver of the spirits) must examine each conveyance to determine whether the securing devices, if any, are intact.  If the securing devices are not intact, he or she must immediately notify the appropriate TTB District Director, [Trade Investigations Division](http://www.ttb.gov/pdf/tid_map_addresses.pdf); or District Director, Tax Audit Division before removing any spirits from the conveyance.  The consignee should determine, record, and report any losses.  The consignee must retain the original of the transfer record and any accompanying documents for his or her files.

The consignees must weigh each package, except sealed containers.  When the consignee receives spirits in bulk conveyances or by pipeline, he or she must gauge the spirits and record the gauge on the transfer record.

[27 CFR 19.770(b)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.31) states that when the consignee receives spirits, denatured spirits, or wine, he or she must record the following information on the transfer record:

* Date of receipt;
* Notation whether the securing devices on the conveyance were or were not intact on arrival;
* Gauge of spirits, denatured spirits, or wine showing the tank number, proof (percent of alcohol by volume for wine), and quantity in wine gallons or proof gallons, and any losses or gains;
* Notation of excessive in-transit loss, missing packages, tampering, or apparent theft;
* Account into which the spirits, denatured spirits, or wines were deposited (i.e., production, storage, or processing); and
* Signature and title of the consignee with the *penalties of perjury statement* required by [27 CFR 19.100](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.5.140.33" \t "_blank).

The required information that consignees most frequently fail to record includes:

* Signature and title of the consignee with the *penalties of perjury statement* required by [27 CFR 19.100](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.5.140.33" \t "_blank);
* Serial number and date of an approved [TTB F 5100.16](http://www.ttb.gov/forms/f510016.pdf%22%20%5Ct%20%22_blank) (“Application for Transfer of Spirits and/or Denatured Spirits in Bond”) on transfer record documents;
* Annotation of gains or losses;
* Annotation of whether bulk spirits were received with the securing device on the conveyance intact or not;
* The registry numbers of the consignor or consignee;
* Gauging and metering of bulk alcohol received;
* Amount of proof gallons of distilled spirits transferred;
* The lot number of the spirits produced;
* The description of the account from which withdrawn (storage, processing); and
* The age (in years, months, and days) and year of production.

Prior to the promulgation of [27 CFR 19.770](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.31), the regulations required proprietors to complete a prescribed form in connection with each transfer in bond, rather than the transfer records currently prescribed in [27 CFR 19.770](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.31).  Transfer records required by [27 CFR 19.770](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.31) may consist of the proprietor’s commercial documents.  However, such documents must fully comply with the requirements of [27 CFR 19.770](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.183.31).

**How to avoid problems caused by lack of proper in bond transfer documents**

1. Review the bill of lading forms for shipping bond-to-bond merchandise.  Make sure that the information listed above and in [27 CFR 19.770](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.197.31" \t "_blank) is included on the bill of lading.
2. If all of the data listed above is not included in the bill of lading, modify the present documentation to include the correct data.
3. Have a third party (such as the DSP’s compliance officer or a TTB investigator) check over the bill of lading to insure that the data required by [27 CFR 19.770](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.197.31" \t "_blank) is included.

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**Records Issue 5 — Finished Product Records**

DSP proprietors must maintain daily summary information of finished products in support of the monthly reports.  The required information is described in [27 CFR 19.751](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.181.19" \t "_blank).  Audits have disclosed that sometimes the summary records do not support what is reported to TTB on forms [TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf), [TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank), [TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank), and [TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank).

Under [27 CFR 19.751](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.181.19" \t "_blank), each processor must maintain the following information on a daily summary record of spirits bottled or packaged:

* Beginning and ending quantity of bottled or packaged spirits on hand;
* Spirits bottled or packaged; and
* Bottled or packaged spirits disposed of by:
	+ Withdrawal with or without payment of tax;
	+ In bond transfer;
	+ Dumping for further processing;
	+ Redistillation;
	+ Voluntary destruction;
	+ Accountable losses;
	+ Samples;
	+ Inventory shortages and inventory overages; and
	+ Other dispositions.

In lieu of showing the proof gallons of spirits on daily transaction records of withdrawals from bonded premises, proprietors may show the wine gallons or liters and the proof of spirits in cases.  Summary records must be used to compile the reports required by [27 CFR 19.792](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.184.42" \t "_blank).

Many recordkeeping issues we encounter relate to the remnant area (the area where individual bottles or partial cases are stored) and the leaker area (the area where leaking product is stored).  Employees sometimes fail to properly record spirits transferred into and out of the remnant or leaker areas.  Due to the small amount of wine or spirits maintained on a daily basis in these areas, warehouse supervisors may fail to establish good inventory accountability processes or to stress the importance of maintaining an accurate daily inventory; however, the regulations require full compliance with inventory requirements for product in these areas.

We also find that records of losses or destructions are frequently lacking or incomplete.  We have found that some proprietors are unaware that destructions and losses are reported separately on the Monthly Report of Processing Operations ([TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)).  Spirits in bulk storage are rarely destroyed because they are usually reprocessed.  We more frequently see destructions in the production account because of broken bottles or quality problems.  There are several reasons for common losses in bulk storage, including overfill, a broken line, or a valve left open unintentionally.  If the losses are severe enough to be reported to casualty insurance carriers, they are reported as casualty losses.  If they are modest, they may be reported as ordinary losses.  Losses are rare in bottled spirits.  If the book inventory does not match physical inventory, the difference may be an unexplained shortage, which is taxable.

A high volume of destructions may indicate a quality control issue and a high volume of losses may indicate process control problems within the plant.  Neither can be determined by financial analysis unless both are reported separately.

Another common issue we find during our audits is that the monthly summary records do not support the totals reported on the Monthly Report of Processing Operations ([TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)).  In other words, the DSP did not compare the quantities reported on Part I, line 9 and on Part II, line 28.

**How to avoid problems caused by poor finished product records**

1. DSP management should make it clear to employees and warehouse supervisors that destructions, losses, and leaker and remnant areas must be tracked and accounted for separately.
2. Employees should be given sample loss, destruction, and leaker reporting forms along with a list of the information that is required for each report.
3. Supervisors should periodically check destruction, loss, and leaker area reports to verify that they are complete and accurate.
4. Before the Monthly Report of Processing Operations ([TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)) is submitted to TTB, Part I, line 9 should be compared to Part II, line 28 for agreement.

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**Records Issue 6 — Record of Tax Determination**

The record of tax determination required by [27 CFR 19.761](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.196.22" \t "_blank) must be a serially numbered invoice or shipping document (such as a bill of lading) signed or initialed by an agent or employee of the proprietor.  It is best to show the proof gallons and effective tax rates on the shipping document.  However, if the proof gallons and tax rate are not shown, “there shall be shown on each invoice or shipping document sufficient information to enable appropriate TTB officers to determine the total proof gallons and, if applicable, each effective tax rate and the proof gallons removed at each effective tax rate.”  That information could be the proof of each bottle of the product and the net contents of each bottle (750ml, liter, etc.) so that proof may be multiplied by volume to obtain proof gallons.

The most common issues in the area of records of tax determination encountered on audits are that shipping documents do not contain the proof gallons or tax rates (or proof and volume of the product), and they are not signed or initialed.  If the proof gallons or type information is missing, the alcohol proof and product volume information should appear in order to enable TTB to determine the total proof gallons and each effective tax rate.

**How to avoid problems with records of tax determination**

1. Instruct shipping personnel that bills of lading or other shipping invoices must be signed.
2. Make sure that every shipping document includes the proof gallons and effective tax rate or sufficient information to enable TTB to determine this information (such as the proof, number, and volume of each bottle of the product).

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**Records Issue 7 — Record of Destruction**

DSPs may need to destroy product from time to time because of contamination, broken bottles, or other problems that make the product unsellable.  DSPs may only voluntarily destroy spirits, denatured spirits, articles, or wines in accordance with [27 CFR 19.691](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=b9a3d9b526f1826f67ac239069805310&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.22.176.9).  TTB requires certain records to be maintained when products are voluntarily destroyed.

