



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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AUG 8 1973

The Honorable Al Ullman, Chairman
Joint Committee on Internal
Revenue Taxation
Congress of the United States

Dear Mr. Chairman:

By letter dated June 18, 1973, the Joint Committee on Internal Revenue Taxation asked us to study all facets of Government regulation of the alcohol and tobacco industries. This report deals with one facet--the need for daily deposits of alcohol and tobacco excise tax payments which are made directly to the district offices of the Internal Revenue Service.

The Internal Revenue Code (26 U.S.C. 5061 and 5703) gives the Secretary of the Treasury or his delegate the authority to prescribe by regulation the manner in which alcohol and tobacco excise tax returns are to be filed. The regulations currently require the distilled spirits, wine, beer, and tobacco industries to file semimonthly tax returns, with payment, to the appropriate District Director of Internal Revenue. During fiscal year 1974, the Service received 24,034 tax returns from these industries with related excise tax payments totaling about \$6.8 billion.

During our initial work at the Service's San Francisco District Office, we noted that deposits of alcohol and tobacco excise tax payments were made to a Federal Reserve bank approximately once a week rather than daily. According to district office personnel, deposits were not made until there were from 70 to 100 items recorded on the certificates of deposit.

Between January 1, 1974, and September 30, 1974, the San Francisco District received 3,077 tax returns totaling \$290,220,482.89. We reviewed remittance data on six distilled spirits, beer, and wine companies for the period. These companies accounted for \$104,840,519.95, or 36 percent, of the taxes deposited by the district director in San Francisco during the 9-month period.

In no instance was a tax payment from any of these companies deposited on the date it was received, although

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we were advised that the mail containing tax payments was normally received at 8 and 10 a.m. each day. The deposit delays ranged from 1 to 9 days after receipt at the district office. We have calculated that the estimated additional borrowing cost to the Government because of the undeposited tax revenues from the six companies was about \$64,600 for the period reviewed.

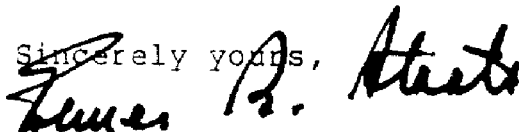
At the completion of our work at the San Francisco District Office, we brought the untimely deposit practices to the attention of San Francisco District, Western Region, and National Office officials. Subsequently, the Service's internal auditors reviewed the deposit practices at the San Francisco District Office and found that corrective action had been taken and that deposits were being made daily. In addition, the internal auditors reviewed the deposit practices at 14 other district offices and found that 7 of them were not making timely deposits.

As a result of our findings and those of the internal auditors, on May 30, 1975, the Associate Director for Accounts and Services, Accounts and Data Processing Division, notified all district directors that existing guidelines prescribing daily preparation of certificates of deposits for alcohol and tobacco tax payments should be followed. In addition, the Assistant Regional Commissioners for Accounts, Collection, and Taxpayer Service were informed that the daily deposit of alcohol and tobacco tax receipts should be considered in their annual evaluations of district office performance.

We believe that the action taken by the Associate Director to officially remind all district directors of their responsibility to make daily deposits of alcohol and tobacco excise tax payments was appropriate. We also believe that if the deposit practices of the district offices are subjected to regional office review and evaluation on a periodic basis the widespread, untimely deposit practices should not recur.

We are also sending this report to the Vice Chairman of the Joint Committee. We are sending a copy of this report to the Commissioner of Internal Revenue.

Sincerely yours,



Comptroller General
of the United States