

**BILLING AND REFUND NOTICE**



CALIFORNIA DEPARTMENT OF  
TAX AND FEE ADMINISTRATION  
SPECIAL TAXES AND FEES  
P.O. BOX 942879 SACRAMENTO, CALIFORNIA 94279-0056  
1 (800) 400-7115

Notice ID: 0002 9003 540	May 01, 2019
Amount Due	71,220.66
Amount enclosed	_____
Additional charges are due if not paid by 05/11/19 (See instructions below)	



Copy of Notice issued to:



Account: CR STF [REDACTED] 86  
Express Login Code: [REDACTED]  
00047181136

For Office Use Only		
RE	PM	
EFFECTIVE DATE OF PAYMENT		
MO	DAY	YEAR

Payments can be made online by going to [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) and selecting the "Make a Payment" tab. Otherwise, cut on the dotted line and return original top portion with your check or money order made payable to the California Department of Tax and Fee Administration.

**\* Jeopardy Notice of Determination \***  
You are hereby notified of an amount due from you as shown below. Please visit our website at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) to download publications 17 and 70 to help you better understand our appeals procedures and your rights.

Account: CR STF [REDACTED] 86  
Notice ID: 0002 9003 540

Cigarette Tax/Tobacco Products Tax CIGARETTE DISTRIBUTORS	TAX	Interest	Penalty	Total
JEOPARDY ISSUED 05/01/19 As determined by Audit For the Period 07/01/15-03/31/17				
Revenue	62,070.00			62,070.00
Interest 08/26/15-05/25/19		9,150.66		9,150.66
Subtotal	62,070.00	9,150.66	0.00	71,220.66
<b>AMOUNT-DUE</b>				<b>71,220.66</b>

Did you know that approximately 96 percent of all taxes and fees administered by the CDTFA are filed and paid on time? We want to help you be successful in resolving your tax and fee matters and avoid potential problems.

Why take care of this now?

Interest is added on any unpaid tax or fee amounts at the rate of 0.583 % per month. Interest of \$362.08 will accrue if the TAX is not paid on or before 05/25/19. You can prevent additional interest from being added to your bill by acting now.

Avoid Collection Cost Recovery fees by paying on time.

Additional penalty of \$ 6,207.00 is due if not paid by 05/11/19.

Liability disclosed by audit.

Information concerning Determinations

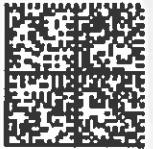
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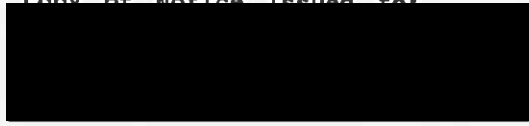
**BILLING AND REFUND NOTICE**



CALIFORNIA DEPARTMENT OF  
TAX AND FEE ADMINISTRATION  
SPECIAL TAXES AND FEES  
P.O. BOX 942879 SACRAMENTO, CALIFORNIA 94279-0056  
1 (800) 400-7115

Notice ID: 0002 8787 223	May 03, 2019
Amount Due	517,662.96
Amount enclosed	_____
Additional charges are due if not paid by 05/13/19 (See instructions below)	

Copy of Notice Issued to:



Account: CR ST# [REDACTED] 86  
Express Login Code: [REDACTED]  
00047148048

For Office Use Only		
RE	PM	
EFFECTIVE DATE OF PAYMENT		
MO	DAY	YEAR

Payments can be made online by going to [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) and selecting the "Make a Payment" tab. Otherwise, cut on the dotted line and return original top portion with your check or money order made payable to the California Department of Tax and Fee Administration.