The regulation detailing the records required for voluntary destruction is [27 CFR 19.767](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.28" \t "_blank).  It states that the proprietor must record details of the voluntary destruction of spirits, denatured spirits, articles, or wines as follows:

* The kind, quantity, elements of gauge, name, and permit number of the producer, warehouseman, or processor, and identification and type of container;
* The date, time, place, and manner of the destruction;
* A statement of whether or not the spirits were previously withdrawn and returned to bond; and
* The name and title of the proprietor's representative who accomplished or supervised the destruction.

Common audit issues found in this area include DSPs that do not maintain documentation of destructions or the documentation does not include all the required information.  The Monthly Report of Storage Operations (TTB F 5110.11) contains a line for reporting destruction of products in the storage account.  You must possess complete documentation to support any destructions claimed, otherwise excise taxes are due on the spirits reported as destroyed (See [27 CFR 19.32](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=b9a3d9b526f1826f67ac239069805310&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.3.132.8) and [27 CFR 19.41](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=b9a3d9b526f1826f67ac239069805310&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.3.134.14).).  The DSP must also file a claim in conjunction with a destruction and must receive approval of the claim before a decreasing adjustment can be taken on the Excise Tax Return ([TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank)).  The claim must include the date, time, place, the manner of destruction, and the name and title of the DSP representative who conducted and supervised the destruction.  It should also include all other required information including the permit number and a statement whether the products were previously taxpaid and returned to bond.

**How to avoid problems with claims for destructions**

1. If you report destructions on the Excise Tax Return ([TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank)) or Monthly Report of Processing Operations ([TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)), you should insure that you have adequate supporting documentation containing all of the information required in [27 CFR 19.767](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.28" \t "_blank).
2. For additional help see [Industry Circular 71–10](http://www.ttb.gov/industry_circulars/archives/1971/71-10.html).

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**Inventory Issue 1 — Storage Inventory**

TTB finds that the most common inventory issue at DSPs is the failure to take physical inventories of bulk spirits in tanks and other vessels.  Also, sometimes the inventory records do not contain a signature or the statement that the record is signed under penalties of perjury.

The regulation governing storage inventories, [27 CFR 19.353](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.13.152.10" \t "_blank), states that you “shall take a physical inventory of all spirits and wines held in the storage account in tanks and other vessels at the close of each calendar quarter.”  The DSP must maintain a record of that inventory including all of the information (date, container identification, type of spirits, losses, and signature) listed in [27 CFR 19.774](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=91a51734f99a6b4cf20d2256e8346909&rgn=div8&view=text&node=27:1.0.1.1.15.24.197.34&idno=27" \t "_blank).

[27 CFR 19.100](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.5.140.33" \t "_blank) and [27 CFR 19.774](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=b9a3d9b526f1826f67ac239069805310&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.34), require that all records of inventory contain the “signature and title of the proprietor or other duly authorized person” and a statement indicating that the record is signed under *penalties of perjury*.  The declaration required by [27 CFR 19.100](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=b9a3d9b526f1826f67ac239069805310&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.5.140.33) reads:  “I declare under the penalties of perjury that this (insert type of document, such as report or claim), including supporting documents, has been examined by me and, to the best of my knowledge and belief, is true, correct, and complete.”

All of the supporting documentation for inventories, which may also be used to support the amount reported on line 23, "On Hand End of Month,” on the Monthly Report of Storage Operations ([TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank)), must be retained for TTB inspection.

**How to avoid issues with storage inventories**

1. Review [27 CFR 19.353](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.13.152.10" \t "_blank).
2. Take a physical inventory of spirits held in the storage account in tanks and other vessels (except packages) every three months (at the close of each calendar quarter).
3. Have an authorized person sign the inventory summary sheets under penalties of perjury with the following declaration, “I declare under the penalties of perjury that this (insert type of document, such as report, or claim), including supporting documents, has been examined by me and, to the best of my knowledge and belief, is true, correct, and complete.”
4. Retain a record of the physical inventories, which should include the inventory date, container identification, type of spirits, losses, and signature.

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**Inventory Issue 2 — Processing Inventory**

Some DSPs move bulk spirits from storage tanks (which must be reported on [TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank)) to processing tanks or to bottling (which must be reported on [TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)).  Others skip storage and put bulk inventory directly into processing tanks.  Although both stored bulk and process bulk inventories are part of making spirits, the inventories reported on TTB F 5110.28 are taken from the processing tanks and bottled or packaged spirits.

The regulations require two different physical inventories in the processing account:

* Under [27 CFR 19.401](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.14.172.26" \t "_blank), proprietors must take an inventory of wines and bulk spirits “at the close of each calendar quarter.”
* Under [27 CFR 19.402](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.14.158.27" \t "_blank), an inventory of bottled and packaged spirits in the processing account must be taken for the return periods ending June 30 and December 31 of each year.

A common issue found during audits is that the DSP does not take the required inventories on these dates.  [27 CFR 19.402(a)(3)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?type=simple;c=ecfr;cc=ecfr;sid=77bf75d65615cf195d8b6df75e11d5bc;idno=27;region=DIV1;q1=destruction;rgn=div5;view=text;node=27%3A1.0.1.1.15" \l "27:1.0.1.1.15.14.158.27) does allow you to request to take the physical inventories of finished goods (bottled or packaged spirits) on a different schedule than June 30 and December 31, however, you must first receive TTB’s approval.  You may request alternative physical inventory dates by submitting a letterhead application to [TTB’s National Revenue Center (NRC)](http://www.ttb.gov/nrc/nrc_contact.shtml) in Cincinnati, Ohio.

**How to avoid issues with processing inventories**

1. Review [27 CFR 19.401](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.14.172.26" \t "_blank) and [27 CFR 19.402](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.14.158.27" \t "_blank).
2. Take a physical inventory of bulk spirits in the processing account every three months and of case finished goods on June 30 and December 31.
3. If you wish to take the finished goods inventory on dates other than June 30 and December 31, apply for permission in writing to [TTB’s National Revenue Center (NRC)](http://www.ttb.gov/nrc/nrc_contact.shtml) in Cincinnati, Ohio.
4. Have an authorized person sign the inventory summary sheets under penalties of perjury with the following declaration, “I declare under the penalties of perjury that this (insert type of document, such as report, or claim), including supporting documents, has been examined by me and, to the best of my knowledge and belief, is true, correct, and complete.”

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**Inventory Issue 3 — Denatured Spirits Operations Inventory**

For producers of denatured alcohol, one of the most frequent issues TTB finds during audits is the timing of physical inventories.  [27 CFR 19.464](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.15.160.14" \t "_blank) states that you must take a physical inventory of all denatured spirits in the processing account at the close of each calendar quarter.

**How avoid issues with denatured spirits operations inventory.**

1. Review [27 CFR 19.464](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.15.160.14" \t "_blank).
2. Take a physical inventory of denatured spirits at the end of every calendar quarter.
3. If you wish to take the inventory on dates other than at the close of the calendar quarter, apply for permission in writing to [TTB’s National Revenue Center (NRC)](http://www.ttb.gov/nrc/nrc_contact.shtml) in Cincinnati, Ohio.
4. Have an authorized person sign the inventory summary sheets under penalties of perjury with the following declaration, “I declare under the penalties of perjury that this (insert type of document, such as report, or claim), including supporting documents, has been examined by me and, to the best of my knowledge and belief, is true, correct, and complete.”

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**Inventory Issue 4 — Production Inventory**

The most frequent issues related to unfinished spirits (spirits in production) that we find during audits is that DSPs do not take physical inventories on the correct date or they do not take them at all.  [27 CFR 19.329](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.11.149.17" \t "_blank) states that, “Each distiller shall take a physical inventory of the spirits and denatured spirits [unfinished inventory] in tanks and other vessels in the production account at the close of each calendar quarter \* \* \*.  The inventory shall show separately spirits and denatured spirits received for redistillation.”

