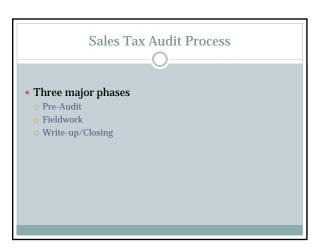
Sales Tax Audit Process ERIC JOHNSON MANAGING DIRECTOR OF FIELD AUDIT COLORADO DEPARTMENT OF REVENUE ERIC.JOHNSON@STATE.CO.US 303-355-0400 X4553 OCTOBER 24, 2013



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.

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.

• 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 – Pre-Audit

Purpose

 Confirm that audit should be performed and determine audit scope.

Tools

- Prior audit files, if applicable.
- o GenTax documents.
- Referral documents.
- o Tax returns filed.
- o 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.
- o Verify that all taxable items are being taxed properly.
- ${\color{red} \circ}$ 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.
- o Conferee focuses on issues of law.

District Court

 Taxpayer has 30 days to file suit in district court to appeal Conferee decisions.