



ALABAMA DEPARTMENT OF REVENUE

Wholesale to Retail Accountability
Program

WRAP

WRAP Law

Act 2017-294, codified Code of Alabama 1975, §40-23-260, established the wholesale retail accountability program, requires new information be provided to the Alabama Department of Revenue in five areas:

- 1099k Information – requires payment settlement entities to report credit card transactions to the ADOR
 - *Due April 30, 2018*
 - *This information is reported to the IRS annually*
- Beer And Wine Distributors – report sales
 - *Due July 1, 2018*
- Tobacco Distributors – report sales
 - *Due July 1, 2018*
- Municipal Business Privilege License - report each application completed
 - *Due October 1, 2019*
 - *Counties are currently reporting this data*
- Make WRAP data available to local governments
 - *Available September 2019*

WRAP Program

- ADOR has implemented a two-prong approach:
 - *WRAP Inquiry Letters* –
 - When the analysis of the WRAP Data shows that reported sales are less than purchases for a specific period, an inquiry letter is sent to the taxpayer. The inquiry letter provides the total purchases for the period, reported sales, and calculates the amount of sales tax potentially underpaid. A standard computed markup is applied to the total purchases and then compared to the sales reported on the sales tax return. The inquiry letter allows the taxpayer 30 days to contact the Department to correct any discrepancies.
 - *WRAP Audit Leads* –
 - The most egregious taxpayers from the analysis of the WRAP Data will be distributed to District Offices all over the State of Alabama for audit.
- ***The goal is to change the behavior of non-compliant taxpayers.***

Before WRAP

- Sales tax returns were filed showing:

Gross Sales
(less) Deductions
= Taxable Measure

- Before the WRAP program, verification required an audit of each taxpayer
 - *There are 59,285 active sales tax accounts*
 - *There are 103 Sales tax auditors*
 - 86 instate auditors, located throughout Alabama in the 9 Taxpayer Service Centers
 - *Auburn/Opelika, Shoals, Montgomery, Mobile, Dothan, Gadsden, Huntsville, Tuscaloosa and Jefferson/Shelby*
 - 17 Foreign Auditors, located in Alabama (7), Georgia (4), Tennessee (2), New York, North Carolina, Mississippi and Florida.

After WRAP -

With the implementation of WRAP,

- ADOR can now conduct an analysis of the tobacco, beer and wine purchases from WRAP along with the liquor purchases from ABC.
- These purchases are compared to the sales reported on the sales tax returns. ADOR can then identify taxpayers who are grossly underreporting sales and sales taxes based on these purchases.

How Alabama Prepared for the WRAP Law:

- The MyAlabamaTaxes (MAT) filing system has been upgraded
 - *includes the separate monthly returns for tobacco and beer and wine data*
- WRAP training has been conducted for all revenue examiner's (field auditors)
- ABC licenses and Alabama sales tax account numbers have been cross referenced
 - *Corrections have been made and emailed to distributors*
- A special WRAP unit has been created
 - *Consisting of a manager, an administrative assistant, five revenue examiners and three accounting technicians*

What WRAP means to Alabama

- More effective administration of the Sales Tax Laws

- The WRAP program is a two pronged approach
 - *For the most egregious a referral to the Field Section, both Sales and Tobacco Tax, is made*
 - Since July 1, 2018, there have been
 - *298 audits conducted*
 - *For the others, a WRAP inquiry letter is mailed*
 - Since July 1, 2018, there have been
 - *1,048 inquiry letters mailed*

WRAP Inquiry Process

- Lead established using the Discovery
 - *Based on three full months of returns for each quarter (no letters mailed to taxpayers that only file two of the required three returns for the respective quarter)*
- Inquiry letter – taxpayer given 30 days to respond
- Billing letter – taxpayer given 30 days to respond
- Preliminary Collections – Collection Services Division given 30 days to make a courtesy contact with the taxpayer
 - *Prints and hand delivers a copy of the WRAP Billing Letter*
 - Most of these taxpayers have a preexisting relationship with the Collection Services Division agent
- Preliminary Assessment entered – taxpayer given 30 days to respond
- Final Assessment entered – taxpayer given 30 days to respond
- File forwarded to the Collection Services Division for normal collection processes
 - *Including, garnishment, refund interception, liens, etc*

Problem Areas – Distributors

- Wrong account numbers
 - *FEIN in lieu of Alabama Sales Tax Account Number*
- Same ABC license for multiple locations
- Invalid account numbers
- Incorrect addresses and zip code
 - *Using descriptive locations not the actual location address*
- Distributors not reporting all of the wholesale transactions