You must report the results of each physical inventory on line 17(b) of the Monthly Report of Production Operations ([TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf%22%20%5Ct%20%22_blank)).  DSPs also sometimes neglect to report the inventory results as required.  Remember that tax attaches as soon as the spirits come into existence, and you are liable for the tax at that time, so it is imperative to have an accurate accounting of spirits on-hand.

**How to avoid issues with unfinished spirits inventories**

1. Review [27 CFR 19.329](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.11.149.17" \t "_blank).
2. Take a physical inventory of unfinished spirits at the end of every calendar quarter.
3. If you wish to take the inventory on dates other than at the close of the calendar quarter, apply for permission in writing to [TTB’s National Revenue Center (NRC)](http://www.ttb.gov/nrc/nrc_contact.shtml)  in Cincinnati, Ohio.
4. Make sure that the amount reported on line 17(b) of the Monthly Report of Production Operations ([TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf)) agrees with the amount shown on the physical inventory record.
5. Have an authorized person sign the inventory summary sheets under penalties of perjury with the following declaration, “I declare under the penalties of perjury that this (insert type of document, such as report, or claim), including supporting documents, has been examined by me and, to the best of my knowledge and belief, is true, correct, and complete.”

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**Inventory Issue 5 — Beverage and Industrial Spirits Case Identification Markings**

The TTB-required markings that must appear on cases of finished **beverage distilled spirits** are different than those that must appear on cases of **industrial distilled spirits**, and these differences can cause confusion for distilled spirits producers.  A **case** is defined as two or more bottles, or one or more containers larger than four liters, enclosed in a box or fastened together by some other method (see [TTB Forms Tutorial and Glossary](http://www.ttb.gov/forms_tutorials/glossary/letter_c.html)).  Cases of alcohol fall into two categories:  (1) cases of beverage (consumable) alcohol, and (2) cases of industrial alcohol.

**Beverage Alcohol:**  Under [27 CFR 19.607](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.19.172.25" \t "_blank), the following marks must appear on each case of *beverage spirits* that is filled in processing:

* Serial number;
* Kind of spirits;
* Plant number where bottled;
* Date filled;
* Proof;
* Liters or proof gallons; and
* Cases removed for export must bear the additional marks required by [27 CFR part 28](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=effbb7d48f045c54934df49064856595;rgn=div6;view=text;node=27%3A1.0.1.1.23.5;idno=27;cc=ecfr).

In addition to the required marks on cases of finished goods filled in processing, the proprietor may include other marks such as:

* Name or trade name, and location of the bottler in conjunction with the word “bottler”;
* For products actually distilled or processed by the proprietor, the name or trade name, and location in conjunction with the words “Distiller” or “Processor” as applicable;
* For products imported and bottled by the proprietor, the words “Imported and Bottled By,” followed by the name or trade name, and location;
* For products bottled for a dealer, the words “Bottled For,” followed by the name of such dealer;
* Labels or data describing the contents for commercial identification or accounting purposes, or indicating payment of State or local taxes.

**Industrial Alcohol:**  [27 CFR 19.608](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=b9a3d9b526f1826f67ac239069805310&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.19.172.26) states that the following mandatory marks must appear on cases or encased containers of *industrial alcohol*:

* The words “Alcohol” and “Tax-Free;”
* Serial number or lot identification number;
* Plant number;
* Proof;
* Proof gallons; and
* For cases withdrawn for export, transferred to customs bonded warehouses, transferred to foreign-trade zones, or as supplies for certain vessels and aircraft, the information required by [27 CFR part 28](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=effbb7d48f045c54934df49064856595;rgn=div6;view=text;node=27%3A1.0.1.1.23.5;idno=27;cc=ecfr).

**How to Assure Proper Markings on Cases**

1. Review [27 CFR 19.607](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.19.172.25" \t "_blank) and [27 CFR 19.608](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=b9a3d9b526f1826f67ac239069805310&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.19.172.26).
2. Understand that cases of *beverage alcohol* and *industrial alcohol* have different marking requirements.
3. Train employees to make the proper markings and put controls in place to assure the markings are consistently applied.

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**Inventory Issue 6 — Gauge Records for Production, Storage, and Packaged Spirits**

Distillers must keep records of gauges that are required to be performed on both beverage and industrial alcohol.  Frequently, DSPs do not keep gauging records or no gauging is performed when required.

Gauges are required (among other times):

* At the time of production ([27 CFR 19.319](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.11.147.9));
* Prior to filling packages from storage tanks ([27 CFR 19.344](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.13.150.4)); and
* When distilled spirit product is to be bottled or packaged from bottling tanks ([27 CFR 19.383](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.14.156.9)).

[27 CFR 19.768](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.29" \t "_blank) “Gauge record” outlines the requirements for records that must be maintained for production gauges and gauges performed prior to filling packages from storage tanks.  The record must contain all the information required by this regulation.

Gauge records at the time of production must include the kind of spirits, age of spirits, and specific gauge data including package identification number, tank number, volumetric data, wine gallons, entry proof (whisky), proof gallons per filled package, and total proof gallons.  If spirits are put into barrels (cooperage) for aging, records must be kept that designate the type of cooperage, that is “C” for charred, “REC” for recharred, “P” for plain, “PAR” for paraffined, “G” for glued, or “R” for reused, and “PS” if a barrel has been steamed or water soaked before filling.  [27 CFR 19.769](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.30" \t "_blank), “Package gauge record,” requires that a record shall be prepared to document the gauge of packages of spirits and to convey information on package gauges.  The information required to appear in the record can be found in [27 CFR 19.769](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.30" \t "_blank).

Records for each package must include; serial or identification number; kind of spirits; gross weight at original gauge, regauge, and shipment; present tare on regauge; proof; and original proof gallons and receiving weights.

Recording the gauge is frequently not properly recorded when alcohol is transferred from place to place.  Alcohol must be gauged and that gauge must be recorded when: the alcohol is entered into or transferred between storage and processing, spirits are returned to bond, spirits are redistilled or repackaged, or when spirits are packaged.  These records must show the date of the transaction, identification of the transaction by form, serial number, name and plant number of the processor or warehouseman, and proof if over 190 proof.

**How to maintain proper gauge records**

1. Gauge alcohol content of inventory when the alcohol is:  (1) Entered into or transferred between storage and processing,  (2) returned to bond, (3) redistilled or repackaged, or (4) when it is packaged.  When alcohol is transferred into the plant, records must show the date of the transaction, identification of the transaction by form, serial number, name and plant number of the processor or warehouseman, and proof if over 190 proof.
2. Production gauge records must include the Information described in [27 CFR 19.768](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.29" \t "_blank).
3. Package records must include information described in [27 CFR 19.769](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.30" \t "_blank).

**Reporting Issue 1 — Monthly Reports Submitted to TTB**

Common issues related to the TTB monthly reports include that the DSP does not file the required operational reports or fails to file the reports on time.  Also, the information provided is frequently incomplete or incorrect.

There are three types of reports required by [27 CFR 19.792](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.184.42" \t "_blank) “Reports”:

* Production report - Monthly Report of Production Operations, [TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf%22%20%5Ct%20%22_blank);
* Storage report - Monthly Report of Storage Operations, [TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank); and
* Processing reports for two types of operation:
	+ Manufacture/bottling - Monthly Report of Processing Operations, [TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank); and
	+ Denaturation (including articles) - Monthly Report of Processing (Denaturing) Operations, [TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank).

**Under which conditions are you required to file these forms?**

* Form TTB F 5110.40 (Monthly Report of Production Operations) must be filed if *distilling/production* operations appear on your DSP permit and registration.
* Form TTB F 5110.11 (Monthly Report of Storage Operations) must be filed to report storage account activity at a beverage or industrial DSP.  This report must be filed if the operation of *warehouseman* appears on your DSP permit and registration.
* Form TTB F 5110.28 (Monthly Report of Processing Operations) must be filed if you conduct processing (rectifying), bottling, packaging, or denaturing operations at the distillery.
* Form TTB F 5110.43 (Report of Processing (Denaturing) Operations) must be filed to report monthly denaturing activity conducted by industrial DSPs that are authorized to denature spirits and/or manufacture articles.