<p>* Jeopardy Notice of Determination *</p> <p>You are hereby notified of an amount due from you as shown below. Please visit our website at <a href="http://www.cdtfa.ca.gov">www.cdtfa.ca.gov</a> to download publications 17 and 70 to help you better understand our appeals procedures and your rights.</p>		<p>Account: [REDACTED] 86</p> <p>Notice ID: 0002 8787 223</p>																	
Cigarette Tax/Tobacco Products Tax CIGARETTE DISTRIBUTORS	TAX	Interest	Penalty	Total															
<p>JEOPARDY ISSUED 05/03/19 As determined by Audit For the Period 04/01/17-03/31/18</p> <table border="0"> <tr> <td>Revenue</td> <td>481,973.00</td> <td></td> <td></td> <td>481,973.00</td> </tr> <tr> <td>Interest 05/26/17-05/25/19</td> <td></td> <td>35,689.96</td> <td></td> <td>35,689.96</td> </tr> <tr> <td>Subtotal</td> <td>481,973.00</td> <td>35,689.96</td> <td>0.00</td> <td>517,662.96</td> </tr> </table> <p>AMOUNT-DUE <span style="float: right;">517,662.96</span></p> <p>*****</p> <p>Did you know that approximately 96 percent of all taxes and fees administered by the CDTFA are filed and paid on time? We want to help you be successful in resolving your tax and fee matters and avoid potential problems.</p> <p>Why take care of this now?</p> <p>Interest is added on any unpaid tax or fee amounts at the rate of 0.583 % per month. Interest of \$2,811.51 will accrue if the TAX is not paid on or before 05/25/19. You can prevent additional interest from being added to your bill by acting now.</p> <p>Avoid Collection Cost Recovery fees by paying on time.</p> <p>Additional penalty of \$ 48,197.30 is due if not paid by 05/13/19.</p> <p>Liability disclosed by audit.</p> <p style="text-align: center;">Information concerning Determinations</p>					Revenue	481,973.00			481,973.00	Interest 05/26/17-05/25/19		35,689.96		35,689.96	Subtotal	481,973.00	35,689.96	0.00	517,662.96
Revenue	481,973.00			481,973.00															
Interest 05/26/17-05/25/19		35,689.96		35,689.96															
Subtotal	481,973.00	35,689.96	0.00	517,662.96															



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00047148048

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BILLING AND REFUND NOTICE

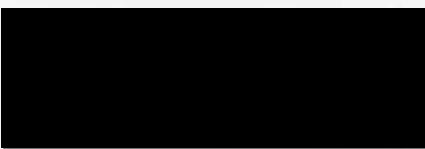
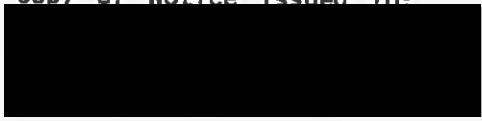


CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION  
SPECIAL TAXES AND FEES  
P.O. BOX 942879 SACRAMENTO, CALIFORNIA 94279-0056  
1 (800) 400-7115

Notice ID: 0002 9017 432	May 03, 2019
Amount Due	1,675,554.11
Amount enclosed	_____
Additional charges are due if not paid by 05/13/19 (See instructions below)	



Copy of Notice issued to:



Account: CFD STP [REDACTED] 24  
Express Login Code: [REDACTED]  
00047029339

For Office Use Only		
RE	PM	
EFFECTIVE DATE OF PAYMENT		
MO	DAY	YEAR

Payments can be made online by going to [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) and selecting the "Make a Payment" tab. Otherwise, cut on the dotted line and return original top portion with your check or money order made payable to the California Department of Tax and Fee Administration.

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Account: [REDACTED] 24  
Notice ID: 0002 9017 432

Cigarette Tax/Tobacco Products Tax CIGARETTE FLOOR STOCK DISTRIBUTOR	TAX	Interest	Penalty	Total
JEOPARDY ISSUED 05/03/19 As determined by Audit For the Period 04/01/17-04/01/17				
Revenue	1,357,640.00			1,357,640.00
Interest 07/02/17-06/01/19		182,150.11		182,150.11
Penalty			135,764.00	135,764.00
Subtotal	1,357,640.00	182,150.11	135,764.00	1,675,554.11
AMOUNT-DUE				1,675,554.11

\*\*\*\*\*

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Why take care of this now?

Interest is added on any unpaid tax or fee amounts at the rate of 0.583 % per month. Interest of \$7,919.57 will accrue if the TAX is not paid on or before 06/01/19. You can prevent additional interest from being added to your bill by acting now.

Avoid Collection Cost Recovery fees by paying on time.

A 10% penalty has been added for negligence in accordance with Revenue and Taxation Code section 30204.

Additional penalty of \$ 135,764.00 is due if not paid by 05/13/19.



Payments can be made online by going to [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) and selecting the "Make a Payment" tab.

