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**TAX
ADMINISTRATION**

**Excise Taxes on
Sporting Arms,
Ammunition and
Archery Equipment**



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The Honorable John B. Breaux
Chairman, Subcommittee on Fisheries
and Wildlife Conservation and
the Environment
Committee on Merchant Marine and Fisheries

The Honorable Don Young
Ranking Minority Member, Subcommittee
on Fisheries and Wildlife Conservation
and the Environment
Committee on Merchant Marine and Fisheries
House of Representatives

On April 10, 1986, in response to your request, we briefed the Subcommittee staff on our review of the administration of federal excise taxes imposed by Internal Revenue Code sections 4161(b) and 4181 on manufacturers, producers, and importers of four categories of sporting goods--pistols and revolvers, other firearms, shells and cartridges, and bows and arrows.¹ At the completion of our briefing, the Subcommittee staff requested that we provide you with a report on our work to date and develop additional information about audit coverage and potential nonfiling.

The objectives of our review were to provide you information about (1) the Internal Revenue Service's (IRS) programs for assuring compliance with the applicable taxes; (2) IRS' and the Department of the Treasury's accounting procedures for sporting goods excise tax receipts; (3) the accuracy of the Department of the Interior's U.S. Fish and Wildlife Service's estimates of future tax receipts; and (4) the size of annual fluctuations in the actual amounts of receipts. We conducted our review from November 1985 to April 1986 in accordance with generally accepted government auditing standards. Appendix IV presents more details about the objectives, scope, and methodology of our work.

¹Throughout this product, we have used the terms "sporting goods excise tax returns" and "sporting goods returns" interchangeably to mean any IRS Form 720 (Quarterly Federal Excise Tax Return) that shows a tax liability for one or more of the four applicable sporting goods categories. (See app. III.) The term "sporting arms" covers two categories--(a) pistols and revolvers and (b) other firearms. The term "ammunition" covers the shells and cartridges category and the term "archery equipment" covers the bows and arrows category.

IRS' COMPLIANCE PROGRAMS FOR
EXCISE TAXES ON SPORTING GOODS

IRS' compliance efforts are conducted primarily through the Examination Division, which audits tax returns; the Collection Division, which collects delinquent taxes and identifies and secures returns from nonfilers; and the Criminal Investigation Division, which investigates suspected criminal violations of the tax laws. To varying degrees, each division has been, or plans to be, involved in the enforcement of sporting goods excise taxes.

Statistical data we developed show that IRS' Examination Division has established an audit presence for excise taxes on sporting goods tax returns. (See tables I.1 through I.4 in app. I.) The case managers and revenue agents we contacted in 14 IRS district offices told us they had not identified any particular noncompliance trends or concerns regarding manufacturers or importers of sporting goods. In addition, between 1981 and 1984, Examination Division agents in two IRS district offices had conducted limited scope projects using firearms and ammunition licensee data to identify potential nonfilers. The projects' results were mixed and statistically nonprojectable but generally did not indicate widespread nonfiling of excise tax returns in the two districts.

At the time of our review, IRS' Collection Division had not conducted any special compliance projects to identify potential nonfilers of sporting goods excise tax returns. However, the Division is designing such a project for implementation in fiscal year 1987 because there is a disparity between the number of sporting goods excise taxpayers (about 793 per quarter in fiscal year 1985) shown on IRS' Business Master File and the number of individuals or firms licensed by the Bureau of Alcohol, Tobacco and Firearms to manufacture or import sporting arms and ammunition (about 13,477 as of Sept. 30, 1985). (See app. I.)

IRS' Assistant Commissioner for Criminal Investigation told us that cases involving sporting goods excise taxes have been rare and estimated that, for the past 5 years, the Criminal Investigation Division had referred no more than one case to the Department of Justice for criminal prosecution. (See app. I.)

As requested by the Subcommittee staff at the April 10, 1986, briefing, we are continuing our study to (1) develop statistics comparing IRS' audit coverage of manufacturers and importers of sporting goods, and (2) monitor IRS' efforts to identify nonfilers.

ACCOUNTING PROCEDURES, REVENUE
ESTIMATES, AND ACTUAL RECEIPTS

The Federal Aid in Wildlife Restoration Act of 1937 (commonly referred to as the Pittman-Robertson Program) authorizes grants to states and territories for wildlife conservation and hunter education. The

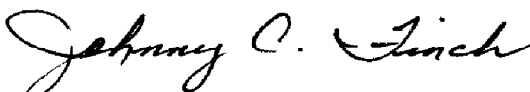
program's funding is based on an 11-percent excise tax on the sale of firearms, ammunition, and archery equipment, and a 10-percent excise tax on the sale of pistols and revolvers. Manufacturers and importers are responsible for paying and reporting the excise taxes by filing Form 720 quarterly excise tax returns. IRS processes the returns and transfers receipts to a special fund in the Department of the Treasury earmarked for the Pittman-Robertson Program--the Federal Aid in Wildlife Restoration Fund. Annually the fund is transferred to the Department of the Interior for subsequent apportionment to the states and territories by the U.S. Fish and Wildlife Service. (See app. II.)

Annually, both the Department of the Treasury and the Department of the Interior make estimates of Pittman-Robertson excise tax receipts (see fig. 11.3), but the Department of the Interior's estimates generally have been the more accurate and have been included in the President's Budget. (See table 11.1.) Interior's estimates, while generally more accurate, have varied from actual receipts. For example, the 1981 estimate was 13 percent lower than actual receipts; the 1983 estimate was 27 percent higher than actual receipts; and the 1985 estimate was 8 percent lower than actual receipts. (See table 11.2.) To improve forecasting accuracy, the Department is considering using more data on the sporting arms and ammunition industry because reliable estimates are important to the states in budgeting and planning for wildlife conservation projects.

From 1966 to 1985, Pittman-Robertson excise tax receipts have increased from about \$24 million to \$121 million. For the 5-year period 1981-1985, however, there were more annual declines in the receipts than in the previous 5-year periods. (See table 11.3.) Beyond attribution to the depressed economic condition of the sporting arms and ammunition industry, neither government nor industry officials could fully explain fluctuations in recent years' excise tax receipts, particularly the large increase in fiscal year 1985 receipts.

Treasury, IRS, and U.S. Fish and Wildlife Service officials reviewed a draft of this document, and we considered their comments in preparing our final product. As arranged with your offices, unless you publicly announce its contents earlier, we will make copies of this document available to IRS and other interested parties 10 days after you receive it.

If you have questions concerning our study or this document, please contact me on 275-6407.



Johnny C. Finch
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ABBREVIATIONS

AIMS	Audit Information Management System
BMF	Business Master File
FRS	Federal Reserve System
FWS	U.S. Fish and Wildlife Service
GAO	General Accounting Office
IRS	Internal Revenue Service
NCC	National Computer Center
OMB	Office of Management and Budget

INFORMATION ABOUT IRS'COMPLIANCE PROGRAMS

IRS is responsible for enforcing filing requirements and collecting tax liabilities for excise taxes on sporting goods--pistols and revolvers, firearms, shells and cartridges, and bows and arrows. Internal Revenue Code section 4181 imposes a 10-percent tax on pistols and revolvers and an 11-percent tax on other firearms and on shells and cartridges. Code section 4161(b) imposes an 11-percent tax on bows and arrows.

IRS' ORGANIZATION FOR COMPLIANCE PROGRAMS

IRS' enforcement activities for income, excise, and other taxes include examining tax returns, collecting delinquent taxes, securing delinquent returns, assessing penalties, and recommending criminal prosecution of individuals that evade their tax responsibilities. These enforcement activities are conducted primarily through three divisions--Examination Division, Collection Division, and Criminal Investigation Division.

