



# Common Errors on the Firearm Ammunition Quarterly Excise Tax Return

TTB F 5300.26 (06/20/2017)

**Firearm Industry Compliance  
Webinar Series**



# Partner With A Payer



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**NSSF<sup>®</sup>**  
The Firearm Industry  
Trade Association



# Introduction

- Joined ATF in 2002 as one of the first Compliance Auditors
- In 2003, transitioned to Alcohol and Tobacco Tax and Trade Bureau (TTB) as a result of the Homeland Security Act
- Collaborated on the development of the FAET Compliance Audit program which is used today

OMB No. 1515-0094

DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

**FEDERAL FIREARMS AND AMMUNITION QUARTERLY EXCISE TAX RETURN**

(Please read the instructions before completing this form)  
(Send us the original – keep a copy for your records)

**PART I – GENERAL**

1. Business name and location (number, street, city, state, and zip code)	3. Employer Identification Number (EIN)	4. Daytime telephone number
<input type="checkbox"/> Address changed since last return was filed 2. E-mail address	5. Form of payment (if any) <input type="checkbox"/> Check <input type="checkbox"/> Other (Specify) <input type="checkbox"/> EFT <input type="checkbox"/> Money Order	6. Type of return (Check all that apply) <input type="checkbox"/> Quarterly <input type="checkbox"/> Annual <input type="checkbox"/> One-time/Occasional <input type="checkbox"/> Final <input type="checkbox"/> Amended
<b>Note:</b> Make your check or money order payable to the Alcohol & Tobacco Tax & Trade Bureau, and write your Employer Identification Number (EIN) on your check or money order. If you send a check, see the paper check conversion notice on page 2.		
7. Tax period (Enter the year and select only one quarterly period) Year      January 1 - March 31      July 1 - September 30 April 1 - June 30      October 1 - December 31		

**PART II – CALCULATION OF TAXES ON SALES OR USES DURING THIS TAX PERIOD** (Please refer to the appropriate instructions before completing Items 8 – 22)

Taxes Calculated for This Tax Period	Handguns (Pistols and Revolvers) (a)	Taxable Articles Other Firearms (Rifles, Shotguns, Machine Guns, etc.) (b)	Ammunition (Shells and Cartridges) (c)
8. The sales price of all articles <b>sold</b> and/or put to a business use	\$	\$	\$
9. The sales price of all articles <b>sold tax-exempt</b>			
10. The sales price of all articles <b>sold tax-free</b>			
TTB Tax-free Registration Number:			
11. Taxable sales and uses (Item 8 minus Item 9 and Item 10)			
12. Eligible adjustments - included excise tax			
13. Eligible adjustments - non-taxable articles			
14. Eligible adjustments - other			
15. Adjusted taxable sales and uses (Item 11 minus Items 12, 13 and 14)			
<b>Tax Rate</b>	<b>10%</b>	<b>11%</b>	<b>11%</b>
16. Total tax (Multiply Item 15 by the Tax Rate above)	\$	\$	\$

**PART III – CALCULATION OF TAX LIABILITY FOR THIS TAX PERIOD**  
(Before making entries on Items 18 - 22, complete Schedules A and B on page 2 of this form)

17. Total of Items 16(a) + 16(b) + 16(c)	\$
18. Increasing adjustments from Item 27, Schedule A (Prior quarters adjustments)	
19. Gross tax (Item 17 plus Item 18)	
20. Decreasing adjustments from Item 34, Schedule B (Cannot exceed Item 19) (Prior quarters adjustments)	
21. Net tax due with this return (Item 19 minus Item 20. Cannot be less than zero)	
22. Amount paid with this return	\$

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Previous editions are obsolete

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# Part I

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2. E-mail address	7. Tax period (Enter the year and select only one quarterly period) Year                      January 1 - March 31                      July 1 - September 30 April 1 - June 30                      October 1 - December 31	

Include email address as well) / always change tax period date and year to 2024 with an X next to Jan-March 31

# Our Focus Today

## Part II – Calculation of Taxes and sales or uses during this tax period

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Taxes Calculated for This Tax Period	Taxable Articles		
	Handguns <i>(Pistols and Revolvers)</i> (a)	Other Firearms <i>(Rifles, Shotguns, Machine Guns, etc.)</i> (b)	Ammunition <i>(Shells and Cartridges)</i> (c)
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12. Eligible adjustments - included excise tax			
13. Eligible adjustments - non-taxable articles			
14. Eligible adjustments - other			
15. Adjusted taxable sales and uses <i>(Item 11 minus Items 12, 13 and 14)</i>			
<b>Tax Rate</b>	<b>10%</b>	<b>11%</b>	<b>11%</b>
16. Total tax <i>(Multiply Item 15 by the Tax Rate above)</i>	\$	\$	\$

