

Sales Tax Audit Process

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Overview

- **Audit Selection**
 - Risk Assessment
 - Agent Referrals
 - 1141 Requests
- **Audit Process**
 - Pre-Audit
 - Field Work
 - Write-Up
 - Protest

Audit Selection – Risk Assessment

- **Audit Selection Team (AST) assigns risk score to every sales tax account**
 - Risk scores based on multiple, weighted factors.
 - Each sales tax account is put into a bucket based on geographical area
 - Accounts with highest risk score are assigned for audit.

Audit Selection – Agent Referrals/1141 Requests

- Agents/local jurisdictions submit requests for audits.
- All referrals/requests are reviewed by AST staff to verify audit potential.
- Agent referrals go into same queue as audits identified through automated risk assessment process.
- 1141 Requests are prioritized and immediately assigned once audit potential is verified.

Audit Selection – Future Developments

- Risk scoring system relatively new, so need to verify correlation between risk score and audit results.
- Use predictive analytics to a greater extent.
- Develop more formal annual audit plan.

Sales Tax Audit Process

- **Three major phases**
 - Pre-Audit
 - Fieldwork
 - Write-up/Closing

Sales Tax Audit Process – Pre-Audit

- **Purpose**
 - Confirm that audit should be performed and determine audit scope.
- **Tools**
 - Prior audit files, if applicable.
 - GenTax documents.
 - Referral documents.
 - Tax returns filed.
 - Internet searches.
- **Confirmation letter and opening conference**

Sales Tax Audit Process – Field Work

- **Review sales tax returns and supporting documentation.**
- **Reconcile sales to returns, sales journals, General Ledger, and Federal income tax returns.**
- **Reconcile sales tax remitted to sales tax collected and accrued.**
- **Determine substantive testing procedures.**
 - Review all sales invoices or a sample?

Sales Tax Audit Process – Field Work

- **Sales Invoice Review**
 - Verify that correct sales tax rate is being charged for all jurisdictions.
 - Verify that all taxable items are being taxed properly.
 - Verify that credit invoices properly handle sales tax refunds.

Sales Tax Audit Process – Write-Up

- **Complete work papers noting exceptional items and present to taxpayer for review.**
- **Hold closing conference to go over finalized work papers.**
- **Have taxpayer sign Preliminary Audit Summary listing assessment/refund amount.**
- **Advise taxpayer of protest rights.**

Sales Tax Audit Process - Protest

- **Field Audit Protest Resolution (FAPR)**
 - Taxpayers have 30 days to protest result of audit assessment/refund.
 - Initial review of protest by FAPR, which focuses on issues of fact.
- **Tax Conferee**
 - Taxpayer may protest FAPR decisions to Tax Conferee.
 - Conferee focuses on issues of law.
- **District Court**
 - Taxpayer has 30 days to file suit in district court to appeal Conferee decisions.