The Examination Division's mission is to conduct timely, quality audits of tax returns in order to encourage voluntary and accurate reporting of tax liabilities by taxpayers. The Division's field resources are assigned to 7 regional offices, 63 district offices, and 10 service centers. To effectively use these resources, the national office annually develops (with field input) a general audit workplan allocating Examination Division resources to assure coverage of all tax posting types, i.e., income, estate, gift, employment, and excise. Within the general program guidance provided by the national office, districts have discretion in allocating examination resources among the various excise tax categories.

IRS' Collection Division is responsible for identifying delinquent taxpayers, collecting delinquent taxes, and securing delinquent returns. Taxpayers are considered delinquent if they fail to file returns, file returns but do not pay the required taxes, or file incorrect returns that understate their tax liabilities. The Collection Division carries out its responsibilities, in part, through routine monitoring of federal tax deposits and through programs specially developed to identify taxpayers who are not on IRS' master files for a particular type of return but who are required to file. These special programs--called returns compliance programs--sometimes are based on a matching of computerized data bases to identify potential nonfilers. Returns compliance programs produce taxpayer delinquency investigations which may produce subsequent collection of additional revenues.

IRS' Criminal Investigation Division is responsible for investigating suspected criminal violations of the tax laws. Generally, criminal sanctions in the Internal Revenue Code apply to excise as well as to income and other federal taxes. Section 7201, for example, provides penal and monetary penalties for attempts to evade or defeat any tax imposed under title 26 of the code.

In developing criminal cases, IRS district office special agents investigate and evaluate information from three basic sources: (1) referrals from IRS' Examination and Collection Divisions, (2) self-initiated information gathering efforts, and (3) information items received from the public and other sources. Traditionally, about one-half of the Criminal Investigation Division's cases are developed from referrals, because examination and collection agents deal directly with taxpayers and are often the first to spot potential tax fraud.

SUBCOMMITTEE REQUEST

By letter dated November 1, 1985, the House Subcommittee on Fisheries and Wildlife Conservation and the Environment requested that we review IRS' compliance activities for excise taxes on sporting goods. (See app. IV.) Later, in a meeting with us to define objectives more specifically, Subcommittee staff expressed a specific interest in obtaining compliance information comparing domestic manufacturers and importers.

EXAMINATION DIVISION ACTIVITIES

We found that IRS' computerized data bases do not differentiate between domestic manufacturers and importers--neither the Business Master File (BMF), which identifies the filers of excise tax returns, nor the Audit Information Management System (AIMS), which provides the results of examinations. Thus, due to the lack of available information, we were unable to develop statistics comparing IRS' audit coverage of manufacturers and importers of sporting goods in time for the April 10, 1986, briefing to the Subcommittee staff. Because we had already done a considerable amount of work in this area, the staff requested that we continue our efforts to develop such statistics.

We were, however, able to use AIMS data to develop audit statistics comparing sporting goods excise taxes with all excise taxes, as shown in tables I.1 through I.4. Under AIMS, IRS records, or posts, the reported tax liability shown on any of the 31 line items of the Form 720: Quarterly Federal Excise Tax Return (see app. III) and for other excise tax returns, such as Form 2290 (Heavy Vehicle Use Tax Return) and Form 11C (Special Tax Return Registry - Wagering). The number of postings therefore, as shown in tables I.1 through I.4, do not represent

the number of returns filed because a single Form 720 return can report excise tax liabilities for more than one line item. Similarly, an IRS audit may sometimes concurrently cover more than one line item (excise tax category) shown on the Form 720 tax return. In these instances, the AIMS data base records results--additional tax and penalties proposed, number of examination hours used, etc.--for each line item examined. Thus, AIMS data regarding the number of sporting goods and other excise tax audits represent the number of Form 720 line items audited.

The narrative observations accompanying the tables include comments we obtained from IRS national, regional, and district office representatives about compliance distinctions, if any, they have noticed between domestic manufacturers and importers.

Table I.1 Comparative Audit Coverage of
Excise Tax Returns--Fiscal Years 1981-1985

Fiscal year	All excise tax returns			Sporting goods returns		
	All excise tax postings	Number of excise tax postings audited by revenue agents	Percentage of postings audited	Excise tax postings for sporting goods ^a	Number of sporting goods postings audited by revenue agents	Percentage of sporting goods postings audited
1981 ^b	835,994	61,251	7.3%	2,052	324	15.8%
1982	782,580	57,396	7.3	2,623	363	13.8
1983	891,483	51,348	5.8	2,828	302	10.7
1984	631,401	44,154	7.0	2,832	230	8.1
1985	<u>739,042</u>	<u>45,063</u>	6.1	<u>2,826</u>	<u>160</u>	5.7
Totals	3,880,500 =====	259,212 =====	6.7% ^c	13,161 =====	1,379 =====	10.5% ^c

^aThese are the total number of postings for the four applicable line items (44, 32, 46, and 49) on the Form 720 return (see app. III).

^bIRS did not begin compiling postings data by type of tax reported on Form 720: Quarterly Federal Excise Tax Return until January 1981. As a result, comparative postings are available for only three quarters in fiscal year 1981.

^cRepresents average percent rather than total.

Source: Developed by GAO using IRS' Returns Processing and Accounting Division data and Audit Information Management System Table 20.1 accomplishment reports.

Comparative audit coverage of excise tax returns

As shown in table I.1, of the 3,880,500 total excise tax postings for the 5-year period 1981-1985, less than 1 percent (13,161) were postings to the sporting goods category. During this period, IRS audited 1,379 sporting goods excise tax postings, which is also less than 1 percent of the 259,212 total excise tax postings audited. For 3 of the 5 years (1981, 1982, and 1983), IRS annually audited over 300 sporting goods postings; the number audited dropped to 230 in 1984 and 160 in

1985. Over the 5-year period, IRS audited 1,379 sporting goods postings, about 11 percent of the 13,161 sporting goods postings. In comparison, the audit coverage for all excise tax postings was about 7 percent for the 5-year period.

The senior program analyst for excise taxes at IRS' national office cautioned us that no conclusions should be drawn from this data about appropriate levels of audit coverage or allocation of resources. The analyst explained that IRS' Examination Division has no special programs to audit sporting goods returns because substantial noncompliance has not been identified. Also, because Examination Division resources are limited, audits focus more on known areas of noncompliance and tax categories with large volumes of returns filed.

Table I.2: Comparative Results (Examination Hours and Number of Examinations) for Excise Taxes--Fiscal Years 1981-1985

Fiscal year	Revenue agent examination hours			Examinations by revenue agents		
	All excise tax postings	Sporting goods excise tax postings	Sporting goods as a percentage of all excise tax postings	All excise tax postings	Sporting goods excise tax postings ^a	Sporting goods as a percentage of all excise tax postings
1981 ^b	246,497	2,117	0.9%	61,251	324	0.5%
1982	228,376	2,107	0.9	57,396	363	0.6
1983	202,880	1,617	0.8	51,348	302	0.6
1984	168,096	1,008	0.6	44,154	230	0.5
1985	<u>169,963</u>	<u>770</u>	0.5	<u>45,063</u>	<u>160</u>	0.4
Totals	<u>1,015,812</u>	<u>7,619</u>	0.8% ^c	<u>259,212</u>	<u>1,379</u>	0.5% ^c

^aThese are the total number of postings for the four applicable line items (44, 32, 46, and 49) on the Form 720 return (see app. III).

^bIRS did not begin compiling postings data by type of tax reported on Form 720 Quarterly Federal Excise Tax Return until January 1981. As a result, comparative postings are available for only three quarters in fiscal year 1981.

^cRepresents average percent rather than total.

Source: Developed by GAO from IRS' Audit Information Management System Table 20.1 accomplishment reports.