**When and where do you send the reports?**

The TTB reports must be filed no later than the 15th of the month following the reporting period, even if there is no activity during the month.  If there is no activity during the month, you are required to file the report showing zeros.  All forms must be sent to:

Director, National Revenue Center
550 Main Street, Room 8002
Cincinnati, Ohio  45202

The original form must be sent to the NRC.

**Are there tutorials available to help complete the reports?**

Filling out the monthly reports requires that the DSP proprietor follow the instructions on the back of the forms.  Tutorials, which include a checklist, frequently asked questions (FAQ), tools, and a glossary of terms for each form may be found at these links:

* Monthly Report of Production Operations, [TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf%22%20%5Ct%20%22_blank) – [Tutorial](http://www.ttb.gov/forms_tutorials/f511040/f511040_tutorial.html);
* Monthly Report of Storage Operations, [TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank) – [Tutorial](http://www.ttb.gov/forms_tutorials/f511011/f511011_tutorial.html);
* Monthly Report of Processing Operations, [TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank) – [Tutorial](http://www.ttb.gov/forms_tutorials/f511028/f511028_tutorial.html); and
* Monthly Report of Processing (Denaturing) Operations, [TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank) – [Tutorial](http://www.ttb.gov/forms_tutorials/f511043/f511043_tutorial.html).

**Errors when filling out forms**

Audits uncover many errors on these forms or in the reports; some of these errors are described below:

*General errors*:

* Failure to maintain the daily and the monthly summary information in support of the monthly reports.
* Failure to maintain copies of monthly TTB reports for the prior three years.
* Errors in footing (adding down), cross footing (adding across), inventory flow (beginning inventory plus additions minus withdrawals equal ending inventory), and clerical errors related to missing and incorrectly recorded information.

*Monthly Report of Storage Operations,* [TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank):

* Inventory gains and losses are entered on the wrong lines.
* Inventory gains are entered on line 3 instead of line 5.  Line 3 of the storage report should be used for alcohol received from customs custody.
* Line 21 is used to enter inventory losses instead of line 22.  Line 21 is designated as a blank line and should not be used for inventory losses.

*Monthly Report of Processing (Denaturing) Operations,* [TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank):

* Mis-reporting the amount of SDA and SDR (specially denatured rum) sold to dealers and users, line 6, instead reporting this amount on line 9, "For use in manufacture of articles on my bonded premise."
* Failure to report Wine Gallons of various SDA and SDR by formula number.

**How to avoid problems with monthly reports**

1. Using [Pay.gov](https://pay.gov/paygov/), which the DSP may have access to at their request, is a good way to avoid problems with monthly reports since it does the calculations and automates some of the forms.  [Pay.gov instruction for form TTB F 5110.40](http://www.ttb.gov/epayment/Production_Operations_Guide.pdf) and [Pay.gov instruction for form TTB F 5110.11](http://www.ttb.treas.gov/epayment/Storage_Operations_Guide.pdf) are available.  For more information see [Pay.gov User Guides](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22_Pay.gov_User_GuidesFiling) at the end of this tutorial.
2. You must complete and file the forms for production ([TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf%22%20%5Ct%20%22_blank)), storage ([TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank)), and/or processing operations ([TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank) or [TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank) ) as appropriate.
3. TTB monthly reports must be completed and submitted to [TTB’s National Revenue Center (NRC)](http://www.ttb.gov/nrc/nrc_contact.shtml) by no later than the 15th of the month following the reporting period, even if there is no activity during the month.
4. Retain copies of these reports for at least three years.
5. When completing the forms:
	1. Be careful that all the information is entered on the right lines of the form.
	2. Review the reports before sending them.  Carefully add the numbers to insure they are correct, check for accurate inventory flow (beginning inventory plus additions minus withdrawals equal ending inventory) and check for clerical errors related to missing and/ or incorrectly recorded information.
	3. Have a person independent of the preparer review the form for errors and omissions.
6. For questions or concerns, please call TTB’s National Revenue Center at 1-877-TTB-FAQS (1-877-882-3277) toll free; (513)-684-3334 or email ttbspirits@ttb.treas.gov.

*[Additional Resources](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22_Helpful_Tutorials_-_1):*Form Tutorials:

[TTB F 5110.11](http://www.ttb.gov/forms_tutorials/f511011/f511011_tutorial.html) – Monthly Report of Storage Operations
TTB F 5110.28 – Monthly Report of Processing Operations
TTB F 5110.40 – Monthly Report of Production Operations
[TTB F 5110.43](http://www.ttb.gov/forms_tutorials/f511043/f511043_tutorial.html) – Monthly Report of Processing (Denaturing) Operations

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**Reporting Issue 2 — Losses in Bond**

TTB notes that it is sometimes difficult to understand the difference between a *loss* and a *shortage*.  As per the [TTB glossary](http://www.ttb.gov/forms_tutorials/glossary/glossary.html), “**Losses** are known quantities of a commodity lost due to breakage, casualty, or other unusual cause.”  Losses are generally taken for bulk inventory.  The [TTB glossary](http://www.ttb.gov/forms_tutorials/glossary/glossary.html) states that a **shortage** is “an unaccounted for discrepancy (missing quantity)” that is “disclosed by physical inventory.”  Shortages are usually found in cased finished goods inventory.

In storage tanks, because there is a gauge performed when the tank is filled and another when the tank is emptied, gains and losses encountered in storage are measurable and must be recorded on tank summary records.  Each quarter, the summary sheets must be added up and the proprietor must determine gains and losses.  In the DSP production process, a loss is a measureable difference between the gauge of the outcome of the production process and the gauged sum of the raw ingredients.  For example, when a batch of alcohol is produced, the proof gallons of alcohol are measured.  Then the amounts of other materials are gauged and added, the sum of which is the estimated amount produced and transferred to a bottling tank.  The amount transferred is measured (gauged) and is compared to the sum and proof of the ingredients in the batch record.  If the amount transferred is less than the sum of the ingredients, a loss occurs.  Leaks in the line, breakage, or errors in pumping between tanks are explainable losses due to accident.

A disappearance that is disclosed by physical inventoryis a shortage.  Taxes must be paid on unexplained shortages of bottled distilled spirits.  [27 CFR 19.565](http://www.ttb.gov/spirits/regs/27cfrpart019.htm%22%20%5Cl%20%2219.565) states that such unexplained shortages “shall be determined by comparing the spirits recorded to be on hand with the results of the quantitative determination of the spirits found to be on hand by actual count during the physical inventory.”  Shortages represent a difference between the “book” inventory and the physical count.  If the proprietor cannot explain these shortages, they must pay tax on them.

In addition to unexplained shortages of bottled spirits, a proprietor may also be required to pay tax on other losses (or corresponding shortages) of spirits.  Under [27 CFR 19.562](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.18.169.2" \t "_blank), losses shall be determined each time a tank or bulk conveyance is emptied, on the basis of required physical inventories, and upon discovery of accidents or unusual variations in gauges.  When it appears that any container in bond has sustained a loss resulting from theft or unauthorized voluntary destruction, such loss shall be taxpaid or the container shall be segregated with the loss reported promptly to District Director, Trade Investigations Division; or District Director, Tax Audit Division.  In any instance in which spirits, denatured spirits, or wines are lost or destroyed in bond, whether by theft, unauthorized voluntary destruction, or otherwise, the appropriate TTB officer may require the proprietor or other person liable for the tax to file a claim for relief from the tax in accordance with [27 CFR 19.41](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.3.134.14" \t "_blank).  The following losses must also be reported and, potentially, taxpaid:

* *Missing packages*.  Whenever any packages of spirits, denatured spirits, or wine recorded as deposited on bonded premises cannot be located or otherwise accounted for.
* *Tampering, material deficiency, or loss of proof*.  When it is discovered that:
	+ Spirits have been tampered with;
	+ Inventory physically counted is different from what is recorded and the loss is not by leakage or casualty; or
	+ There is a loss of proof not attributable to variations in gauging.
* *Excessive in-transit losses.*  If there are “excessive in-transit losses,” that is, losses of spirits received in bond in bulk conveyances which exceed *one percent* of the quantity of a product consigned.
* *Losses from storage tanks and bulk conveyances*.  When the quantity of spirits lost from all the storage tanks and bulk conveyances exceeds *1.5 percent* of the total quantity contained in the tanks and bulk conveyances during the calendar quarter.