00047029339

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SPECIAL TAXES AND FEES

1 (800) 400-7115

* Jeopardy Notice of Determination * Page 2		NOTICE ID: 0002 9017 432	May 03, 2019	9
Cigarette Tax/Tobacco Products Tax CIGARETTE FLOOR STOCK DISTRIBUTOR	TAX	Interest	Penalty	Total

Liability disclosed by audit.

**Information concerning Determinations**

The person upon whom a determination is made or any person directly interested may petition for a redetermination. To be timely, the petition must be directed to the California Department of Tax and Fee Administration within 10 days from the date shown at the top of this notice. The petitioner must also deposit with the CDTFA such security as the CDTFA may deem necessary to insure compliance with the law. A petition need not be in any special form but must be in writing and should specify the objection to the amount protested. If a hearing is desired, it should be requested in the petition. The request should specify whether an informal meeting with a hearing officer at the nearest CDTFA office or a hearing before the Office of Tax Appeals in Sacramento is desired. A 10 day notice of the time and place of hearing will be given.

**Request for Administrative Hearing:**

The person upon whom a jeopardy determination is made may also apply for an administrative hearing for one or more of the following: (a) To establish that the determination is excessive; (b) To establish that the sale of property or any part of the property that may be seized after issuance of the jeopardy determination should be delayed pending the administrative hearing because the sale would result in ~~IRREPARABLE INJURY~~ to the person; or (c) To request the release of all or part of the property to the person. (d) To request suspension of collection activities. The application for an administrative hearing must be mailed to or filed with the California Department of Tax and Fee Administration within 30 days from the date shown on the top of this notice, must be in writing, and must state the specific grounds upon which the application is based. No security need be posted to file the application and to obtain this hearing. However, if the person does not deposit within 10 days from the date shown at the top of this notice such security as the CDTFA deems necessary to insure compliance, the filing of the application shall not stop collection activities except sale of property seized after issuance of the jeopardy determination. In accordance with the above instructions, the person upon whom a jeopardy determination is issued may file a petition for redetermination or a request for administrative hearing.

The filing of a petition will not prevent the accrual of interest.

Payments can be made online by going to [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) and selecting the "Make a Payment" tab.

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CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

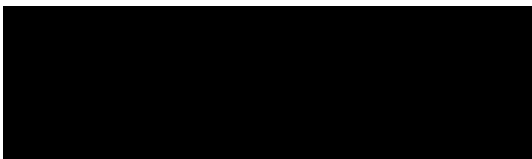
P.O. BOX 942879, SACRAMENTO, CA 94279-0001 MIC: 48  
1-916-591-6068  
www.cdffa.ca.gov

GAVIN NEWSOM  
Governor

YOLANDA RICHARDSON  
Secretary, Government Operations Agency

NICOLAS MADUROS  
Director

Letter Date: April 2, 2021  
Letter ID: L0010063849  
Account Type: Cigarette Dist/Importer  
Account Number: [REDACTED] 86  
Audit ID: [REDACTED]  
Audit Period From: July 1, 2015  
Audit Period To: March 31, 2017



Dear [REDACTED]

Based on our examination of the records for the account and period(s) referenced above, our Reaudit results and explanation of findings are provided below. In a recent discussion, you indicated that you agree with our findings. Please review our findings and the provided working papers. If there is any portion you do not understand, contact us at the above address for clarification. Please note, the audit working papers are not final and if the review results in a material change you will be informed prior to the amount being billed, in the form of a *Notice of Determination*, or the issuance of a *Notice of Refund/Statement of Liability*.

**Proposed Liability**  
**Examination Period: July 1, 2015 to March 31, 2017**

<i>Tax</i>	\$382,891.00
<i>Credits</i>	\$ (382,891.00)
<i>Less Adjustments</i>	\$0.00
<i>Payments</i>	\$0.00
<i>Interest through May 31, 2021</i>	\$0.00
<i>Penalty(ies)</i>	\$0.00
<b>Total**</b>	<b>\$0.00</b>

\*\*if multiple billings have occurred, the audit liability may not equal the sum of the billings.