Comparative results (examination hours and number of examinations) for excise taxes

Generally, the amount of time devoted to auditing all excise tax postings and sporting goods postings declined over the 5-year period 1981-1985. As table I.2 shows, examination time for all excise tax postings decreased from 246,497 hours in 1981 to 169,963 hours in 1985. During the same period, examination time for sporting goods postings declined as well, from 2,117 hours in 1981 to 770 hours in 1985. Sporting goods excise tax examination hours, as a percentage of all excise tax examination hours, gradually decreased from 0.9 percent to 0.5 percent for the same period. Over the 5-year period, sporting goods excise tax postings represented 0.8 percent of total excise tax examination hours and 0.5 percent of all excise tax postings audited.

As discussed earlier in relation to table I.1, the senior program analyst for excise taxes at IRS' national office told us that Examination Division resources are allocated based on (a) known levels of noncompliance and (b) volumes of returns. The analysts, case managers, and revenue agents that we contacted at selected IRS regional and district offices (see app. IV) reported no general noncompliance problems or trends regarding sporting goods excise tax returns. For example, the managers and agents in the 14 IRS district offices we contacted reported only one audit raising the issue of an importer using a conduit or shell U.S. company to avoid or lower excise taxes. These IRS representatives further noted that, if such instances are detected, IRS has authority under section 482 of the Internal Revenue Code to reallocate, for tax purposes, intercompany income or expenses.

These IRS representatives also noted that the volumes of sporting goods excise tax returns are relatively small. Thus, the IRS representatives concluded that Examination Division resources generally are concentrated on categories, such as excise taxes on gasoline, tires, gas guzzler automobiles, and diesel fuel, that generate more revenue as a result of audit efforts.

Table I.3: Comparative Results (Additional Tax and Penalties) of Excise Tax Examinations--Fiscal Years 1981-1985

Fiscal year	Additional tax and penalties proposed by IRS revenue agents					
	All excise tax postings			Sporting goods postings ^a		
	Total	Per posting	Per examination hour	Total	Per posting	Per examination hour
1981 ^b	\$ 78,980,886	\$1,289	\$320	\$ 982,497	\$ 3,032	\$ 464
1982	71,295,433	1,242	312	937,415	2,582	445
1983	77,783,131	1,515	383	823,274	2,726	509
1984	64,685,425	1,465	385	2,431,642	10,572	2,414
1985	<u>132,203,030</u>	2,934	778	<u>292,300</u>	1,827	360
Totals	<u>\$424,947,905</u>	\$1,639 ^c	\$418 ^c	<u>\$5,467,128</u>	\$ 3,965 ^c	\$ 718 ^c

^aRepresents postings data for the four applicable line items (44, 32, 46, and 49) on the Form 720 return (see app. III).

^bIRS did not begin compiling postings data by type of tax reported on Form 720: Quarterly Federal Excise Tax Return until January 1981. As a result, comparative postings are available for only three quarters in fiscal year 1981.

^cRepresents averages per posting or per hour rather than totals.

Source: Developed by GAO from IRS' Audit Information Management System Table 20.1 accomplishment reports.

Comparative results (additional tax and penalties) of excise tax examinations

For the 5-year period, on per posting and per examination hour bases, the revenue generated from examinations of sporting goods excise tax postings was almost double the revenue generated from examinations of all excise tax postings. Sporting goods examinations generated \$3,965 per posting and \$718 per hour in additional tax and penalties, compared to \$1,639 per posting and \$418 per hour for all excise tax postings. Table I.3 shows that for 4 of the 5 fiscal years, 1981-1984, examinations of sporting goods excise tax postings generated higher additional tax and penalties. The last year, 1985, was an exception to the previous 4 years. In 1985, examinations for all excise tax postings generated higher dollar yields per posting and examination hour than sporting goods postings.

According to the senior program analyst for excise taxes at IRS' national office, the Examination Division's overall goal is to increase voluntary compliance, but the amount of additional revenue generated from examinations is also important. The analyst commented that the revenue generated from examinations for several categories of excise taxes generally exceeds the revenue from sporting goods examinations. For example, in 1985 when sporting goods examinations generated \$1,827 per posting, IRS examinations of other excise tax categories generated the following revenue amounts per posting:

--Gasoline	\$10,314
--Truck parts	15,142
--Tires	4,802
--Gas guzzler automobiles	4,738
--Diesel fuel	1,005

Although the revenue per posting generated by diesel fuel examinations was less than the revenue per posting generated by sporting goods examinations, the larger number of postings audited (17,834) resulted in \$18 million in additional tax and penalties. IRS statistics show that these 5 categories represented 46 percent of total additional tax and penalties proposed by IRS for all excise tax examinations in fiscal year 1985. Consequently, according to the national office excise tax analyst, field examination resources for excise taxes are concentrated more in these categories.

The analyst further commented that the relatively high result (\$10,572 per posting) for sporting goods examinations in fiscal year 1984 may be misleading. The analyst explained that the high 1984 result is attributable mainly to a \$2.3 million proposed assessment against one taxpayer. This assessment represented 96 percent of the total additional tax and penalties (\$2.4 million) resulting from IRS audits of sporting goods postings in fiscal year 1984.

Finally, the analyst said that a low amount of revenue generated per examination hour would not preclude additional examinations of a particular category of excise taxes if IRS had evidence of noncompliance. As noted earlier, however, the IRS field personnel that we contacted reported no general noncompliance problems or trends regarding sporting goods excise tax returns.

Table I.4: Comparative Results (No Change Percentages)
of Excise Tax Examinations--Fiscal Years 1981-1985

Percentage of excise tax examinations by revenue agents
resulting in no change to taxpayers' reported liabilities

Fiscal year	All excise tax postings	Sporting goods postings			
		Pistols and revolvers	Other firearms	Shells and cartridges	Bows and arrows
1981 ^a	18.3%	19.2%	16.1%	23.9%	35.8%
1982	15.0	24.4	16.3	17.9	23.9
1983	14.6	13.9	41.4	24.1	25.0
1984	12.7	16.1	10.3	43.2	28.3
1985	12.5	19.4	10.7	15.6	27.8

^aIRS did not begin compiling postings data by type of tax reported on Form 720: Quarterly Federal Excise Tax Return until January 1981. As a result, comparative postings are available for only three quarters in fiscal year 1981.

Source: Developed by GAO from IRS' Audit Information Management System Table 20.1 accomplishment reports.

Comparative results (no change percentages) of excise tax examinations

Table I.4 shows that the percentage of all excise tax examinations resulting in no change to the taxpayer's reported liability declined from 18 percent in 1981 to 13 percent in 1985. The no change percentages for sporting goods excise tax postings show no observable patterns or trends. Generally, however, the no change percentages for sporting goods examinations are higher than the no change percentages for examinations of all excise tax postings.

The IRS national office excise tax analyst commented that a high percentage of no change examinations generally indicates a high level of compliance by filing taxpayers. That is, the returns filed by taxpayers generally are accurate. On the other hand, the analyst cautioned that a high percentage of no change examinations could result if revenue agents obtained delinquent returns from taxpayers and mistakenly reported the results as no change examinations. We note, however, that this type of mistake could apply equally to all excise taxes and, thus, may not significantly distort the comparative statistics.

COLLECTION DIVISION ACTIVITIES

At the time of our review, the program analyst responsible for returns compliance programs at IRS' national office told us that the Collection Division had not conducted any projects to identify potential nonfilers of sporting goods excise tax returns. However, the analyst reported that the Division is designing such a project for implementation in fiscal year 1987 because IRS' Business Master File shows a relatively low number of taxpayers filing sporting goods excise tax returns, only about 793 taxpayers per quarter in fiscal year 1985. This number is low compared to Bureau of Alcohol, Tobacco and Firearms' data which, as of September 30, 1985, show that 13,477 individuals or firms were licensed to manufacture or import firearms and ammunition.