The most frequent violations of the regulations found during TTB audits are:

* The DSP fails to determine losses each time a tank or bulk conveyance is emptied or at each physical inventory or upon discovery of accidents or unusual variations in gauges.
* The DSP does not gauge the proof of in-bond spirits or denatured spirits in bulk conveyances.
* Storage losses of spirits exceed the allowable loss limit of 1.5 percent of all available spirits in storage tanks for the quarter.
* Processing losses from the bottling line are not recorded.  [27 CFR 19.383](http://www.ttb.gov/spirits/regs/27cfrpart019.htm%22%20%5Cl%20%2219.383), “Bottling tank gauge,” [27 CFR 19.384](http://www.ttb.gov/spirits/regs/27cfrpart019.htm%22%20%5Cl%20%2219.384), “Preparation of bottling or packaging record,” and [27 CFR 19.749](http://www.ttb.gov/spirits/regs/27cfrpart019.htm%22%20%5Cl%20%2219.749), “Bottling and packaging record” require a listing of the bottling loss or gain.  Also, [27 CFR 19.92](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.5.137.27" \t "_blank), “When gauges are required,” requires a gauge or measurement when the product is reduced in proof prior to bottling.  This amount is measured against the amount bottled, with the difference being the gain or loss, recorded for each bottle tank.
* DSPs do not have contemporaneous records to support the contention that the product was "lost."  Many times the loss will be calculated on an ad hoc basis and “plugged” to make the TTB monthly report balance.

If there are cased goods stored in the processing account and a physical inventory shows that the physical inventory is less than the book inventory and there is no explanation (such as breakage, theft, etc.), the result is a shortage and tax is due on this shortage.

**How to avoid problems with Losses in Bond**

1. Understand the difference between a loss and a shortage.  A loss is a known difference in quantity between the gauged ingredients going in and the actual count at the end of the process, such as losses through leaks or accidents.  Some losses are taxable.  A shortage is a disappearance or loss that is disclosed by physical inventory.  Some shortages are taxable, including unexplained shortages of case finished goods.
2. Losses must be determined frequently – specifically:
	1. Each time a tank or bulk conveyance is emptied;
	2. At each physical inventory; and
	3. Upon discovery of accidents or unusual variations in gauges.
3. Do not forget when a physical count of finished goods cases is less than book value, this is a shortage and tax is due.
4. Keep records that support the losses you claim for tank inventory.
5. When you file a claim for losses to [TTB’s National Revenue Center (NRC)](http://www.ttb.gov/nrc/nrc_contact.shtml) make sure to follow the criteria spelled out in [27 CFR 19.41](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.3.134.14" \t "_blank).
6. Put the correct amount of losses of storage and processing tank inventory on the TTB monthly reports, including [TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank), [TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank) and [TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf),and refrain from just plugging in a figure rather than determining what caused the loss.

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**Reporting Issue 3 — Timing for Submitting Excise Tax Return**

**TTB F 5000.24**

Late filing of the excise tax form, [TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank), is frequently the reason that auditors are sent to conduct an audit.  A DSP that consistently files tax returns late indicates to TTB that the DSP may be having problems.  [27 CFR 19.523](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.17.166.18" \t "_blank) “Time for Filing Returns,” provides that when DSP proprietors withdraw spirits from their bonded premises, the spirits immediately become taxable and tax payments are due during the same semimonthly period.  The regulation states, “The proprietor shall file a semimonthly tax return \* \* \* on Form 5000.24” and pay tax “not later than the 14th day after the last day of the return period.”  If the due date falls on a weekend, the payment is due the Friday before the weekend.  [27 CFR 19.525](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.17.166.20" \t "_blank) describes how to file [TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank), and [27 CFR 19.524](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.17.166.19" \t "_blank) describes how to make payment by electronic funds transfer (EFT).

Every month has two return periods.  The month of September is the exception as the second semimonthly period for the month of September is split into TWO payment periods, from the 16th day through the 26th day for EFT filers or 25th day for non-EFT, and from the 27th day for EFT filers or 26th day for non EFT through the 30th day.  This means that September has THREE filing periods.  An EFT return on [TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank) and remittance for both periods September 1–15 AND September 16–26 must be filed no later than September 29.  A non-EFT filer must file September 1–15 and 16–25 no later than September 28.  For the third period of September 26 or 27–30, the DSP must file a return on [TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank) and make remittance no later than October 14.  (See [Industry Circular 95–4](http://www.ttb.gov/industry_circulars/archives/1995/95-04.html).)

However, under [27 CFR 19.523(2)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.17.166.18" \t "_blank), the EFT filer “Safe harbor rule,” the DSP is considered to have met the requirements of payment without penalty if the amount paid no later than September 29 is more than 11/15 (73.3 percent) of the tax liability incurred for the semimonthly period beginning on September 1 and ending on September 15, and if any underpayment of tax is paid by October 14.  Non-EFT filers are considered to have met the requirements of payment without penalty if the amount paid no later than September 28 is not less than 2/3rds (66.7 percent) of the tax liability incurred for the semimonthly period beginning on September 1 and ending on September 15, and if any underpayment of tax is paid by October 14.

Failure to file and make tax return payments timely, on or before the close of business on the prescribed last day for filing, subjects the DSP proprietors to penalties, interest and additions to the tax imposed by the following statutory provisions: [26 USC 5684](http://frwebgate3.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=31223232365+1+2+0&WAISaction=retrieve" \t "_blank), [26 USC 6651](http://frwebgate4.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=633105267383+0+2+0&WAISaction=retrieve" \t "_blank), or [26 USC 6656](http://frwebgate5.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=635307175324+0+2+0&WAISaction=retrieve" \t "_blank).  In addition, penalties can be assessed under [26 USC 5603](http://frwebgate6.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=611585411574+0+2+0&WAISaction=retrieve" \t "_blank)  and [26 USC 5687](http://frwebgate1.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=637209452060+0+2+0&WAISaction=retrieve" \t "_blank) of $1,000 or one year imprisonment for each occurrence for failure to comply with requirements for filing returns and penalties of up to $10,000 and 5 years imprisonment if fraud is involved.

**How are returns filed?**

Each return on [TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank) must be completed in accordance with regulation at [27 CFR 19.525](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.17.166.20" \t "_blank), as well as the instructions on the form.  Failure to follow directions is a compliance violation.

When [TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank) is sent by U.S. mail, TTB considers the official postmark of the U.S. Postal Service stamped on the cover in which the return was mailed to be the date the return is filed and, if the remittance is enclosed, the date payment is received.  TTB keeps copies of the envelope in case of a dispute.

Electronic Funds Transfer (EFT) payment may be used by any DSP, but is required of all DSPs or controlled groups (multiple DSPs registrations grouped under one ownership) liable, during this or the prior calendar year, for a gross amount equal to or exceeding $5 million in distilled spirits taxes.  Any EFT paying DSP that drops below $5 million in tax payments in a given year may chose not to make EFT payments.  EFT payments are made from the DSP’s bank to the specified Treasury Account at a Federal Reserve Bank.  Remittances shall be considered as made when the Treasury Account receives the tax payment by EFT.

Any transfer data record furnished to the DSP will serve as the record of payment, and shall be retained as part of required records.  For instruction see [Pay.gov Submission User Guide](http://www.ttb.gov/epayment/excise_tax_guide.pdf) and [Alcohol & Tobacco Newsletter, Vol 2, Issue 9](http://www.ttb.gov/public_info/cm2001-9.pdf%22%20%5Ct%20%22_blank).