Problem Areas - Taxpayers

- Using prior owners account and license information when making purchases
- Renewing ABC license under prior owners name
- During the transfer of an existing ABC license, there should be a signed agreement between the parties
 - *Per the ABC board, the original license holder is responsible for all of the alcohol purchased during this time frame (normally 60 days)*
- Retailers without a valid sales tax account number

WRAP Field Audit Process

1) WRAP Audit Research

- The WRAP data purchases for tobacco, beer and wine are obtained from the Departments records. The liquor purchases are attained from the ABC records. Any additional purchase records available through the Department are gathered.
- Verification of the business address and mailing address.
- Determine if the business has multiple locations (ABC Licenses can be used)
- Look for contact information, the type of accounts (SLS, PPW, CNU, etc.), and balances on the accounts. Also check for collection issues.
- Other important information to note:
 - 1) *Inquiry Letters*
 - 2) *1099K's (B-Payee)*
 - 3) *Income Tax Returns*
 - 4) *Bank Account Information (Check all account types when issuing subpoenas)*
 - 5) *Prior Audits*
 - 6) *Verify the business and ownership on Secretary of State*
 - 7) *Research the business online (i.e. Google, Facebook, etc.)*

WRAP Appointment Letter

- The WRAP appointment letter notes that Act 2017-294 was passed in 2017, which implemented the Wholesale to Retail Accountability Program.
- The letter states the taxpayer's sales tax returns are in need of further review after comparison of the purchases and reported sales.
 - *From start to finish, the audit should take less than two months*
- The appointment date is scheduled two weeks from the date of the letter.
- A listing of the records needed for the examination is provided and states that both hard-copy and electronic formats should be made available if maintained.
- Note: If the taxpayer contacts the Department wanting an extension, one additional week is allowed.

Retail Inspection

- Approximately 5-7 days after the appointment letter is sent to the taxpayer, a retail inspection is conducted for each location.
- In the retail inspection the business license information is verified, along with the Legal Name, FEIN, Sales Tax Account, and ABC Licenses.
- The cigarettes are examined to verify they are stamped. It is also noted if cigars are being sold. A c-store/tobacco store is required to maintain 90 days of tobacco invoices at the store.
- The following information is also noted:
 - *POS System and Type*
 - *Number of registers*
 - *Identify as many vendors as possible.*
 - *Observe and note the types of items being sold.*

WRAP Audit and Interview

- At the audit appointment the owner or POA should be interviewed. The questions on the WRAP Audit Taxpayer Questionnaire should be discussed in detail.
- Business Information: Legal ownership, addresses, POA, tax rates, operating hours, etc.
- Store Products and Markup Percentages: List of items sold, who purchases inventory and method of payment, tobacco buydowns/rebates, 1099K's, list of vendors, overall markup, etc.
- Sales – Procedures, Records, and Reports: Nontaxable or exempt sales, EBT/Food Stamps, type of POS system, types of records maintained, who prepares the returns, etc.
- Employees: Number of employees, how they are paid, withdrawals, etc.
- Payment Methods and Bank Accounts: Forms of payments received, who deposits money, list of all bank accounts, any purchases paid with cash, etc.
- If the taxpayer does not show up for the appointment, refuses to provide records, or refuses to provide complete records, a subpoena can be issued.

Subpoenas

- A subpoena can be issued to the following:
- Taxpayer
- Banks
- Vendors
- Credit Card Companies