While IRS' Collection Division has not conducted any nationwide programs to identify nonfilers of sporting goods excise tax returns, 2 (Baltimore and Chicago) of the 14 district offices we contacted during our review had conducted limited scope projects with results that were not statistically projectable. These projects were conducted by Examination Division revenue agents or support staff who identified potential nonfilers by manually matching IRS data (Form 720 tax return filers listed in the Business Master File) and Bureau of Alcohol, Tobacco, and Firearms' data (individuals and firms licensed to manufacture or import firearms and ammunition).

The most recent of these projects was conducted by the Baltimore district office in 1984. The Chicago district office conducted a project in 1983 and officials recalled conducting an earlier project about 1981. Generally, in all three projects, district office representatives contacted, by mail or telephone, selected firearms and ammunition licensees not on IRS' Business Master File. District office revenue agents told us that most of the licensees contacted were ammunition reloaders who responded to IRS' inquiries by stating that they were not required to pay an excise tax and file returns because they either (1) were reloading shells and cartridges using customers' materials or (2) had obtained a license but never conducted business of the type subject to the tax.

One of the projects did result in IRS' obtaining delinquent returns from some reloaders and a rifle range. Generally, however, the districts did not expand the projects, concluding that widespread noncompliance probably did not exist and that further inquiries probably would not generate enough additional tax and penalties to justify the effort.

During our review, a concern about possible nonfiling of sporting goods excise tax returns was expressed to us by officials with three leading firearms and ammunition companies--two domestic manufacturers and one importer. These officials told us that firms importing small volumes of firearms and ammunition may be unaware of excise tax filing requirements. Basically, however, with one exception, the industry officials had no examples to support their opinions. One of the domestic manufacturers alleged a single example of an unidentified ammunition wholesaler who had imported foreign shotgun shells over the last 4 or 5 years but had not begun paying excise taxes until about 2 years ago.

As requested by the Subcommittee staff at our April 10, 1986 briefing, we are continuing to monitor IRS' efforts regarding the identification of potential nonfilers of sporting goods excise tax returns.

CRIMINAL INVESTIGATION DIVISION ACTIVITIES

IRS' Assistant Commissioner for Criminal Investigation told us that the Division, at the time of our review, had no ongoing cases involving sporting goods excise taxes. The Assistant Commissioner added that the Division's case inventory system can identify investigation cases by type of criminal violation involved but not by the type of tax. Thus, without an extensive amount of manual research, the Assistant Commissioner said it would not be possible to specifically quantify the number of criminal investigations involving sporting goods excise taxes over the past 5 years. However, the Assistant Commissioner said that cases involving sporting goods excise taxes are rare and probably have totalled, at most, only about 3 or 4 for the past 5 years. Of this limited total, the Assistant Commissioner estimated that only one case had been referred by IRS to the Department of Justice for criminal prosecution but he could not recall the outcome.

INFORMATION ABOUT ACCOUNTING PROCEDURES,
REVENUE ESTIMATES, AND ACTUAL RECEIPTS

IRS and the Department of the Interior's U.S. Fish and Wildlife Service have the primary roles in accounting for and managing Pittman-Robertson Program funds.

PROGRAM BACKGROUND INFORMATION

The Federal Aid in Wildlife Restoration Act of 1937 (commonly called the Pittman-Robertson Program) authorizes federal grants to states and territories for wildlife management and hunter education. Grant funding is based on an 11-percent excise tax on the sale of firearms, ammunition, and archery equipment and a 10-percent excise tax on the sale of pistols and revolvers. Manufacturers, producers, and importers of these sporting goods are responsible for paying and reporting the excise taxes by filing IRS Form 720 (Quarterly Federal Excise Tax Return). IRS processes the tax returns and transfers tax receipts to a special fund in the Department of the Treasury earmarked for the Pittman-Robertson Program--the Federal Aid in Wildlife Restoration Fund. Annually, the Treasury Department transfers the Fund's balance to the Department of the Interior for subsequent apportionment by the U.S. Fish and Wildlife Service to states and territories.

SUBCOMMITTEE REQUEST

In addition to reviewing IRS' compliance activities for excise taxes on sporting goods, the House Subcommittee on Fisheries and Wildlife Conservation and the Environment asked us to study the procedures used by the Department of the Treasury over the past 5 years to account for Pittman-Robertson revenues. More specifically, in subsequent meetings with us, Subcommittee staff requested information about:

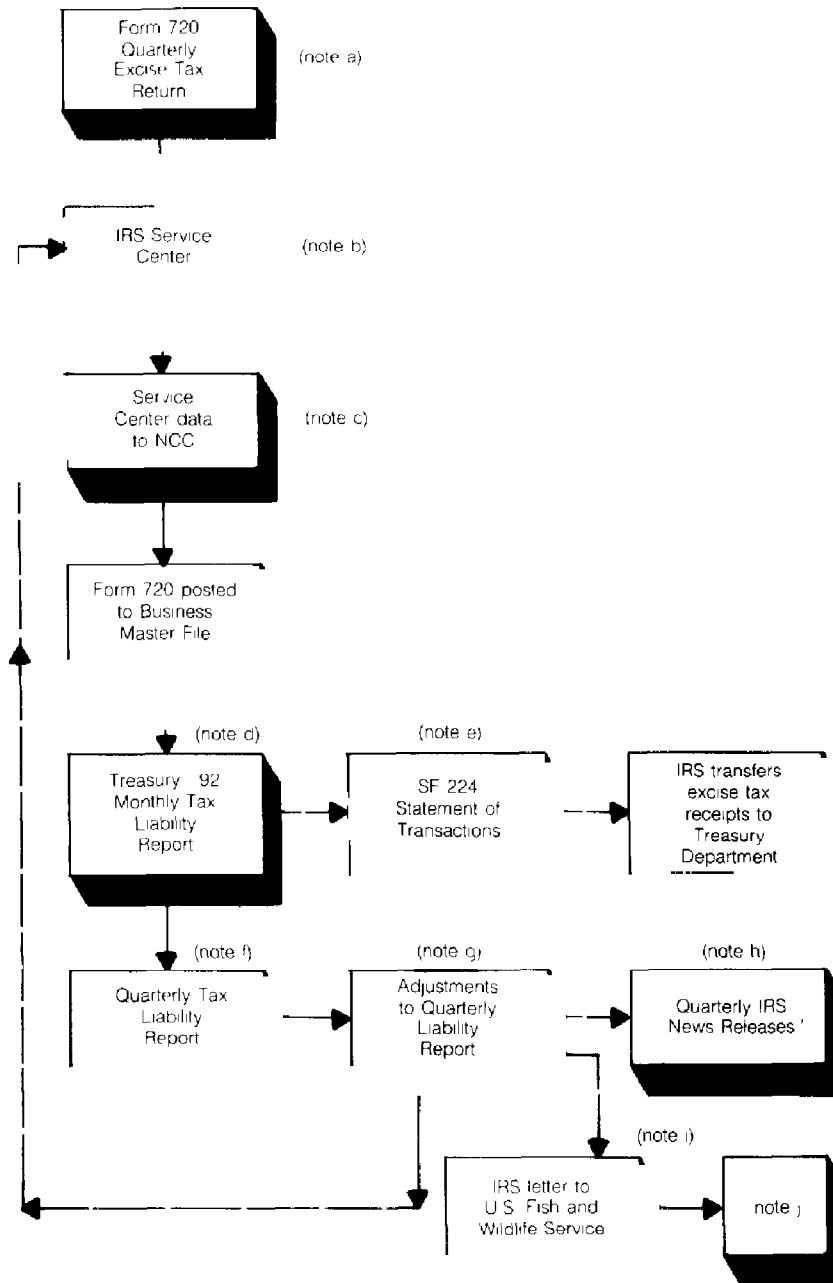
- IRS' and the Treasury Department's accounting procedures for sporting goods excise tax receipts,
- U.S. Fish and Wildlife Service's estimates of future tax receipts, and
- annual fluctuations in the actual amounts of tax receipts.