Interest continues to accrue monthly on unpaid tax and will be added to the current interest amount shown on page 1 of this letter. Paying all or part of the liability shown on the *Notice* will in no way affect your right to protest portions with which you do not agree. If you would like to make a payment before receiving the *Notice*, please send your payment with the attached voucher or, if you prefer, you can pay online by visiting our website at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) and select *Make a Payment*.

In general, you have six (6) months from the date of payment to file a claim for refund on any overpayments. If you have already filed a timely claim for refund on or after January 1, 2017, for a payment made with respect to this *Notice*, you do not need to file another claim for refund with each subsequent payment you make toward this liability. If you paid for more than one disputed liability, you must file a timely claim for refund for payments made for each *Notice*. Any balance will be refunded with credit interest, if applicable.

Although we have applied commonly accepted auditing procedures during your examination, the auditor may not have examined all of your transactions. There may still be transactions not reported correctly. If you have any questions about the application of tax to a product or transaction, please contact us in writing and we will provide you with a written response.

**Tax Measure Disclosed by Examination**

	Taxable Measure	Tax Difference
Tax Value of Cigarettes Sold Without Stamps	0	\$0.00
<b>Total:</b>	<b>0</b>	<b>\$0.00</b>

\*\*Due to rounding differences, totals on this page may display differently on this page than the front page.

**Explanation of Findings**

Type of Business Organization	[REDACTED]
Type of Transactions	[REDACTED] The taxpayer purchases stamped and unstamped cigarettes and applies California tax stamps to unstamped cigarettes. The taxpayer sells to retails within California and does not sell to consumers.
Books and Records	The taxpayer uses a double-entry computerized accounting system. Books and records were adequate for tax reporting purposes.
Reporting Method	The taxpayer compiles data for all purchases, sales, and inventory for each reporting period. At the time of reporting, the taxpayer prepares an excel spreadsheet for all purchase and sale transactions within the correlating reporting period.
Verification and Findings	Reaudit Findings:  Original audit liability was \$62,070. Auditor made adjustments in the reaudit for unstamped cigarette purchases, cigarette stamp purchases, cigarette stamp inventory, unstamped cigarette inventory, return of cigarette stamps, and also forwarded understated tax value to a related subsequent audit case for this account. The reaudit resulted in the reduction of \$62,070 from the original tax liability.  Reaudit Adjustment Details:

[REDACTED]

[REDACTED]

[REDACTED]

Adjusted Understated Tax Value of Stamps Purchased credit increased the additional tax due by \$75,168

3 stamp rolls on schedule R1-12B and R1-12B-1 were each reduced by 28,800 stamps in the Reaudit as they were verified to be 1,200 stamp rolls and not 30,000 stamp rolls. The adjustment is a reduction of 86,400 total stamps with a \$75,168 stamp tax value, which caused the original audit credit for the Understated Tax Value of Stamps Purchased to be reduced by \$75,168.

Adjusted Understated Tax Value of Ending Unaffixed Stamp Inventory decreased the additional tax due by \$25,933

The tax value of unaffixed stamp inventory decreased by \$25,933 from schedule R1-12C. The adjustment is due to:

Cigarette stamps purchased was adjusted to include an additional 30,000 stamps from a additional stamp roll reported by the taxpayer on schedule R1-12C-1b.

Schedule R1-12C-1a. This adjustment accounted for the additional stamp roll 1322216310 that decreased the percentage of error on schedule R1-12C-1a resulting decreased the number or packs stamped resulting in a decreased of beginning inventory of unaffixed stamps by 159 stamps.

The Reaudit also accounted for 351 returned stamps from the taxpayer on schedule R1-12D.

The unaffixed inventory of stamps were adjusted by 29,808 stamps (30,000 + 351 - 159) on schedule R1-12C-1. This adjustment was forwarded to schedule R1-12C to reduce the Understated Tax Value of Ending Unaffixed Stamp Inventory per Reaudit by \$25,933 (29,808 stamps \* \$0.87 per stamp)

Adjustment to Understated Tax Value to Mar 2017 to Forward to Subsequent Split Audit Periods to increase by \$10,435

A related audit case (original audit case 1053877, reaudit case A80349) was also conducted for the subsequent period for this account. The overstated tax due from this audit of \$11,365 was used as credits to offset tax due liabilities in the subsequent audit. To avoid double-counting, the tax value of cigarettes distributed was increased by \$11,365 in the last period of this audit.

