

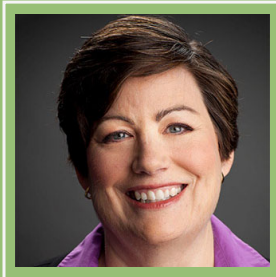
# Audit Empowerment: Techniques & Tips to Pass Your Next Audit



On-Demand Webinar

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## ➤ Making Your Company Audit-Proof

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### Making Your Company Audit Proof

- Ensure that you have all your exemption certificates and that they are being updated as needed.
- Have a system in place to make sure that data isn't lost or corrupted.
- Keep documentation of the effective date of changes you've made to your tax system.
  - For example, changing the taxability of a product from taxable to exempt.

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## Making Your Company Audit Proof

- Perform internal control reviews on a regular basis to ensure that employees are following company policies.
- Conduct periodic use tax purchase reviews. Are you accruing use tax on the purchases that you should be?

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## Making Your Company Audit Proof

- Review for under and overpayments
  - Conduct a review of tax-free sales
  - Consider recent law changes
  - Identify exposures
  - Identify overpayments

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## ➤ Scheduling the Audit

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### 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

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## 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

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## Scheduling the Audit

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

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## ➤ Pre-Audit Review

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### 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 the return
- Gather journal entries supporting any differences in the general ledger and the return

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## Pre-Audit Review (cont.)

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

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## Pre-Audit Review (cont.)

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

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## Know YOUR Audit Procedure

- Set up a procedure for all audits to follow
- Provide a “plant tour” regardless of your industry (and prep the tour guide)
- Do not volunteer information
- Provide all records on a timely basis – helps with any abatement requests

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## Know the Audit Procedure (cont.)

- Understand the impact of sampling verses 100% detailed review
  - Sales exceptions
    - Do you plan to invoice customers? If so, better to do detail
    - Is it easy to provide 100% of transactions such as from a tax engine?
  - How comfortable are you with your systems and processes?
  - Can you require a detail audit in the state if you want it?
- Don't forget about exceptions to sampling
  - Seasonal or cyclical business
  - One time purchases and extraordinary purchases

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## Know the Audit Procedure (cont.)

- Know your business better than the auditor
- While sampling is a fast and effective tool for audits, it can increase your liability.
- Review your data before you agree to sampling.

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## Review State Audit Manuals

- A number of states are required to make the audit manual public under Taxpayer Bill of Rights or Freedom of Information acts.
- Check for the availability of the manual and review it before the auditor arrives.

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## Review State Audit Manuals (cont.)

- State Audit Manual Examples
  - California: <https://www.cdtfa.ca.gov/taxes-and-fees/staxmanuals.htm>
  - Michigan: [https://www.michigan.gov/taxes/0,4676,7-238-74531\\_43524--,00.html](https://www.michigan.gov/taxes/0,4676,7-238-74531_43524--,00.html)
  - New Jersey: <https://www.state.nj.us/treasury/taxation/pdf/njmap.pdf>
  - Texas: <https://comptroller.texas.gov/taxes/audit/manuals/>

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## ➤ Managing the Audit

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## Opening Conference with the 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
  - Request Supervisor or Manager's contact information so can involve if disagreement
  - Request refunds be pointed out and given in audit

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## Opening Conference with the Auditor

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

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## Opening Conference with the Auditor

- 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 Information Document Requests (IDR)?
  - Pros and Cons

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## Managing the Audit

- 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

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## Sales Tax Audit Records

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

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## 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

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## 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

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## ➤ Reviewing the Audit

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## Reviewing the Audit Workpapers

- Check for math errors and taxability issues
- Check all elements of the listed item (dates, amounts, invoice numbers, names)
- Confirm exemption certificates and coverage (received and issued)
- Sample evaluation to ensure representative
- Make sure agreed upon deletions removed from schedules
- Contact vendors & customers to avoid double taxation
- Be cautious of items scheduled for in state vendors and who is responsible for the tax

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## 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

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## Reviewing and Finalizing the Audit

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

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## 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

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## 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

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## Payment or Protest?

- Protesting an audit through the appeals process requires knowledge of the correct procedures and sticking to deadlines.
- Each state has their own procedures and protocol.
- Issues to consider in protesting
  - Cost of proceeding with protest vs. amount of tax in controversy
  - The impact of same issues on future periods
  - Probability of success

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## Payment or Protest?

- Identification of the Issues
  - Get the appropriate individuals involved – internal and external
  - Outside assistance may be required and consideration of local representatives that could know the “ropes”
  - The state’s statutes, regulations, advisory opinions, hearings and court cases should be reviewed in supporting any contested items.

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## Payment or Protest? (cont.)

- If a taxpayer wants to contest an assessment, they are required to file a protest or request for hearing.
- The protest must be filed within a certain time period.
  - Indiana - 60 days from the date the proposed assessment or refund denial is issued
  - South Carolina - 90 days from the date on the proposed assessment
- The protest may or may not require attorney representation
  - New Jersey – a taxpayer is not required to have outside representation.

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## Payment or Protest? (cont.)

- Many states requires certain information or forms to be included.
  - Indiana - The protest must be in writing and accompany the Protest Submission Form (State Form 56317). When writing the protest, provide as much relevant information as possible.
- File the protest with the appropriate agency.
- Interest will accumulate until the tax is paid.
  - Consider payment of uncontested amounts.

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## Payment or Protest? (cont.)

- Types of State Tax Appeal Systems
  - Tax Department of Revenue Agencies
  - Independent Appeal Agencies
  - Judicial courts

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## Payment or Protest? (cont.)

- The typical administrative appeal is a two step process.
  - Informal Hearing – first step in administrative appeal
  - Formal Hearing - second step in administrative appeal
- Court
  - Once the administrative review appeal process has been exhausted, the taxpayer can further contest the assessment through the state courts.

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## Payment or Protest? (cont.)

- Some states provide guides to protesting an audit
  - Indiana: [https://www.in.gov/dor/files/DOR\\_Protest\\_Guide.pdf](https://www.in.gov/dor/files/DOR_Protest_Guide.pdf)
  - New Jersey: <https://www.state.nj.us/treasury/taxation/pdf/pubs/misc/cab300.pdf>
  - South Carolina: <https://dor.sc.gov/about-site/Appeals%20Documents/CID-6.pdf>

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## ➤ Post-Audit Strategy

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## Post-Audit Strategy

- Audit Documentation
  - All workpapers
  - Legal positions (copies of what you relied on)
  - Results (initial and final)
  - Audit Log/Audit Book
    - This is your go-to guide to what the issues were, corrective actions to take, and the dates that corrective actions are taken.
    - It needs to be a living document that you continue to update.
- Implementing Corrective Configuration
- Implementing Corrective Processes

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## Post-Audit Strategy

- Communication
  - Management
    - Show the audit summary to your management to let them know what came out of the audit.
    - Let management know what support you need from them to minimize future assessments.
  - Operations
    - Communicate process improvements to appropriate departments
    - Conduct training as needed

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## Questions / Comments

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