In recent years, these same three accounting-related issues have also been raised by the Wildlife Management Institute and the International Association of Fish and Wildlife Agencies--two national organizations that represent the states in promoting wildlife conservation. Officials we contacted at these organizations said that reliable estimates of future tax receipts are important because states must plan expenditures in advance as part of the budgeting process. The officials also said that significant annual fluctuations in tax receipts--particularly unanticipated fluctuations--hamper states' efforts to plan and implement conservation projects.

ANALYSES OF ACCOUNTING PROCEDURES,
REVENUE ESTIMATES, AND ACTUAL RECEIPTS

To analyze these issues, we developed the information presented in the following figures and tables.

Figure II.1: IRS Processing and Reporting of Form 720 Excise Taxes for Sporting Goods



Notes:

^aTaxpayers file IRS Form 720 (Quarterly Federal Excise Tax Return) to report excise tax liabilities (see app. III). A Form 720 return must be filed each quarter, even if a taxpayer does not owe any tax for a particular quarter. Irrespective of the amount of tax owed, the return is due to be filed within one month after the end of the applicable quarter, as follows:

Quarter covered by return:	Return due by:
January, February, March	April 30
April, May, June	July 31
July, August, September	October 31
October, November, December	January 31

Returns are filed at one of ten IRS service centers, depending on the location of the taxpayer's principal business, office, or agency.

Taxpayer deposits of excise taxes are not always required to accompany the Form 720 return, and the frequency of deposits is based on the amount of tax liability. For example:

- If the taxpayer's liability is less than \$100 at the end of a quarter, the taxes may be submitted with the Form 720 return or deposited with a Federal Reserve System (FRS) bank.
- If the monthly liability amount is more than \$100 but less than or equal to \$2,000, the excise taxes must be deposited monthly with a FRS bank.
- If the monthly liability exceeds \$2,000, twice-monthly tax deposits with a FRS bank are required.

^bFrom the Form 720 excise tax returns, IRS service centers transcribe data onto transaction tapes for computerized processing.

^cEach week the ten service centers send the transaction tapes to IRS' National Computer Center (NCC), where the excise tax data is posted to the Business Master File. This computerized data base contains complete tape records of all filing taxpayers' accounts.

^dBased on excise tax information posted to the Business Master File, NCC generates a monthly report (Treasury-92) summarizing, by service center, tax liabilities reported for each line item on the Form 720 returns.

^eUsing a monthly Statement of Transactions (Standard Form-224), IRS transfers excise tax receipts into a Department of the Treasury receipt account, earmarked for the Federal Aid in Wildlife Restoration Fund.

^fNCC also generates a quarterly excise tax report from Form 720 return data posted to the Business Master File. For sporting goods excise taxes, this report lists information only about each taxpayer whose quarterly tax liability is above a predetermined minimum. The listed information includes the taxpayer's name, employer identification number, amounts of tax liabilities for the last eight quarters filed, and abstract numbers (Form 720 line items).

^gIRS national office staff (trust fund analysts) use the quarterly excise tax liability reports to identify posting errors caused by taxpayers or service centers. One of the more common errors is transposing tax liabilities reported for gasoline with liabilities reported for shells and cartridges. Because these two categories are adjacent to one another on the Form 720 return (see app. III), a taxpayer may report the liability on the wrong line or a service center may transcribe the wrong line. By reviewing the quarterly reports, analysts can identify such errors and report corrections to service centers for subsequent posting to the Business Master File. The corrections are also reflected in the monthly Statement of Transactions transferring net receipts to the Treasury Department account. (See note c.)

National office trust fund analysts told us that IRS implemented the following actions, effective for the quarter ended March 31, 1986, to improve the prevention and detection of sporting goods excise tax posting errors.

--The Form 720 tax return was modified by increasing the amount of space between the line for reporting gasoline excise taxes and the line for reporting shells and cartridges taxes. This change should help to improve the accuracy of taxpayer reporting and service center processing.

--The quarterly excise tax liability reports were modified to present Pittman-Robertson taxes separately from other excise taxes. This change should enable trust fund analysts to more effectively monitor the reports for errors.

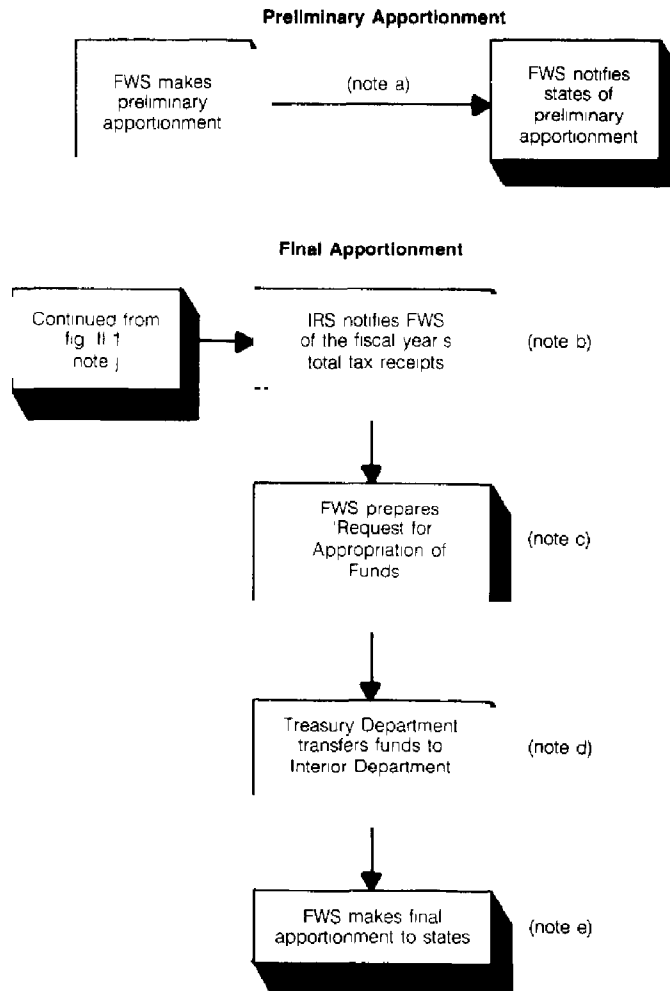
^hThree months after the quarterly returns are filed, IRS issues quarterly "News Releases," which report excise tax receipts.

¹IRS sends a quarterly letter to the U.S. Fish and Wildlife Service certifying excise tax receipts for bows and arrows, pistols and revolvers, other firearms, and shells and cartridges. IRS' certification letters are based on the Treasury Department's fiscal year for this program, which begins September 1 and ends August 31. Thus, the quarterly certifications are as follows:

IRS sends letter to Fish and Wildlife Service in:	Letter certifies excise tax receipts for:
January	September, October, November
April	December, January, February
July	March, April, May
October	June, July, August

]Figure II.2 shows how the U.S. Fish and Wildlife Service apportions Pittman-Robertson tax receipts to the states.

