

Effective Audit Defense Techniques



SALES TAX
INSTITUTESM

On-Demand Webinar



Diane L. Yetter

Webinar Instructor

- Strategist, advisor, speaker, and author
- President of YETTER™
- Founder of the Sales Tax Institute

Topics for Discussion

- Scheduling the Audit
- Pre-Audit Review
- Managing the Audit
- Electronic Data in the Audit
- Reviewing the Audit
- Post-Audit Strategy

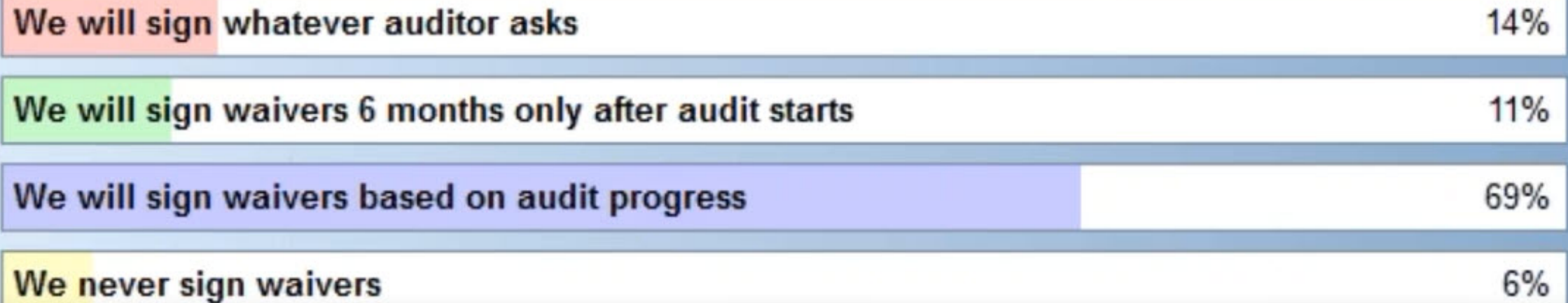
What is your policy on waivers?

QUICK POLL

- We will sign whatever auditor asks
- We will sign waivers 6 months only after audit starts
- We will sign waivers based on audit progress
- We never sign waivers

What is your policy on waivers?

QUICK POLL



Where are your audits conducted?

QUICK POLL

- Corporate where the tax department is
- At field location
- Combination
- Desk Audits

Where are your audits conducted?

QUICK POLL





Scheduling the Audit

Audit Notification

- Letter of routine audit
 - Generally receive a letter in the mail
 - Sometimes telephone call and letter in the mail
- Audit questionnaire
 - Some taxing jurisdictions send out questionnaires
- Initial auditor contact
 - Auditor calls taxpayer to set up initial conference

Scheduling the Audit

- Scheduling
 - Multiples states concurrently
 - Other deadlines/projects
 - Statute of Limitation dates
 - Auditor Travel implications
- Waiver options and strategies
 - Date of notification vs date of audit kickoff
 - Interest implications
 - Refunds
 - Scheduling

Scheduling the Audit (cont.)

- Audit Location
 - Corporate vs. Field vs. Remote
 - Audit Liaison
 - Owned vs Acquired vs Divested Entities
- Audit Scope
 - Companies
 - Tax type
 - Audit period



Pre-Audit Review

Do you do a pre-audit review?

QUICK POLL

- Yes – very cursory
- Yes – I know what my risk is
- Maybe – depends on the state
- No

Do you do a pre-audit review?

QUICK POLL



Pre-Audit Review

- Know what type of tax is being audited
- Identify the supporting records for the tax
- Pull returns and supporting workpapers of taxes paid
- Review General Ledger Tax Collected to Tax Reported on Return
- Gather Journal Entries supporting any differences in GL and Return

Pre-Audit Review (cont.)

- Records Review
 - Location
 - Condition
 - Storage Format (paper, electronic)
 - Missing Records
- Systems
 - ERP
 - Tax
 - Ability for Computer Assist

Do you prepare a refund request with your audit?

QUICK POLL

- Yes – I always do a review
- Yes – if there is use tax in the state
- Maybe – depends on the state
- No

Do you prepare a refund request with your audit?

QUICK POLL



Pre-Audit Review (cont.)

- Law and Rate Changes
- Business Changes
- Exposure Analysis
- Refund Opportunity Analysis

Know the Audit Procedure

- Set up a procedure for all audits to follow
- Provide all records on a timely basis
- Provide “plant tour” regardless of your industry (prep tour guide)
- Do not volunteer information

Know the Audit Procedure (cont.)