Adjustment to Understated Tax Value to Mar 2017 for Credit without Return of Stamps to

increase by \$930

After the adjustment above adjustment there is a remaining credit of \$930. Refund cannot be given without the return of stamps, therefore, auditor made an adjustment to increase the amount to zero.

Miscellaneous

Related Audits.

[REDACTED]

Overpayment

A claim for refund was not obtained for the credit periods as refunds are not granted without the return of stamps. Periodic credit differences within the audit are attributable to timing differences and used to offset deficit periods.

Taxpayer's Position

The taxpayer concurs with the reaudit results.

Reason for Reaudit

The taxpayer's representative did not concur with the original audit. The taxpayer's representative forwarded additional records for the audit that were used in the reaudit work papers.

Special Mailing Instructions

Please send copy of mailings to Mitchell Stradford: 508 Gibson Drive, Suite 120, Roseville, CA 95678-5797.

Thank you for your cooperation during the review of your account.

Sincerely,

Dan Tchong  
Senior Tax Auditor

Discussed with: Mr. Stradford





CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

P.O. BOX 942879, SACRAMENTO, CA 94279-0001 MIC: 48  
1-916-591-6068  
www.cdffa.ca.gov

GAVIN NEWSOM  
Governor

YOLANDA RICHARDSON  
Secretary, Government Operations Agency

NICOLAS MADUROS  
Director



Letter Date: April 2, 2021  
Letter ID: L0010034742  
Account Type: Cigarette Dist/Importer  
Account Number: [REDACTED] 86  
Audit ID: [REDACTED]  
Audit Period From: April 1, 2017  
Audit Period To: March 31, 2018

Dear [REDACTED]

Based on our examination of the records for the account and period(s) referenced above, our Reaudit results and explanation of findings are provided below. In a recent discussion, you indicated that you agree with our findings. Please review our findings and the provided working papers. If there is any portion you do not understand, contact us at the above address for clarification. Please note, the audit working papers are not final and if the review results in a material change you will be informed prior to the amount being billed, in the form of a *Notice of Determination*, or the issuance of a *Notice of Refund/Statement of Liability*.

**Proposed Liability**  
**Examination Period: April 1, 2017 to March 31, 2018**

<i>Tax</i>	\$720,114.00
<i>Credits</i>	\$ (720,114.00)
<i>Less Adjustments</i>	\$0.00
<i>Payments</i>	\$0.00
<i>Interest through May 31, 2021</i>	\$0.00
<i>Penalty(ies)</i>	\$0.00
<b>Total**</b>	<b>\$0.00</b>

\*\*if multiple billings have occurred, the audit liability may not equal the sum of the billings.

Interest continues to accrue monthly on unpaid tax and will be added to the current interest amount shown on page 1 of this letter. Paying all or part of the liability shown on the *Notice* will in no way affect your right to protest portions with which you do not agree. If you would like to make a payment before receiving the *Notice*, please send your payment with the attached voucher or, if you prefer, you can pay online by visiting our website at [www.cdffa.ca.gov](http://www.cdffa.ca.gov) and select *Make a Payment*.

In general, you have six (6) months from the date of payment to file a claim for refund on any overpayments. If you have already filed a timely claim for refund on or after January 1, 2017, for a payment made with respect to this *Notice*, you do not need to file another claim for refund with each subsequent payment you make toward this liability. If you paid for more than one disputed liability, you must file a timely claim for refund for payments made for each *Notice*. Any balance will be refunded with credit interest, if applicable.

Although we have applied commonly accepted auditing procedures during your examination, the auditor may not have examined all of your transactions. There may still be transactions not reported correctly. If you have any questions about the application of tax to a product or transaction, please contact us in writing and we will provide you with a written response.

**Tax Measure Disclosed by Examination**

	Taxable Measure	Tax Difference
Tax Value of Cigarettes Sold Without Stamps	0	\$0.00
<b>Total:</b>	<b>0</b>	<b>\$0.00</b>

\*\*Due to rounding differences, totals on this page may display differently on this page than the front page.