Figure II.2: Preliminary and Final Apportionment of Pittman-Robertson Funds

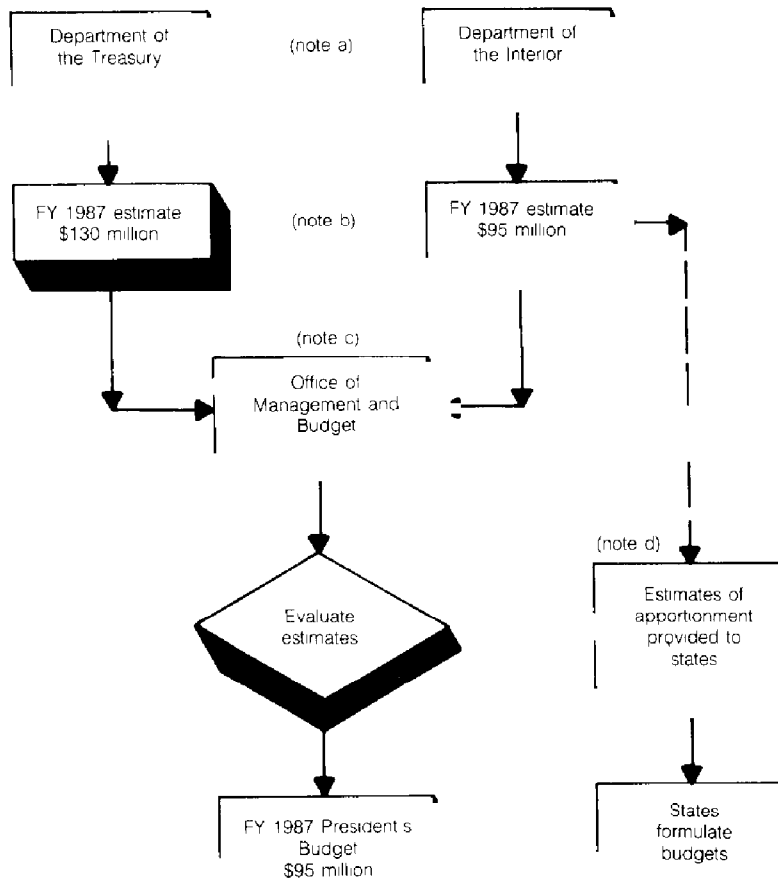


Notes:

- ^aEach September or October, the U.S. Fish and Wildlife Service (FWS) makes a preliminary apportionment of actual tax receipts in the Federal Aid in Wildlife Restoration Fund. These receipts are those for the first three quarters of Treasury's previous fiscal year, and the apportionment to the states is based on a formula prescribed in legislation. FWS notifies each state of the results of the preliminary apportionment. The states use this information for budgeting purposes.
- ^bEach October, FWS also begins preparing for the final apportionment. In that month the agency receives notification from IRS (in memorandum form) of the previous fiscal year's total tax receipts.
- ^cFWS then prepares a "Request for Appropriation of Funds" to transfer tax collections from the Department of the Treasury to FWS.
- ^dEach December 31st, the Treasury Department electronically transfers funds from the receipt account (see fig. II.1, note e) to an expenditure account for FWS.
- ^eGenerally in the following February, FWS makes a final apportionment of the fiscal year's receipts to the states. For example, in February 1986, FWS made the final apportionment of fiscal year 1985 receipts. This apportionment specifies for each state the amount of federal money available for Pittman-Robertson projects in fiscal year 1986. That is, fiscal year 1985 tax receipts are used to fund fiscal year 1986 projects. FWS is authorized to deduct up to 8 percent of total tax receipts to cover administrative expenses.

Throughout the year, states submit project proposals to FWS regional offices. For approved projects, Pittman-Robertson receipts are disbursed to cover 75 percent of the projects' costs; the applicable state provides the other 25 percent. The Department of the Interior's financial center in Denver disburses the federal funds.

Figure II.3: Estimating Pittman-Robertson Tax Receipts



Notes:

^aEach January, the Department of the Treasury's Office of Tax Analysis and the Department of the Interior's U.S. Fish and Wildlife Service's budget office independently estimate Pittman-Robertson excise tax receipts for the upcoming fiscal year. Each agency uses its own economic model to develop these estimates.

^bThe agencies' estimates of fiscal year 1987 tax receipts are \$130 million and \$95 million, respectively. The difference between these estimates (\$35 million) is relatively large. Similarly, comparative estimates for earlier years also show differences. (See table II.1.)

^cAs part of the annual budget process, the agencies submit their tax receipt estimates to the Office of Management and Budget. A budget examiner evaluates the two estimates and selects one for inclusion in the President's Budget.

^dThe U.S. Fish and Wildlife Service's Budget Office also provides its January estimate of tax receipts to the states, detailing each prospective recipient's apportioned share of the total estimate. Based upon this apportioned estimate, the states formulate budgets and plan for the amounts of matching funds required of participants in the Pittman-Robertson Program.

Table II.1: Comparison of Department of the Treasury and Department of the Interior Estimates of Pittman-Robertson Excise Tax Receipts--Fiscal Years 1981-1987

<u>Fiscal year</u>	<u>Treasury estimates (millions)</u>	<u>Interior estimates (millions)</u>	<u>Difference between estimates^a</u>	
			<u>Amount (millions)</u>	<u>Percentage</u>
1981	\$116.00	\$108.10	\$ 7.90	7.3%
1982	124.00	118.00	6.00	5.1
1983	124.00	128.00	-4.00	-3.1
1984	125.00	105.50	19.50	18.5
1985	108.00	111.60	-3.60	-3.2
1986	125.00	95.00	30.00	31.6
1987	130.00	95.00	35.00	36.8

^aThe percentage differences are calculated using Interior's estimates as the base, e.g., \$7.90 million is 7.3 percent of \$108.10 million.

Source: Developed by GAO from Departments of the Treasury and the Interior data.

Comparison of Department of the Treasury and Department of the Interior estimates of Pittman-Robertson excise tax receipts

As table II.1 shows, over the 7-year period 1981-1987, estimates of Pittman-Robertson excise tax receipts formulated by the Department of the Treasury and the Department of the Interior have differed by as much as \$35 million (37 percent), and by as little as \$3.6 million (3 percent). In 5 of the 7 years, Treasury's estimates have been higher than Interior's estimates.

Both agencies use computerized models to estimate Pittman-Robertson tax receipts. Treasury's model uses the value of previous years' excise tax receipts, personal income, and the consumer price index of products subject to the tax. A Treasury financial economist responsible for the estimates said that the model has not been revised in several years. The economist said that use of industry production figures possibly could improve the model.

Interior's computerized model uses multiple linear regression to estimate tax receipts. Variables considered by the model include the number of hunters, unemployment rate, consumer

price index, and median family income. According to the budget analyst responsible for making Pittman-Robertson tax receipt projections, Interior's model was first computerized in 1984 and has not been modified since.

Both agencies' estimates are submitted annually to the Office of Management and Budget (OMB). According to an OMB budget examiner, Interior's estimates generally are selected for inclusion in the President's Budget because these estimates have been more accurate than Treasury's. Table II.2 shows a comparison of the Interior's estimates with actual excise tax receipts.

Table II.2: Comparison of Interior's Estimates and Actual Excise Tax Receipts for the Pittman-Robertson Program--Fiscal Years 1981-1985

<u>Year^a</u>	<u>Excise tax receipts</u>		<u>Differences between estimate and actual^b</u>	
	<u>Estimated (millions)</u>	<u>Actual (millions)</u>	<u>Amount (millions)</u>	<u>Percentage</u>
1981	\$108.10	\$121.89	-\$13.79	-12.8%
1982	118.00	111.45	6.55	5.6
1983	128.00	93.71	34.29	26.8
1984	105.50	85.87	19.63	18.6
1985	111.60	120.83	-9.23	-8.3

^aInterior's estimates are for the period October 1 through September 30 whereas actual receipts are for the period September 1 through August 31.

^bThe percentage differences are calculated using estimated receipts as the base, e.g., \$13.79 million is 12.8 percent of \$108.10 million.

Source: Developed by GAO from Department of the Interior, U.S. Fish and Wildlife Service data.

Comparison of estimated and actual excise tax receipts for the Pittman-Robertson Program

As table II.2 shows, the Department of the Interior's estimates sometimes have been lower and sometimes higher than actual excise tax receipts for fiscal years 1981-1985. For example, the 1981 estimate was \$14 million (13 percent) lower than actual receipts, and the 1983 estimate was \$34 million (27 percent) higher than actual receipts. The estimated and the actual

figures were closest in 1982, when the estimate exceeded actual receipts by \$7 million (6 percent).