Using Pay.Gov may be beneficial to many DSPs because it facilitates reporting and helps the DSP avoid minor problems in reporting.

In regard to penalties, interest, and additions, generally additions (additional fees) are charged both for failure to file a tax return and for failure to pay the tax.  In accordance with the statutory provision at [26 USC 6651](http://frwebgate4.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=633105267383+0+2+0&WAISaction=retrieve" \t "_blank), failure to file a tax return “unless it is shown that such failure is due to reasonable cause and not due to willful neglect, there shall be added to the amount required to be shown as tax on such return 5 percent of the amount of such tax if the failure is for not more than 1 month, with an additional 5 percent for each additional month or fraction thereof during which such failure continues, not exceeding 25 percent in the aggregate.”  For failure to pay the amount shown on the tax return on or before the due date, 0.5 percent of the tax shown on the return will be added if the delinquency is less than 1 month, with an additional 0.5 percent added for each additional month or fraction thereof, not exceeding 25 percent in the aggregate.

According to the law at [26 USC 5687](http://frwebgate1.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=637209452060+0+2+0&WAISaction=retrieve" \t "_blank), the DSP proprietor could be fined $1,000 or one year imprisonment for each occurrence of failure to comply with applicable regulations.  Fines for failure to make tax deposits (such as EFT deposits if the annual tax is over $5,000,000 – see above) are described in the law at [26 USC 6656](http://frwebgate5.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=635307175324+0+2+0&WAISaction=retrieve" \t "_blank), which states that any failure to deposit on the due date any amount of tax imposed into the prescribed government depository as required will result in a financial penalty.  A penalty will be assessed equal to 2 percent of the amount of the underpayment if the failure is for not more than 5 days, 5 percent if the failure is for more than 5 days but not more than 15 days, and 10 percent if the failure is for more than 15 days.

In regard to a fraudulent tax return, the penalties go up to 15 percent per month additions with a maximum of 75 percent.  There are also penalties associated with such fraud.  The law at [26 USC 5602](http://frwebgate4.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=635365253330+0+2+0&WAISaction=retrieve" \t "_blank) states that “Whenever any person engaged in or carrying on the business of a distiller defrauds, attempts to defraud, or engages in such business with intent to defraud the United States of the tax on the spirits distilled by him, or of any part thereof, he shall be fined not more than $10,000, or imprisoned not more than 5 years, or both.”  The law at [26 USC 5603](http://frwebgate6.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=611585411574+0+2+0&WAISaction=retrieve) specifically states that these penalties apply to failure to keep records or alteration of records with the intent to defraud.  The penalties also apply if the employees of the DSP “hinder or obstruct any [TTB] officer from inspecting any such document \* \* \* or fail or refuse to preserve or produce any such document, as required by \* \* \* regulations.”

**How to avoid problems with Tax Payments and Reporting**

1. Carefully complete the TTB excise tax form [TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank).  Follow directions printed on the back of the form.
2. File a TTB excise tax form [TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank) twice monthly, except for September when it is filed three times.  File the return and pay not later than the 14th day after the last day of the return period.
3. EFT payment is required of all DSPs and controlled groups liable, during a during the present or prior calendar year, for a gross amount equal to or exceeding five million dollars in distilled spirits taxes.  If this is the case with the DSP, make sure to enroll in the Electronic Funds Transfer system.
4. Using [Pay.gov](https://pay.gov/paygov/) is a good way to avoid problems with monthly reports since it does the calculations and automates some of the forms.  For more information see [Pay.gov User Guides](http://www.ttb.gov/spirits/common_compliance_tax_issues-during-audits-ds.shtml%22%20%5Cl%20%22_Pay.gov_User_GuidesFiling) at the end of this tutorial.

*Additional Resources*:

TTB Expo presentation:

[Distilled Spirits Plant Records, Reports and Tax Payments: How to Avoid Warning Letters, Penalties and Interest](http://www.ttb.gov/expo08/pdf-presentations/tuesday-ballroom-c/12-distilled-spirits-plant-records-reports-and-tax-payments.pdf%22%20%5Ct%20%22_blank)

Other:

[Helpful Hints in Preparing Form 5000.24, Excise Tax Return](http://ttb.gov/forms/helpful_hints500024.shtml)
[Pay.gov Excise Tax Return and Payment Electronic Submission User Guide](http://www.ttb.gov/epayment/excise_tax_guide.pdf)
[Alcohol & Tobacco Newsletter, Vol 2 Issue 9](http://www.ttb.gov/public_info/cm2001-9.pdf%22%20%5Ct%20%22_blank)

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**Application, Equipment, and Security Issue 1 — Registration and Permits of DSP and Identification of Structures, Areas, Apparatus, and Equipment**

DSPs are required to keep TTB informed about changes that occur with their business or distillery.  We frequently find that DSPs fail to file the required paperwork when these changes take place.

**What changes to my DSP registration and/or permit must I report to TTB?**

Before commencing operations as a DSP, proprietors are required to file the original Registration of Distilled Spirits Plant, [TTB F 5110.41](http://www.ttb.gov/forms/f511041.pdf%22%20%5Ct%20%22_blank) (required by [27 CFR 19.151](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.1" \t "_blank) and [27 CFR 19.152](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.2)), and Application for Operating Permit, [TTB F 5110.25](http://www.ttb.gov/forms/f511025.pdf%22%20%5Ct%20%22_blank) (required by [27 CFR 19.157](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.7" \t "_blank)).

The DSP must maintain the registration and permit on the plant premises, as required by [27 CFR 19.155](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.5" \t "_blank).

[27 CFR 19.180](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.21" \t "_blank) requires that a DSP file an amended application on form [TTB F 5110.41](http://www.ttb.gov/forms/f511041.pdf%22%20%5Ct%20%22_blank) when any of the following changes occur:

* Name of proprietor, [27 CFR 19.182](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.23" \t "_blank);
* Trade name, [27 CFR 19.183](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.24" \t "_blank);
* Stockholders, [27 CFR 19.184](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.25" \t "_blank);
* Officers or directors, [27 CFR 19.185](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.26" \t "_blank);
* Proprietorship, [27 CFR 19.186](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.27" \t "_blank);
* Location, [27 CFR 19.189](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.30" \t "_blank);
* Premises, [27 CFR 19.190](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.31" \t "_blank);
* Operations, [27 CFR 19.191](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.32" \t "_blank);
* Production procedure [27 CFR 19.192](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.33" \t "_blank); or
* Construction or use of buildings and equipment [27 CFR 19.193](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.34" \t "_blank).

The DSP must notify [TTB’s National Revenue Center (NRC)](http://www.ttb.gov/nrc/nrc_contact.shtml) within 30 days of the change.  [27 CFR 19.180](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.21" \t "_blank) states that “Where there is a change with respect to the information shown in the notice of registration, the proprietor shall submit, within 30 days of such change an application on [TTB F 5110.41](http://www.ttb.gov/forms/f511041.pdf%22%20%5Ct%20%22_blank) for amended registration.”

**What are the requirements for identification of Equipment, Tanks, Apparatus, and Structures at my plant?**

The management and workers in a DSP know what the equipment does; where the tanks, stills, and fementers are located; and know what is in the tanks.  The DSP employees have charts that show tank capacity.  However, office workers or government compliance personnel at the plant may not know this information.

Details of the equipment and its location should be clearly marked in accordance with [27 CFR 19.278](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.10.147.8" \t "_blank), which states that each building, room, or enclosed area where spirits, distilling, or fermenting materials are held “shall be appropriately marked with a distinguishing number or letter.”  Each tank or receptacle for spirits “shall be marked to show a unique serial number and capacity.”  Each still, fermenter, cooker, and yeast tank “shall be numbered and marked to show its use.”  Also, other major equipment used for processing or containing spirits, denatured or distilling or fermenting material, and all other tanks, “shall be identified as to use \* \* \*.”
The most frequent violation of this regulation is lack of signage on buildings, rooms, and areas that hold distilling material and unfinished spirit products.  Buildings on the premises and areas within each building are not always marked appropriately. One way to mark the room or building is to use the DSP permit number, followed by a sequential number if there is more than one room or building used for spirits or production materials.