**Explanation of Findings**

Type of Business Organization	[REDACTED]
Type of Transactions	The taxpayer is a licensed California Cigarette distributor and operates a warehouse in [REDACTED]. The taxpayer purchases stamped and unstamped cigarettes and applies California tax stamps to unstamped cigarettes. The taxpayer sells to retails within California and does not sell to consumers.
Books and Records	The taxpayer uses a double-entry computerized accounting system. Books and records were adequate for tax reporting purposes.
Reporting Method	The taxpayer compiles data for all purchases, sales, and inventory for each reporting period. At the time of reporting, the taxpayer prepares an excel spreadsheet for all purchase and sale transactions within the correlating reporting period.
Verification and Findings	The original audit liability was \$481,973. Based on additional records forwarded from the taxpayer, the auditor made adjustments to ending unstamped cigarette inventory, purchases of unstamped cigarettes, stamp purchases, stamp inventory, and included a credit from a previous period in a related audit of this account. The result of the reaudit is the decrease of \$481,973 from the original audit liability.

Reaudit Adjustment Details:

Adjustment to Ending Unstamped Cigarette Inventory 03/31/2018 decreased additional

tax due by \$440,852

The 03/31/2018 unstamped cigarette inventory calculation is based on information from the taxpayer's close out audit [REDACTED] with audit period 04/01/2018 through 12/31/2018. It is also used as the 04/01/2018 beginning inventory for the close out audit. The amount per original audit (1,598,340) was based on a count done by the prior auditor and contained errors. As a result of the reaudit calculation the ending inventory for 3/31/18 was reduced by 3,072,140 sticks. This reduced the additional tax due by \$440,852 (3,072,140 \* 0.1435). See schedule R1-9B-1 for details.

Adjustment to Purchases of Unstamped Cigarettes per Purchase Invoices Provided by Taxpayer decreased additional tax due by \$30,135

[REDACTED] invoice 91398386 for a total of 210,000 sticks was removed as the invoice date was verified to be in 2016 on schedule R1-9C-1. The Understated Purchases of Unstamped Cigarettes per Reaudit was therefore reduced by \$30,135 (210,000 \* 0.1435). See schedule R1-9C-1.

Adjusted Overstated Tax Value of Stamps Purchased per Reaudit decreased additional tax due by \$86,100

The taxpayer provided information for Stamp Roll 1322216310 that was included on schedule R1-12B and R1-12B-1. The addition of stamp roll 1322216310 resulted in a decrease of overstated tax value of stamps by \$86,100.

Adjusted Beginning Unaffixed Stamp Inventory 4/1/17 per Inventory Reconciliation increased additional tax due by \$85,549

The tax value of unaffixed inventory on 4/1/17 to decrease by \$85,549 on schedule R1-12A and on R1-12C-1. This adjustment accounted for the additional stamp roll 1322216310 that decreased the percentage of error on schedule R1-12C-1A resulting decreased the number of packs stamped resulting in a decrease of beginning inventory of unaffixed stamps by 159 stamps.

Cigarette stamps purchased 4/1/17 - 3/31/18 were adjusted to include an additional 30,000 stamps from a additional stamp roll reported by the taxpayer from schedule R1-12B-1.

The adjustment also accounted for 351 returned stamps from schedule R1-12D-1.

Credit from Previous Period decreased additional tax due \$11,365

A related Reaudit case A72157, was performed concurrently with this Reaudit on the same account, for the period of July 2015 to March 2017. Reaudit case A72157 resulted in a credit of \$11,365. \$10,435 of the credit is applied to offset deficit periods in this audit on schedule R1-13.

Miscellaneous

This account was also reaudited for the previous period from April 1, 2015 to March 31, 2017 (reaudit case A121309) and a subsequent close out audit from April 1, 2018 to Dec 31, 2018 (case A125405). A floor stock reaudit was also conducted for April 1, 2017.

Overpayment

A claim for refund was not obtained for the credit periods as refunds are not granted without the return of stamps. Periodic credit differences within the audit are used to offset deficit periods.

Taxpayer's Position

The taxpayer concurs with the reaudit results.

Reason for Reaudit

The taxpayer's representative did not concur with the original audit. The taxpayer's representative forwarded additional records for the audit that were used in the reaudit work papers.

Special Mailing Instructions      Please send copy of mailings to Mitchell Stradford: 508 Gibson Drive, Suite 120,  
Roseville, CA 95678-5797.

Thank you for your cooperation during the review of your account.