Before 1984, a program analyst in the U.S. Fish and Wildlife Service's Division of Federal Aid was responsible for projecting annual Pittman-Robertson tax receipts using a manual model. In 1984, the U.S. Fish and Wildlife Service transferred responsibility for making projections to a budget analyst within the agency's budget office. The analyst subsequently designed and computerized a multiple linear regression model that was first used to project fiscal year 1984 receipts. The budget office analyst told us that the computerized model, however, has not been more accurate than the manual model. (See table II.2.) Thus, the agency is considering whether additional information about the sporting arms and ammunition industry can be used to improve forecasting accuracy.

Table II.3: Percentage Changes in Excise Tax Receipts for the Pittman-Robertson Program--Fiscal Years 1966-1985

<u>Fiscal year^a</u>	<u>Tax receipts (millions)</u>	<u>Annual percentage change</u>	<u>Average annual percentage change for 5-year periods</u>	
			<u>Period</u>	<u>Change</u>
1966	\$ 24.34	20.5 ^b		
1967	27.81	14.2		
1968	31.37	12.8		
1969	33.08	5.5		
1970	32.81	-0.8	1966-1970	10.4%
1971	36.70	11.9		
1972	43.33	18.1		
1973	49.80	14.9		
1974	56.85	14.2		
1975	63.05	10.9	1971-1975	14.0
1976	89.69	42.3		
1977	67.79	-24.4		
1978	86.02	26.9		
1979	93.97	9.3		
1980	90.64	-3.5	1976-1980	10.1
1981	121.89	34.5		
1982	111.45	-8.6		
1983	93.71	-15.9		
1984	85.87	-8.4		
1985	120.83	40.7	1981-1985	8.5

^aThe Treasury Department's fiscal year for the Pittman-Robertson Program begins September 1 and ends August 31.

^bThis percentage change is based on fiscal year 1965 tax receipts of \$20.20 million.

Source: Developed by GAO from Department of the Interior, U.S. Fish and Wildlife Service data.

Percentage changes in excise tax receipts
for the Pittman-Robertson Program

Generally, excise tax receipts for the Pittman-Robertson Program increased annually during most of the last 20 years. However, in the last 5 years, 1981-1985, excise tax receipts fluctuated more than in previous 5-year periods. For example, excise tax receipts decreased in 3 (1982, 1983, and 1984) of the last 5 years. The 1981-1985 period is the only 5-year period in which the majority of the years showed declining receipts. On the other hand, tax receipts increased significantly at the beginning and end of the most recent 5-year period. In fact, the 1981 increase (35 percent) and the 1985 increase (41 percent) were exceeded only once since 1966, i.e., by the 42-percent increase in 1976.

Government and industry officials that we contacted agreed that the sporting arms and ammunition industry was economically depressed during this time, but the officials could not readily explain why Pittman-Robertson excise tax receipts increased so significantly in 1985.

Table 11.4: Comparison of Pittman-Robertson Excise Tax Receipts by Sporting Good Category--Fiscal Years 1981-1985^a

Fiscal year	Excise Tax Receipts									
	Pistols and revolvers		Other firearms		Shells and cartridges		Bows and arrows		Total sporting goods	
	Amount (millions)	Annual percentage change	Amount (millions)	Annual percentage change	Amount (millions)	Annual percentage change	Amount (millions)	Annual percentage change	Amount (millions)	Annual percentage change
1981	\$26.65		\$51.70		\$40.37		\$7.19		\$125.91	
1982	30.35	13.9%	34.85	-32.6%	23.41	-42.0%	7.67	6.7%	96.28	-23.5%
1983	24.08	-20.7	34.71	- 0.4	31.85	36.1	6.87	-10.4	97.51	1.3
1984	22.01	- 8.6	37.28	7.4	28.38	-10.9	7.52	9.5	95.18	-2.4
1985	25.11	14.1	48.91	31.2	28.39	0.0	8.17	8.6	110.57	16.2

^aTotal receipts shown in this table differ from those in tables 11.2 and 11.3 because of timing (fiscal year) differences. The data shown here are for a standard governmental fiscal year, October 1 - September 30. The two earlier tables present receipts for a September 1 - August 31 period, which is the "fiscal year" used by the Department of the Treasury to account for excise taxes earmarked for the Federal Aid in Wildlife Restoration Fund.

Source: Developed by GAO from IRS data.

Comparison of Pittman-Robertson excise
tax receipts by sporting good category

In 1982, total excise tax receipts for sporting goods declined 24 percent, due in large part to a 33-percent decline in receipts for firearms and a 42-percent drop in receipts for shells and cartridges. Total receipts declined again in 1984, resulting from reductions of 9 percent and 11 percent, respectively, in receipts for (a) pistols and revolvers and (b) shells and cartridges. In 1985, total sporting goods excise tax receipts increased 16 percent, from \$95 million to \$111 million, but did not recover to the 1981 level of \$126 million.

Receipts for bows and arrows show a negative growth rate in only one year, 1983. Of the four sporting good categories, archery equipment is unique in showing an increase in tax receipts over the 5-year period. The other three categories show lower 1985 receipts than those in 1981. Analysts with the Interior's U.S. Fish and Wildlife Service, commented that the decline in excise tax receipts since 1981 reflects the depressed economic condition of the sporting arms and ammunition industry.

IRS FORM 720:
QUARTERLY FEDERAL EXCISE TAX RETURN

Form 720
(Rev. October 1985)

Department of the Treasury—Internal Revenue Service

OMB No. 1545-0023

Quarterly Federal Excise Tax Return

Use to Report Excise Taxes for 1985

For Paperwork Reduction Act Notice see instructions

Please enter your name, address, employer identification number, and calendar quarter of return, if not preprinted (If not correctly printed, please change)

Quarter ending

Employer identification number

Form with fields for T, FF, FD, FP, and a checkbox for 'If address is different from prior return, check here'

Note. Be sure to enter the tax on the correct line to ensure proper credit

Part I Computation of Tax Items

Part II Computation of Net Tax Liability

Table with columns: Rate, Tax, IRS No. Rows include Facilities and Services Taxes, Manufacturers Taxes, Retail and Use Taxes, and Environmental Taxes.

Table with columns: 1 Total tax, 2 Adjustments, 3 Tax as adjusted, 4 Record of Tax Liability, 5 Credit for overpaid windfall profit tax, 6 Overpayment from previous quarter, 7 Total deposits, 8 Undeposited taxes due, 9 Excess, 10 Final return.

*See instructions on pages 2 and 4 through 6
Under penalties of perjury I declare that I have examined this return and accompanying schedules and statements and to the best of my knowledge and belief they are true, correct, and complete

Signature Title (Owner, etc.) Date

OBJECTIVES, SCOPE, AND METHODOLOGY

By letter dated November 1, 1985, the Chairman and the Ranking Minority Member, Subcommittee on Fisheries and Wildlife Conservation and the Environment, House Committee on Merchant Marine and Fisheries, asked us to study compliance activities and accounting procedures for federal excise taxes on sporting arms, ammunition, and archery equipment. The request specifically asked us to

- identify the universe of qualified manufacturers and importers of these sporting goods;
- determine whether the manufacturers and importers were paying the appropriate excise taxes and, if not, determine what IRS compliance actions were being undertaken; and
- review the procedures used by the Department of the Treasury over the past 5 years to account for sporting goods excise tax revenues to Interior's U.S. Fish and Wildlife Service.

OBJECTIVES DEFINED BY SUBCOMMITTEE STAFF

Later, in a November 22, 1985, meeting with Subcommittee staff to discuss objectives, we explained that disclosure provisions of the Internal Revenue Code prohibited us from providing tax return information about specific taxpayers. We also noted that unless IRS audited the manufacturing and importing companies, we could not directly evaluate whether the proper amounts of taxes were being paid. However, we proposed that we could review IRS' audits and other compliance activities and provide some general or programmatic comparative data. The Subcommittee staff agreed to this approach and expressed a specific interest in obtaining compliance information, such as audit coverage percentages comparing, if possible, domestic manufacturers and importers.