- Understand the impact of sampling verses 100% detailed review
- Never forget exceptions to sampling
 - Seasonal or Cyclical Business
 - One time purchases and extraordinary purchases
- Know your business better than the auditor
- While sampling is a fast and effective tool for audits – does it increase your liability – review before agreement to sampling

Review for Under and Over Payments

- Conduct review of Tax-Free Sales
- Consider recent law changes
- Review and Reconcile Returns to General Ledger
- Identify Exposures
- Identify Overpayments



Managing the Audit

Opening Conference with Auditor

- Set Ground Rules
 - Sign-in and Sign-out Sheet
 - One Contact Person
 - Request specific information company needs to track transaction
 - Request statute or rule that supports Auditor's taxation
 - Request auditor to write questions for specific invoices
 - Deal with Audit Issues while Auditor is on premises
 - Challenge every line item
 - Request Supervisor or Manager's contact information so can involve if disagreement
 - Request refunds be pointed out and given in audit

Opening Conference with Auditor

- Location for Auditor to Work
 - Provide a desk, chair, light, heat/air, electrical plug and records
 - Location/Workspace pros/cons
 - Treat them as you would like to be treated

Discussion with Auditor should include Scope of Audit

- Statute of Limitations
 - Sets in place the time period for the audit
 - How far can the taxing jurisdiction go back?
 - When do the statute of limitations become effective?
- Does the company or state require formal IDRs?
 - Pros and Cons

Do you allow statistical samples?

QUICK POLL

- Yes
- No

Do you allow statistical samples?

QUICK POLL



Managing the Audit (cont.)

- Records Requested vs. Value to Audit
 - Income tax, Depreciation Schedules
 - Terminology
- Electronic access vs paper copies
- Audit Methodology
 - Sample vs. Actual
 - Stat/Computer Assist
- Meeting/review frequency

Sales Tax Audit Records

- Sales Tax Returns
- Sales Invoices
- Sales Journals
- General Ledger
- Exemption Certificates

Use Tax Audit Records

- Use Tax Returns
- Purchase Invoices
- P-Card Records
- Purchase Journal
- Journal Entries
- General Ledger
- Fixed Asset Ledger – Capital Projects
- Intercompany Transfers
- Goods Movements



Electronic Data in the Audit

Do you have the auditor review transactions or configuration?

QUICK POLL

- Transactions
- Configuration
- Configuration and then detail on errors

Do you have the auditor review transactions or configuration?

QUICK POLL



Electronic Data

- Tax Configuration Data
- Tax Journal Data
- Exemption Certificate Data
- Systems Change Concerns
- Access to Systems and Data
- Skill sets of auditor and company



Reviewing the Audit

Reviewing the Audit Workpapers

- Check for math errors and taxability issues
- Sample evaluation to ensure representative
- Make sure agreed upon deletions removed from schedules
- Contact vendors & customers to avoid double taxation (XYZ Letter)
- Be cautious of items scheduled for in state vendors and who is responsible for the tax

Negotiating with the Auditor

- Provide additional documentation
- Disagreed upon items are usually easier to remove at the auditor level
- You may request a meeting with auditor's supervisor

Reviewing and Finalizing the Audit

- Due Dates
- Pay or Protest
- Full or Partial Audit Resolution
- Need for Experts (internal or external)

Reviewing and Finalizing the Audit (cont.)

- Exit Conference

- Typically at completion of audit fieldwork
- Presentation of audit schedules if not previously provided
- Discuss the audit procedures
- Administrative remedies and taxpayer rights
- Penalty and interest

Interest and Penalty Provisions

- States may waive penalties if:
 - First time audited – maybe?
 - Law changes during audit,
 - Filed timely,
 - Newly taxed industry
- Interest rarely waived

Payment or Protest?

- Proceed to the states' administrative hearings process
- Interest continues to accumulate
- Issues to consider in protesting
 - Cost of proceeding with protest vs. amount of tax in controversy
 - The impact of same issues on other periods
 - Probability of success
- Protest must be filed in timely manner
- Protest documentation



Post-Audit Strategy

Do you do a post audit write up?

QUICK POLL

- Yes – very cursory
- Yes – detailed history of the audit
- Maybe – depends on the state
- No

Do you do a post audit write up?

QUICK POLL



Post-Audit Strategy

- Communication
 - Management
 - Operations
- Audit Documentation
 - All workpapers
 - Legal positions (copies of what your relied on)
 - Results (initial and final)
- Implementing Corrective Configuration
- Implementing Corrective Processes

Questions / Comments

Diane Yetter

Sales Tax Institute

diane@salestaxinstitute.com

312.701.1800, ext. 2



Diane L. Yetter

Thank you for watching!



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Sales Tax Institute

910 W. Van Buren, Suite 321

Chicago, IL 60607

(312) 701-1800

webinars@salestaxinstitute.com