# Do I owe FAET

- 50 gun exemption
- Tax due when gun sold (title changes hands)
- If you had no sales in current quarter, file return with zeros

## 8. The sales price of all articles sold and/or put to a business use

- The instructions attached to this form include 9 points listed as guidelines for entry on line 8
- Business use: samples used by salesforce or by sports magazines etc used for testing/evaluation
- Business use gun is taxable but taxable base is established using the lowest wholesale price
- IMPORTANT: MAKE SURE THIS ENTRY CAN EASILY BE TRACED BACK TO A SALES JOURNAL SOURCE
- SETS THE TONE OF ANY POTENTIAL AUDIT



# Straightforward...What can go wrong

- Failure to follow instructions
  - Exclude tax exempt/tax free
  - Exclude non-taxable articles
- Support: Sum of all potentially taxable transactions as reflected on invoices
- Audits are driven by invoice analysis
- Again...Your support of line 8 entry SETS THE TONE

## 9. The sales price of all articles sold tax-exempt

- US military forces
- Federal Reserve Bank Security forces
- Support
  - Must be purchased with Congressionally allocated funds
  - Signature of base receiving officer usually on BOL
  - Contract under which purchase is authorized
  - TTB F 5300.28 Tax Free (not required)
- Don't assume tax exempt based on address

# 10. The sales price of all articles sold tax-free

## TTB Tax-free Registration Number

- Local/State governments (Law enforcement)
- Security forces for non-profit educational institutions (state universities)
- Exports
- Support
  - TTB F 5300.28 (ask for it!)
  - Contract
  - Invoice
  - Written statement from purchaser with specifics (i.e. serial number, product description, etc.)
- Exclusive use

# Tax-free Indirect Sales

- Line 9 and 10
- Sale to a distributor who sells to military, LE or export
- Must be completed within 6 months
- If completed within the quarter, enter sale on line 9/10 and attach support
- If not, record details in Schedule B (page 2, line 28) and report on line 20 as decreasing adjustment on page 1
- Distributor must provide the same support

# 11. Do the math

- Line 8 – line 9 – line 10 = line 11

## 12. Eligible adjustments – included excise tax

- Key assumption: all invoices totaled in lines 8, 9, and 10 are tax included...or to restate, FAET is not shown as a line item on invoice
- Key Formula
- Line 12 =  $((\text{Line 11} - \text{line 13} - \text{line 14}) / 1.11) * 11\%$
- **NOTE: Line 12 should match line 16 if done correctly**

# 13. Eligible adjustments – non-taxable articles

- Determination of non-taxable value
  - Retail price of non-taxable article is sold separately
  - Cost Study

# Non-Taxable Ratio Calculation

1. Two methods: Cost and Revenue methods used to determine non-taxable component ratio
  - a. the cost method is based on the accounting cost sometimes referred to the BOM (bill of material)
  - b. the revenue method is based on separate sales prices for the taxable and nontaxable articles

Components	Revenue (Invoice)	Calculation (F11/F9 etc)	Cost (Accounting)
pistol as sold	1,000.00		600.00
gun lock	25.00	2.5%	20.00
rails	15.00	1.5%	6.00
magazine	<u>22.00</u>	2.2%	<u>8.00</u>
	62.00		34.00
Non-Taxable Ratio	6.20%	6.2%	5.67%
Taxable Ratio	93.80%		94.33%

2. This exercise is completed per SKU
3. Tax return line 8 = \$1000; line 13 =  $\$1000 - (\$1000 \times 93.8\%) = \$62$
4. Note: The most widely used method is the revenue method



# 14. Eligible adjustments - other

- Freight
  - Based on actual expense (BOL)...no averages
  - Allocated between taxable and non-taxable **based on weight**
- Constructive Sales Price
- Promotional Expenses
- FOR ILLUSTRATION, ASSUME THIS ENTRY EQUALS \$80

# Back to line 12

- Application of Key Formula:

$$((\$1000 - \$62 - \$80)/1.11) * .11 = \$85.03 \text{ or } \$85$$

Line 12 Entry = \$85

# Summary

• Line 8	\$1000
• Line 9	0
• Line 10	0
• Line 11	\$1000
• Line 12	\$85
• Line 13	\$62
• Line 14	\$80
• Line 15	\$773
• Line 16	\$85.03 rounded to \$85

# NSSF Compliance Consultant Team

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# Thank You - Questions

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