Regarding the concern about accounting procedures, the Subcommittee staff explained that, for the past several years, the amounts of sporting goods excise tax receipts transferred from the Treasury Department to the Interior Department have varied considerably from estimates. In turn, this has caused problems for recipient states in budgeting for various wildlife conservation projects. Thus, the Subcommittee staff asked us to provide information on

- IRS' and the Treasury Department's accounting procedures for sporting goods excise tax receipts,
- U.S. Fish and Wildlife Service's estimates of future tax receipts, and
- annual fluctuations in the actual amounts of receipts.

At the November 22, 1985 meeting, the Subcommittee staff requested that we provide an oral briefing on the results of our work by April 1986. Accordingly, we briefed the staff on April 10, 1986.

OBTAINING INFORMATION ABOUT IRS' COMPLIANCE PROGRAMS

We obtained compliance information about sporting goods excise taxes from the three IRS operating divisions principally responsible for tax law enforcement functions--the Examination, Collection, and Criminal Investigation Divisions. When appropriate, we contacted IRS officials at the national, regional, and district office levels, as discussed below.

Examination Division Activities

As noted earlier in appendix I, as of the April 10, 1986, briefing for the Subcommittee staff, we had not developed Examination Division statistics comparing manufacturers and importers of sporting goods because IRS' data bases do not contain information by these categories. However, we were able to use IRS Audit Information Management System (AIMS) data to develop statistics comparing sporting goods excise taxes with all excise taxes for specific variables--audit coverage percentages, examination hours, additional tax and penalties, and no change percentages. (See tables I.1 through I.4.)

To determine whether IRS audits of sporting goods manufacturers and importers have noted any particular noncompliance trends or problems, we contacted the (a) Examination Division's senior program analyst for excise taxes at IRS' national office and (b) the respective regional analysts responsible for excise taxes at each of IRS' seven regional offices. Further, to identify district offices within each of the seven regions having the most sporting goods audit activity (in terms of number of examinations, number of examination hours, and dollar amounts of proposed adjustments to taxpayers' reported liabilities), we used AIMS data covering fiscal years 1983-1985. Based upon

these indicators, we selected the two most active districts in each region (as shown below). In each of the 14 district offices selected, we contacted one or more case managers and/or revenue agents to discuss the results of sporting goods audits. These case managers and revenue agents, according to IRS regional analysts, were the ones most experienced in examining sporting goods excise tax returns.

<u>IRS regions</u>	<u>IRS district offices</u>
Central	Detroit Indianapolis
Mid-Atlantic	Baltimore Richmond
Midwest	Chicago Milwaukee
North Atlantic	Buffalo Manhattan
Southeast	Atlanta Jacksonville
Southwest	Dallas Oklahoma City
Western	Los Angeles Portland

Collection Division Activities

To determine whether IRS had initiated any projects to identify potential nonfilers of sporting goods excise tax returns, we contacted the national office program analysts in the Collection Division's Office of Field Operations responsible for compliance projects. Also, in each of IRS' seven regional offices, we contacted the returns compliance program coordinator to determine if (a) any local compliance programs had been established for excise taxes on sporting goods and (b) the field coordinators had detected any particular nonfiling problems with manufacturers or importers of sporting goods.

To further determine if nonfiling was a potential problem, we contacted the Department of the Treasury's Bureau of Alcohol, Tobacco and Firearms and obtained statistics regarding the number of individuals and entities licensed to manufacture or import firearms and ammunition. We then compared these statistics with the number of sporting goods excise tax returns

filed with IRS, as reflected by Business Master File data. IRS' Business Master File contains information transcribed from Form 720 quarterly excise tax returns filed by either individuals or business entities. Form 720 transcription is coded on an IRS abstract number or line item basis, which permits analysis of Business Master File data by type of excise tax, such as the four categories of sporting goods. (See app. III; IRS numbers 32, 44, 46, and 49.) Also, each taxpayer's unique identification number (i.e., employer identification number or social security number) is transcribed, which permits further analysis, such as number of taxpayers and tax returns, by excise tax category.

Criminal Investigation Division Activities

We interviewed IRS' Assistant Commissioner for Criminal Investigation to determine whether the Criminal Investigation Division had any ongoing or closed cases regarding excise taxes on sporting goods.

OBTAINING INFORMATION ABOUT ACCOUNTING PROCEDURES, REVENUE ESTIMATES, AND ACTUAL RECEIPTS

We obtained information about accounting procedures, revenue estimates, and actual receipts for the Pittman-Robertson Program from the Department of the Treasury, IRS, the Department of the Interior, and the U.S. Fish and Wildlife Service. We also contacted officials of state wildlife conservation associations and representatives of the sporting arms and ammunition industry. These contacts, the information we obtained, and the analyses we performed are detailed below.

Accounting Procedures

To obtain information about IRS' accounting procedures for excise taxes on sporting goods, we interviewed responsible officials in the Returns Processing and Accounting Division at IRS' national office--specifically, the section chief and the trust fund analysts responsible for monitoring and reporting sporting goods excise tax receipts. These officials provided reports, manuals, and other accounting-related documents that we used to flowchart IRS' procedures (see fig. II.1). The trust fund analysts also discussed with us the monitoring process IRS uses to identify and correct errors in the posting of excise tax receipts. We did not test the reliability of this monitoring process because IRS initiated action, effective for the quarter ended March 31, 1986, to improve the prevention and detection of sporting goods excise tax posting errors.

To obtain information about the process for transferring sporting goods excise tax receipts from the Department of the Treasury to the Interior's U.S. Fish and Wildlife Service for subsequent apportionment to the states, we contacted the

- Department of the Treasury's trust fund analyst responsible for transferring the tax receipts and
- the program analyst in the U.S. Fish and Wildlife Service's Federal Aid Division responsible for calculating apportionment amounts.

Using the information provided by these sources, we flowcharted the transfer and apportionment process. (See fig. II.2.)

Revenue Estimates

To obtain information about the past and present procedures for estimating future Pittman-Robertson receipts, we contacted the

- financial economist in the Department of the Treasury's Office of Tax Analysis responsible for estimating annual receipts,
- program analyst (Division of Federal Aid) and the budget analyst (Budget Office) in the Interior's U.S. Fish and Wildlife Service responsible for estimating annual receipts, and
- budget examiner in the Office of Management and Budget responsible for selecting either the Department of the Treasury's estimate or the Interior's estimate for inclusion in the President's Budget.

Based on the information obtained from these sources, we flowcharted the process for estimating Pittman-Robertson tax receipts. (See fig. II.3.) We also obtained and compared the Department of Treasury's estimates with the Department of the Interior's estimates for a 7-year period. (See table II.1.)

Actual Receipts

To analyze fluctuations in Pittman-Robertson tax receipts, we calculated annual and 5-year percentage changes over the 1966-1985 period (see table II.3). We then tried to determine reasons for fluctuating receipts, particularly for the most recent 5-year period, 1981-1985, by contacting relevant federal,

state, and industry sources. The federal officials we contacted at IRS, the U.S. Fish and Wildlife Service, and the Bureau of Alcohol, Tobacco and Firearms, were the same ones mentioned above regarding accounting procedures and revenue estimates.

To obtain the states' views, we contacted the Director of the Wildlife Management Institute and the Executive Vice President of the International Association of Fish and Wildlife Agencies--two national organizations that represent the states in promoting wildlife conservation. Regarding the latter organization, we also contacted the Association's four regional Presidents, the Chairman of the Grants-In-Aid Committee, and the Chairman of the Working Subcommittee on Fluctuating Pittman-Robertson Apportionments.

To obtain industry views, we contacted executives of four leading domestic manufacturers and two major importers of firearms and ammunition. These industry contacts were suggested to us by the Director, Wildlife Management Institute.

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