Most tanks have the capacity marked on them when installed, but over time the capacity marking may become illegible, or the numbering systems may change.  All tanks and containers associated with production, including flush drums, should be marked with a unique serial number and their capacities.  Stills and all tanks, including yeast tanks, must be marked as to use.

**How to avoid problems with your Registration and Permit and how to properly identify structures, areas, apparatus, and equipment**

1. Once a year, or anytime there is major change in operations, review your Registration and Permit files to ensure both are kept up to date.  TTB must be notified within 30 days of major changes, such as change of officers; addition of equipment, change in location, etc.  (See the list above.)
2. Once a year, check that equipment, structures, and apparatus are properly marked.
	1. All structures, areas, apparatus, and equipment must be marked with a distinguishing number or letter (a unique serial number).
	2. All tanks used in production must be marked to show capacity.
	3. All stills, fementers, cookers, yeast tanks, and other major equipment used for processing or containing spirits must be marked to show its use.

	*Additional Resources*:

	TTB Expo presentation:

	[Time Changes Things! What, When and How to Report Distilled Spirits Plant Changes](http://www.ttb.gov/expo08/pdf-presentations/wednesday-ballroom-e/9-time-changes-things-how-to-report-dsp-changes.pdf%22%20%5Ct%20%22_blank)

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**Application, Equipment, and Security Issue 2 – Security**

Plant security, and the security of all equipment and products, is not only important to the DSP owners and employees, but it is also important to TTB.  [27 CFR 19.281](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.10.147.11" \t "_blank) requires adequate security measures that will “protect the revenue.”  Buildings must be well built and there must be locks on all doors, windows, and other openings.  Outdoor tanks must be individually locked or locked within an enclosure when they are not in use.  Indoor tanks or the rooms or buildings in which they are housed should be configured in a way that they can be locked.

The locks used to secure outdoor tanks or indoor tanks containing spirits and, the enclosures around outdoor tanks and doors from which access may be gained from the outside to the rooms or buildings containing the indoor tanks or portable bulk containers of spirits, shall meet the minimum specifications found in [27 CFR 19.281(e)](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.10.147.11)

The most frequent security issues TTB auditors find are:

* Outdoor tanks containing spirits are not equipped for locking;
* Outdoor tanks containing spirits are equipped for locking but:
	+ There is no lock on the tanks, or
	+ Tanks are not locked within an enclosure when not in use;
* Locks do not meet the required specifications.  The lock is frequently improper because it lacks the “captured key” feature.

**How to assure adequate security for tanks and buildings**

1. Unless outdoor tanks are in locked enclosures, they should be fitted for locks and locked whenever they contain alcohol.  For questions regarding enclosures or locks, please contact [TTB’s National Revenue Center (NRC)](http://www.ttb.gov/nrc/nrc_contact.shtml)  or a TTB investigator in the area of the DSP.
2. When purchasing locks, make sure they meet the requirements of [27 CFR 19.281](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.10.147.11" \t "_blank).
3. Train employees to lock tanks.

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**FORMS frequently used by Distilled Spirits Plants**

|  |  |
| --- | --- |
| **Form Number** | **Form Title** |
| **[TTB F 5000.8](http://www.ttb.gov/forms/f50008.pdf%22%20%5Ct%20%22_blank)** | Power of Attorney |
| **[TTB F 5000.18](http://www.ttb.gov/forms/f500018.pdf%22%20%5Ct%20%22_blank)** | Change of Bond (Consent of Surety) |
| **[TTB F 5000.24](http://www.ttb.gov/forms/f500024.pdf%22%20%5Ct%20%22_blank)** | Excise Tax Return |
| **[TTB F 5000.31](http://www.ttb.gov/forms/f500031.pdf%22%20%5Ct%20%22_blank)** | Pay.gov User Agreement |
| **[TTB F 5100.1](http://www.ttb.gov/forms/f51001.pdf%22%20%5Ct%20%22_blank)**  | Signing Authority for Corporate and LLC Officials |
| **[TTB F 5100.11](http://www.ttb.gov/forms/f510011.pdf%22%20%5Ct%20%22_blank)**  | Withdrawal of Spirits, Specially Denatured Spirits, or Wines for Exportation |
| **[TTB F 5100.16](http://www.ttb.gov/forms/f510016.pdf%22%20%5Ct%20%22_blank)** | Application for Transfer of Spirits and/or Denatured Spirits in Bond |
| **[TTB F 5110.11](http://www.ttb.gov/forms/f511011.pdf%22%20%5Ct%20%22_blank)** **[Tutorial](http://www.ttb.gov/forms_tutorials/f511011/f511011_tutorial.html)** | Monthly Report of Storage Operations |
| **[TTB F 5110.25](http://www.ttb.gov/forms/f511025.pdf)**  | Application for Operating Permit Under 26 U.S.C. 5171(d)  |
| **[TTB F 5110.28](http://www.ttb.gov/forms/f511028.pdf%22%20%5Ct%20%22_blank)** **Tutorial** | Monthly Report of Processing Operations |
| **[TTB F 5110.30](http://www.ttb.gov/forms/f511030.pdf%22%20%5Ct%20%22_blank)** | Drawback on Distilled Spirits Exported |
| **[TTB F 5110.34](http://www.ttb.gov/forms/f511034.pdf)**  | Notice of Change in Status of Plant |
| **[TTB F 5110.38](http://www.ttb.gov/forms/f511038.pdf%22%20%5Ct%20%22_blank)** | Formula for Distilled Spirits Under the Federal Alcohol Administration Act |
| **[TTB F 5110.40](http://www.ttb.gov/forms/f511040.pdf)** **Tutorial**  | Monthly Report of Production Operations  |
| **[TTB F 5110.41](http://www.ttb.gov/forms/f511041.pdf%22%20%5Ct%20%22_blank)** | Registration of Distilled Spirits Plant |
| **[TTB F 5110.43](http://www.ttb.gov/forms/f511043.pdf%22%20%5Ct%20%22_blank)** **[Tutorial](http://www.ttb.gov/forms_tutorials/f511043/f511043_tutorial.html)** | Monthly Report of Processing (Denaturing) Operations |
| **[TTB F 5110.56](http://www.ttb.gov/forms/f511056.pdf%22%20%5Ct%20%22_blank)** | Distilled Spirits Bond |

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**Code of Federal Regulations (CFR) and United States Code (U.S.C.) Referenced in this Tutorial**