Sincerely,

Dan Tcheng  
Senior Tax Auditor

Discussed with: Mr. Stradford



STATE OF CALIFORNIA

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

P.O. BOX 942879, SACRAMENTO, CA 94279-0001 MIC: 48
1-916-591-6068
www.cdtfa.ca.gov

GAVIN NEWSOM
Governor

YOLANDA RICHARDSON
Secretary, Government Operations Agency

NICOLAS MADUROS
Director



Letter Date: April 8, 2021
Letter ID: L0010119084
Account Type: Cig Floor Distributor
Account Number: [Redacted] 24
Audit ID: [Redacted]
Audit Period From: April 1, 2017
Audit Period To: April 1, 2017

Dear [Redacted]:

Based on our examination of the records for the account and period(s) referenced above, our Reaudit results and explanation of findings are provided below. In a recent discussion, you indicated that you agree with our findings. Please review our findings and the provided working papers. If there is any portion you do not understand, contact us at the above address for clarification. Please note, the audit working papers are not final and if the review results in a material change you will be informed prior to the amount being billed, in the form of a Notice of Determination, or the issuance of a Notice of Refund/Statement of Liability.

Proposed Liability

Examination Period: April 1, 2017 to April 1, 2017

Table with 2 columns: Description and Amount. Rows include Tax (\$1,357,640.00), Credits (\$ (1,300,240.00)), Less Adjustments (\$0.00), Payments (\$0.00), Interest through May 31, 2021 (\$15,115.28), Penalty(ies) (\$0.00), and Total\*\* (\$72,515.28).

\*\*if multiple billings have occurred, the audit liability may not equal the sum of the billings.

Please cut along the line and return the bottom portion with your payment.

CDTFA-5020 REV. 1 (8-19)
CDTFA-5000 (8-17)

PAYMENT VOUCHER



Account Type: Cig Floor Distributor
Account Number: [Redacted] 24
Voucher Number: 454265060

L0010119084

CDTFA USE ONLY

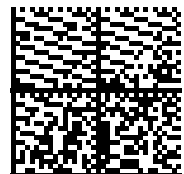
Amount Due Upon Receipt: \$72,515.28

Make check payable and send with the voucher to:
California Department of Tax and Fee Administration
PO BOX 942879
Sacramento CA 94279-3535
or visit www.cdtfa.ca.gov to pay right now.

Enter amount paid
\$ [Grid]



Please write your Account number and tax period end date on your check.



Interest continues to accrue monthly on unpaid tax and will be added to the current interest amount shown on page 1 of this letter. Paying all or part of the liability shown on the *Notice* will in no way affect your right to protest portions with which you do not agree. If you would like to make a payment before receiving the *Notice*, please send your payment with the attached voucher or, if you prefer, you can pay online by visiting our website at [www.cdffa.ca.gov](http://www.cdffa.ca.gov) and select *Make a Payment*.

In general, you have six (6) months from the date of payment to file a claim for refund on any overpayments. If you have already filed a timely claim for refund on or after January 1, 2017, for a payment made with respect to this *Notice*, you do not need to file another claim for refund with each subsequent payment you make toward this liability. If you paid for more than one disputed liability, you must file a timely claim for refund for payments made for each *Notice*. Any balance will be refunded with credit interest, if applicable.

Although we have applied commonly accepted auditing procedures during your examination, the auditor may not have examined all of your transactions. There may still be transactions not reported correctly. If you have any questions about the application of tax to a product or transaction, please contact us in writing and we will provide you with a written response.

**Tax Measure Disclosed by Examination**

	Taxable Measure	Tax Difference
Cigarette Stamp Understated Affixed - R2	27,306	\$54,612.00
Cigarette Stamp Understated Unaffixed - R2	1,394	\$2,788.00
<b>Total:</b>	<b>28,700</b>	<b>\$57,400.00</b>

\*\*Due to rounding differences, totals on this page may display differently on this page than the front page.

