

Sales & Use Tax Solutions

13 Tips to Survive an Audit

The key to surviving an audit is preparing long before the notice reaches your desk by maintaining good documentation and researching the relevant tax issues for your type of business. But even if you have already received the audit notice, steps can be taken to make the process more manageable.

- 1 Understand Your Objective**
Your goal is to prove that you either remitted the sales or use tax or you are entitled to exemptions or credits.
- 2 Prepare Records & Data**
Organize your documents for the audit period. Tax returns, invoice copies and exemption certificates should be readily available for the auditor to review. Verify that you can reconcile each tax return to the use tax accrual account for each period. If any invoice copies or exemption certificates are missing, request copies from vendors or customers.
- 3 Pay Attention to Deadlines**
Respond promptly to the audit notice and other deadlines during the audit. The deadline is usually 30 days. Contact the auditor if you need an extension.
- 4 Be Professional**
The more professional and respectful you are to the auditor, the more likely the auditor will be to work with you on issues that arise in the audit.
- 5 Request an Extension**
If you need more time to get your records in order, ask. Keep in mind that interest on the assessment could quickly add up, increasing the liability.
- 6 Examine Accounts Payable Records**
Review transactions for overpayments during the audit period. Alert your auditor to any underpayments. You may be able to offset some or all of the audit assessment liability.
- 7 Don't Offer the Auditor Irrelevant Information**
Avoid giving the auditor any information they do not request.
- 8 Don't Assume That the Auditor's Determinations Are Correct**
Research tax issues that arise by referring to the Department of Revenue's regulations, tax guide, codes, letter rulings, and court cases. If you are unclear about any items the auditor is assessing tax on, ask for details on the tax code or regulation to confirm or deny their argument.
- 9 Pay Attention to the Statute of Limitations**
The auditor has a timeframe for the audit period, usually 3 to 4 years from the time the tax return is filed, unless you sign a waiver to extend the audit period. Make sure the auditor does not assess tax on any items outside of this period.
- 10 Don't Be Afraid to Appeal the Results**
When you get the audit report, call the auditor if you don't understand or agree with it. Meet with the auditor's manager to see if you can reach a compromise. If you can't live with an audit result, you may appeal within the DOR or go to tax court.
- 11 Request a New Auditor**
If you are being treated unfairly on certain tax issues or the auditor does not seem qualified to handle the audit, request a new auditor.
- 12 Maintain Ethical Standards**
Never mislead, lie, or provide false documentation to the auditor. This is considered criminal activity and could lead to penalties and criminal charges for you and the company.
- 13 Consider Hiring a Tax Consultant**
A tax consultant can represent you before the Department of Revenue. They understand DOR strategies and will make sure your best interests are represented. The cost of hiring an audit expert is usually offset by the time and money you save.