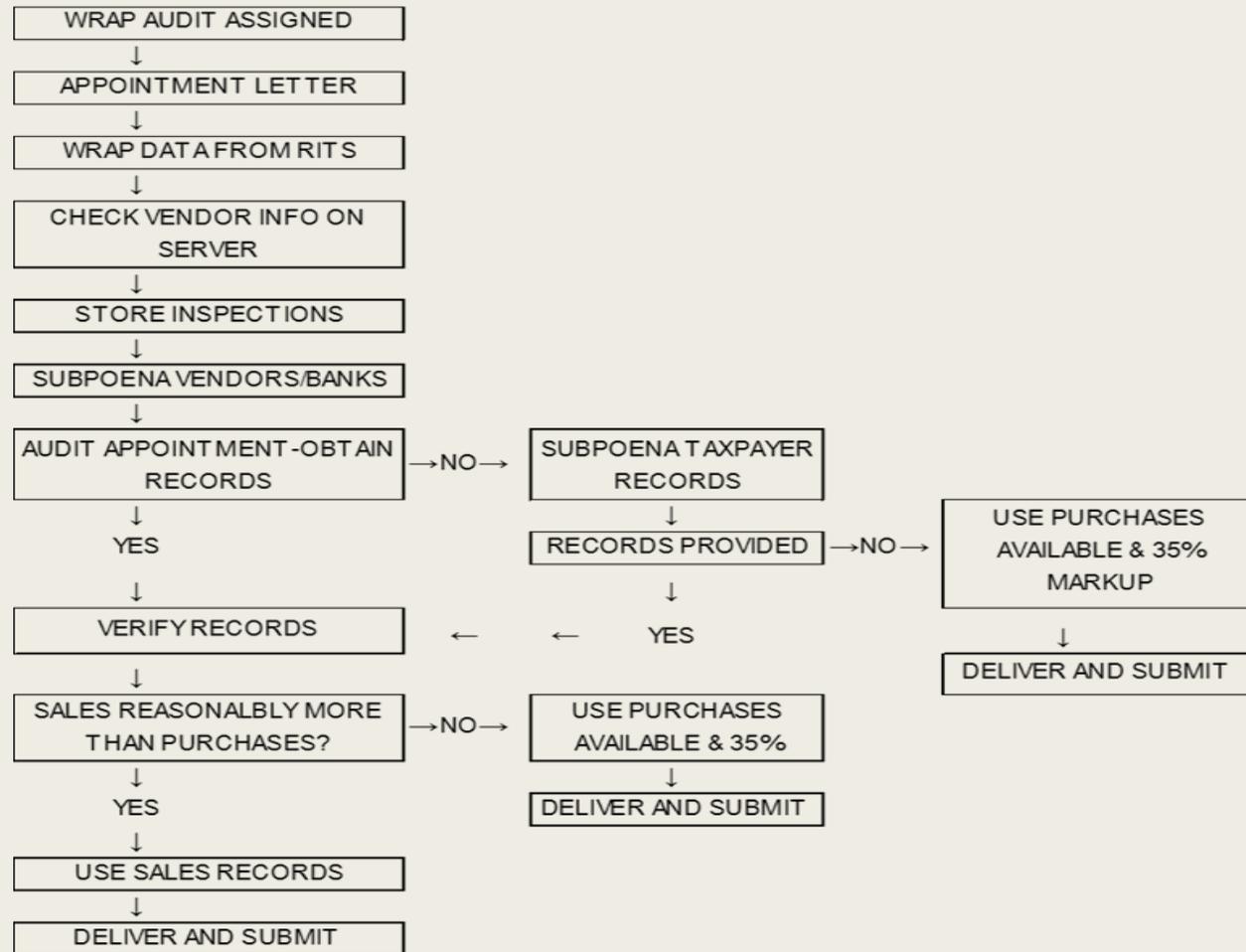
WRAP Audit Procedures

- All records provided by a taxpayer will be examined.
- If the taxpayer does not provide sales records, then an indirect audit approach is necessary.
- Based on the best information available the taxpayer's monthly sales will be calculated and compared to the reported sales. Any discrepancies will be included in the audit.
- The audit methods used in the majority of WRAP audits have been either actual POS records or a Purchase Markup.

WRAP - Purchase Markup

- C-Store – A standard 35% markup is applied to the purchases to calculate the total sales for the period.
- The average of the *Food and Beverage Stores 47.80%* and *Gasoline Stations 23.29%* from the 2014 IRS Statistical Information – Nonfarm Sole-Proprietorship Statistics is 35%.
- Restaurants – 203% is used for full service, limited service, and drinking places.
- Liquor or Package Stores and Tobacco Stores - A classified markup is being calculated while conducting the audit, since a standard markup is not available.

WRAP and C-Store Audit Procedure*



*This excludes the use of bank statements and income tax returns which need to be examined and compared.

WRAP Results to date:

WRAP Unit	
Number of Inquiry Letters mailed	1,048
Number of inquiry letters paid	74
Amount paid	\$ 181,169.78
Number of billing letters mailed	394
Number of billing letters paid	157
Amount paid	\$ 433,149.38
Amended returns	\$ 23,610.72
Total Collected:	\$ 637,929.88
Field	
Field audits conducted	298
Assessed Field Audit liability	\$ 18,000,000.00
Field audits collected	81
Collected Field Audit liability	\$ 990,257.45
Total Collected (WRAP Unit & Field)	\$ 1,628,187.33

Additional tidbits

- Currently, we have vendors/distributors that voluntarily report all of their sales (including groceries and non alcoholic purchases)
 - *These sales are used by the Field Audit Section as an audit tool*
- The Alabama Beverage Control Board requires licensed retailers to maintain on premise 12 months of purchase invoices. The retailer should also have available three years worth of purchase information upon request.

WRAP Unit contact information

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