**Explanation of Findings**

Type of Business Organization	The taxpayer is a corporation. [REDACTED]
Type of Transactions	[REDACTED]
Books and Records	The taxpayer uses a double-entry computerized accounting system. Books and records were adequate for tax reporting purposes.
Reporting Method	The taxpayer did not understand the reporting requirements for the Cigarette Distributor Floor Stock Tax return and reported based on how many cigarette tax stamps he thought he had on hand and stated a physical count was not conducted for the return.
Verification and Findings	Auditor adjusted the original audit based on additional records provided by the taxpayer.  The original audit understated unaffixed 20 packs of cigarette stamps understated was 31,553. The reaudit reduced the understated unaffixed 20 packs cigarette tax stamps by 30,159. The reaudit results is understated unaffixed cigarette tax stamps 2 pack is 1,394.  The original audit understated affixed 20 packs of cigarette stamps was 647,267. The reaudit reduced the understated affixed 20 packs cigarette tax stamps by 619,961. The reaudit results is understated unaffixed cigarette tax stamps 20 pack is 27,306.

Reaudit Adjustment Details:

Understated stamps unaffixed decreased by 30,159 (decrease of \$60,318 in additional tax due).

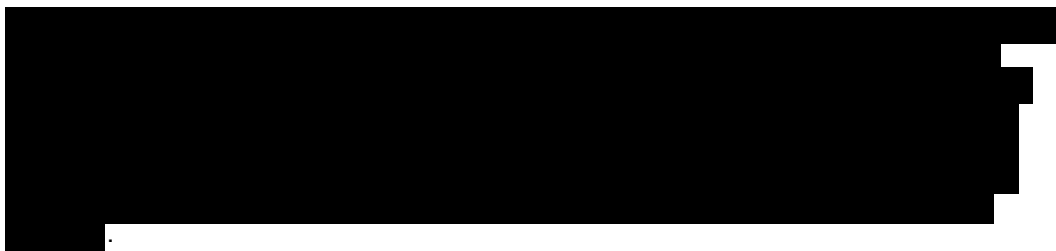
An additional stamp roll purchase of 30,000 stamps was included on the schedule R1-9A-1b-1.

The additional stamp roll also decreased the percentage of error on schedule R1-9A-1b-1 and R1-9A-1b and decreased the number or packs stamped resulting in a decreased of beginning inventory of unaffixed stamps by 159 stamps on schedule R1-9A-1.

The Understated stamps affixed decreased by 619,961 stamps (decrease of \$1,239,922 in additional tax due)

Understated cigarette tax stamp affixed decreased by 361,370 stamps due to a decrease to Cigarette sales as a result of removing sales prior to 4/1/17 and after 4/26/18 from the taxpayer's sales report. <See schedule R1-9A-2>.

The understated cigarette tax stamps affixed decreased by 170,670 due to an adjustment to the 4/26/18 cigarette inventory to removed unstamped cigarette packs in inventory on 4/26/18 on schedule R1-9A-2.



The understated cigarette tax stamp affixed was increased by 159 due to an adjustment to include an additional stamp roll purchase on schedule R1-9A-1b-1 and R1-9A-1b, which decreased the percentage of error of stamps applied and not captured by SICPA and resulted in a decrease in packs stamped by 159 packs and therefore an increase of beginning inventory of stamped product by 159 packs on schedule R1-9A-2.

Miscellaneous

FTB: N/A

Miscellaneous

The related cigarette account ( [redacted] 86) was also reaudited for the previous period from April 1, 2015 to March 31, 2017 (reaudit case [redacted] ), and a subsequent reaudit from April 1, 2017 to March 31, 2018 (reaudit case [redacted] ), and a close out audit from April 1, 2018 to Dec 31, 2018 (case [redacted] ).

Penalty

Auditor does not recommend a 10% negligence penalty. The underreporting appears to be due to unintentional errors.

Reason for Reaudit

The taxpayer's representative forwarded additional records for the audit that were used in the reaudit work papers.

Taxpayer's Position

The taxpayer concurs with the reaudit findings.

Special Mailing Instructions

Please mail copies of audit related correspondences to Mitchell Stradford at 508 Gibson Drive, Suite 120, Roseville, CA 95678-5797.

Master Settlement Agreement

The taxpayer records the amount of NPM cigarette sales reported on schedule F. The schedule Fs were reviewed from 7/1/15 through 3/31/18 during related audits of the cigarette accounts with no material difference identified.

Thank you for your cooperation during the review of your account.

Sincerely,

Dan Tchong  
Senior Tax Auditor

Discussed with: Mr. Stradford