|  |  |
| --- | --- |
| **CFR Reference** | **CFR Title** |
| **[27 CFR 19.34](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.3.133.9)** | Computation of effective tax rate. |
| **[27 CFR 19.35](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.3.133.10)** | Application of effective tax rate (Actual). |
| **[27 CFR 19.36](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.3.133.11)** | Standard effective tax rate. |
| **[27 CFR 19.37](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.3.133.12)** | Average effective tax rate |
| **[27 CFR 19.38](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.3.133.13)** | Inventory reserve account |
| **[27 CFR 19.41](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.3.134.14)** | Claims on spirits, denatured spirits, articles, or wines lost or destroyed in bond. |
| **[27 CFR 19.92](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.5.137.27)** | When gauges are required. |
| **[27 CFR 19.100](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.5.140.33)** | Execution under penalties of perjury |
| **[27 CFR 19.151](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.1)** | General requirements for registration. |
| **[27 CFR 19.152](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.2)** | Data for application for registration  |
| **[27 CFR 19.155](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.5)** | Maintenance of registration file |
| **[27 CFR 19.157](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.7)** | Operating permits |
| **[27 CFR 19.158](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.8)** | Data for application for operating permits |
| **[27 CFR 19.180](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.21)** | Application for amended registration |
| **[27 CFR 19.182](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.23)** | Change in name of proprietor |
| **[27 CFR 19.183](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.24)** | Change of trade name |
| **[27 CFR 19.184](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.25)** | Changes in stockholders |
| **[27 CFR 19.185](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.26)** | Changes in officers and directors |
| **[27 CFR 19.186](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.27)** | Change in proprietorship |
| **[27 CFR 19.189](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.30)** | Change in location |
| **[27 CFR 19.190](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.31)** | Changes in premises |
| **[27 CFR 19.191](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.32)** | Change in operations |
| **[27 CFR 19.192](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.33)** | Change in production procedure |
| **[27 CFR 19.193](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.8.141.34)** | Changes in construction or use of buildings and equipment |
| **[27 CFR 19.278](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.10.147.8)** | Identification of structures, areas, apparatus, and equipment |
| **[27 CFR 19.281](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.10.147.11)** | Security  |
| **[27 CFR 19.329](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.11.149.17)** | Production inventories |
| **[27 CFR 19.342](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.13.150.2)** | Receipt and storage of bulk spirits and wines.  |
|   |   |
| **[27 CFR 19.353](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.13.152.10)** | Storage inventories  |
| **[27 CFR 19.383](http://www.ttb.gov/spirits/regs/27cfrpart019.htm%22%20%5Cl%20%2219.383)** | Bottling tank gauge |
| **[27 CFR 19.384](http://www.ttb.gov/spirits/regs/27cfrpart019.htm%22%20%5Cl%20%2219.384)** | Preparation of bottling or packaging record |
| **[27 CFR 19.401](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.14.172.26)** | Inventories of wines and bulk spirits (except in packages) in processing account  |
| **[27 CFR 19.402](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.14.158.27)** | Inventories of bottled and packaged spirits  |
| **[27 CFR 19.464](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.15.160.14)** | Denatured spirits inventories.  |
| **[27 CFR 19.508](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.17.165.7)** | Consignor premises |
| **[27 CFR 19.510](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.17.165.9)** | Consignee premises |
| **[27 CFR 19.523](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.17.166.18)** | Time for filing returns |
| **[27 CFR 19.524](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.17.166.19)** | Payment of tax by electronic fund transfer. |
| **[27 CFR 19.525](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.17.166.20)** | Manner of filing returns. |
| **[27 CFR 19.562](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.18.169.2)** | Determination of losses in bond  |
| **[27 CFR 19.565](http://www.ttb.gov/spirits/regs/27cfrpart019.htm%22%20%5Cl%20%2219.565)** | Shortages of bottled distilled spirits |
| **[27 CFR 19.607](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.19.172.25)** | Marks on Cases |
| **[27 CFR 19.608](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.19.172.26)** | Cases of industrial alcohol |
| **[27 CFR 19.721](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.191.1)** | Records  |
| **[27 CFR 19.731](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.191.1)** | General  |
| **[27 CFR 19.749](http://www.ttb.gov/spirits/regs/27cfrpart019.htm%22%20%5Cl%20%2219.749)** | Bottling and packaging record |
| **[24 CFR 19.751](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.181.19)** | Records of finished products |
| **[27 CFR 19.761](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.196.22)** | Record of tax determination  |
| **[27 CFR 19.767](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.28)** | Record of destruction |
| **[27 CFR 19.768](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.29)** | Gauge Record |
| **[27 CFR 19.769](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.30)** | Package gauge record |
| **[27 CFR 19.770](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=529213964defc31c82a1b22ee6c0e273&rgn=div5&view=text&node=27:1.0.1.1.15&idno=27" \l "27:1.0.1.1.15.24.183.31)** | Transfer Record |
| **[27 CFR 19.774](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=91a51734f99a6b4cf20d2256e8346909&rgn=div8&view=text&node=27:1.0.1.1.15.24.197.34&idno=27)** | Record of inventories  |
| **[27 CFR 19.792](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=b0f767f15457a2338962df1c70b3b0c1;rgn=div5;view=text;node=27%3A1.0.1.1.15;idno=27;cc=ecfr" \l "27:1.0.1.1.15.24.184.42)** | Reports  |
| **[27 CFR 28](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=f7685f6af7899c9226de5e2ff5fd57d5;rgn=div5;view=text;node=27%3A1.0.1.1.23;idno=27;cc=ecfr)** | Export Regulations |

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| **USC Reference** | **USC Section** |
| **[26 USC 5010](http://frwebgate3.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=61301923340+0+2+0&WAISaction=retrieve)** | Credit for wine content and for flavors content |
| **[26 USC 5207](http://frwebgate3.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=61309626921+0+2+0&WAISaction=retrieve)** | Records and reports  |
| **[26 USC 5602](http://frwebgate4.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=635365253330+0+2+0&WAISaction=retrieve)** | Penalty for tax fraud by distiller |
| **[26 USC 5603](http://frwebgate6.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=611585411574+0+2+0&WAISaction=retrieve)** | Penalty relating to records, returns and reports |
| **[26 USC 5684](http://frwebgate3.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=31223232365+1+2+0&WAISaction=retrieve)** | Penalties relating to the payment and collection  of liquor taxes |
| **[26 USC 5687](http://frwebgate1.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=637209452060+0+2+0&WAISaction=retrieve)** | Penalty for offenses not specifically covered |
| **[26 USC 6651](http://frwebgate4.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=633105267383+0+2+0&WAISaction=retrieve)** | Failure to file tax return or to pay tax |
| **[26 USC 6656](http://frwebgate5.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=635307175324+0+2+0&WAISaction=retrieve)** | Failure to make deposit of taxes |
|   |   |
| **Industry Circular** |   |
| **[Industry Circular 95–4](http://www.ttb.gov/industry_circulars/archives/1995/95-04.html)** | Accelerated Payments Of Certain Excise Taxes  |

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**Additional Resources - Distilled Spirits Plants**

**TTB Expo Presentations:**

* Distilled Spirits Plant Records, Reports and Tax Payments: How to Avoid Warning Letters, Penalties and Interest
* Time Changes Things!  What, When, and How to Report Distilled Spirits Plant Changes

**Pay.gov User Guides:**

* [Access/User Profile Guide](http://www.ttb.gov/epayment/user_profile_guides.pdf%22%20%5Ct%20%22_blank)
* [Excise Tax Guide](http://www.ttb.gov/epayment/excise_tax_guide.pdf%22%20%5Ct%20%22_blank)
* [(DSP) Processing Operational Guide](http://www.ttb.gov/epayment/Processing_Operations_Guide.pdf%22%20%5Ct%20%22_blank)
* [(DSP) Processing - Denaturing Operational Guide](http://www.ttb.gov/epayment/Denaturing_Operations_Guide.pdf%22%20%5Ct%20%22_blank)
* [(DSP) Production Operational Guide](http://www.ttb.gov/epayment/Production_Operations_Guide.pdf%22%20%5Ct%20%22_blank)
* [(DSP) Storage Operational Guide](http://www.ttb.gov/epayment/Storage_Operations_Guide.pdf%22%20%5Ct%20%22_blank)

**Tutorials on filling out DSP reports:**

* [TTB F 5110.11](http://www.ttb.gov/forms_tutorials/f511011/f511011_tutorial.html) – Monthly Report of Storage Operations
* TTB F 5110.28 – Monthly Report of Processing Operations
* TTB F 5110.40 – Monthly Report of Production Operations
* [TTB F 5110.43](http://www.ttb.gov/forms_tutorials/f511043/f511043_tutorial.html) – Monthly Report of Processing (Denaturing) Operations
* Claims for destruction — [Industry Circular 71–10](http://www.ttb.gov/industry_circulars/archives/1968/68-26.html)
* [Pay.gov instruction for form TTB F 5110.40](http://www.ttb.gov/epayment/Production_Operations_Guide.pdf),
* [Pay.gov instruction for form TTB F 5110.11](http://www.ttb.treas.gov/epayment/Storage_Operations_Guide.pdf)

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