Debra Day, Tax Auditor Agent William Bower, Tax Audit Manager



- >5 "W's & H" of
 - **≻**Who
 - **≻**What
 - **≻**Where
 - **≻**When
 - **≻**Why
 - ➤ How Long and How to Complete



"What" is a Sales/Use Tax Audit

- > A sales tax audit is
 - A formal review of a business taxpayer's sales and sales tax returns to confirm:
 - Sales tax has been properly collected from customers and remitted to the State of Ohio
 - Exempt sales have been properly documented
 - Example: blanket/unit certificate
- Exemption Certificates can be found at:

http:www.tax.ohio.gov/Forms.aspx

STEC B	All	Sales and Use Tax Blanket Exemption Certificate	3/04	PDF Fill-in Word Fill- in
STEC U	All	Sales and Use Tax Unit Exemption Certificate	3/04	PDF Fill-in Word Fill- in





STEC B Rev. 3/04

Sales and Use Tax Blanket Exemption Certificate

The purchaser hereby claims exception or exemption on all purchases of tangible personal property and selected services made under this certificate from:

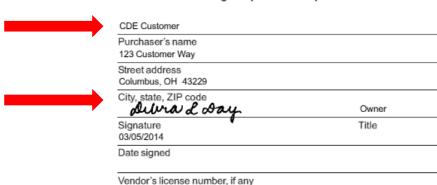
ABC Seller, 123 Seller Way, Columbus 43229

(Vendor's name)

and certifies that the claim is based upon the purchaser's proposed use of the items or services, the activity of the purchase, or both, as shown hereon:

For Resale by a clothing retailer

Purchaser must state a valid reason for claiming exception or exemption.





- ➤ Sales tax audits normally encompass the most current three years unless;
 - ➤ The audit is for failure to remit sales tax collected audit will include all periods non remitted

- ➤ Sales tax is a trust tax; therefore if a sales audit liability exists a Concurrent Responsible Party assessment will also be generated
- Stiff penalties also apply to sales audits



"What" is a Sales/Use Tax Audit

- A use tax audit is:
 - ➤ A formal review of a business taxpayer's purchase history to ensure:
 - Sales tax has been properly charged and paid on all taxable purchases, or
 - If sales tax was not properly charged,
 - ➤ Use tax has been self-accrued and paid to the State
- ➤ Use tax audits normally encompass the most current three years unless;
 - ➤ Taxpayer has not filed use tax returns, then audit will encompass 7 years
- Use tax audits will not have a Concurrent Responsible Party Assessment



"Who" is Involved in a Sales/Use Tax Audit

- Representing the Department
 - Lead tax auditor
 - > Additional staff
 - > Auditor's manager
 - Additional staff if needed

- Representing the taxpayer
 - ➤ Taxpayer
 - Outside Representation

Ohio Departn	ent of		Form TBOR-1 Word Fill-in			
(C) TAXAT	ION		Rev. 2/04			
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	DECLARATION OF 1	TAX REPRESENTATIVE				
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"Why" Does a Sales/Use Tax Audit Occur

- ➤ The "Audit" Lottery
- > A recent law change
- The industry your company is in and the confusion regarding application of the law
 - Manufacturing
 - ➤ Construction
 - Service Providers, including
 - Doctors and dentists
 - Veterinarians
- > Taxpayer's filing history and/or lack thereof
- Refund requests
- Every taxpayer has an equal opportunity to have their sales/use tax filing history reviewed every three years



"When" Will I Know About a Sales/Use Tax Audit

- ► 1st Contact
 - Telephone Call
 - ➤ Audit Commencement Letter
- Preliminary meeting
 - Explain the audit in detail
- Record Review
- Preliminary Deficiency Listing Review
- Final Review Meeting, including
 - Recommendation of Assessment
 - Letter of Confirmation
 - Assessment



"Where" Does a Sales/Use Tax Audit Take Place

- Preliminary meeting
 - Conducted at taxpayer's facility because
 - Facility tour will need taken, if necessary
- Record review
 - > At Taxpayer's facility, or
 - At Tax Reps office (whichever is more convenient), or
 - ➤ If records are available electronically, remote review work
- Preliminary and Final Reviews
 - In person at either Taxpayer's facility, or
 - ➤ At Tax Reps office



"How" Long Does a Sales/Use Tax Audit Take

- It Depends.....
- ➤ All audits take time to review records and compile deficiency listings
- ➤ Sales audits require the allowance of 120-days to obtain a full-completed exemption certificate or letter of usage should the original be denied
- A waiver may need to be executed



"How" is a Sales/Use Tax Audit Completed

- > Sales Audits
 - Review of Returns
 - Review of Exemption Certificates
 - ➤ 120-day Letter Process
- Use Audits
 - Capital
 - > Expenses
 - ➤ Other Transactions
 - **Leases**
 - Credit Cards (P-cards, A-cards)
 - > Prepaids
 - > Journal Entries
 - Brokered Natural Gas



"How" is a Sales/Use Tax Audit Completed

- > The following items are requested of all sales/use tax audits:
 - Chart of Accounts
 - > Trial Balances
 - Organizational Structures/Chart
- > Sales audits may also include a request for returns
- ➤ Use audit may also include a request for capital acquisition listings
- ➤ All Sales/Use Tax audits are completed electronically
- > A complete copy of the file is available via Secure File Transfer



"How" is a Sales/Use Tax Audit Completed

- Methodologies to review the data include:
 - Comprehensive Review
 - Block Sampling
 - Statistical Sampling
 - Probe Sampling

- Liquor Mark-ups
- Quick Service Restaurants
- Bars and Restaurants



Miscellaneous Information

- > Ask for and stick to the audit plan
- ➤ If an audit liability exists:
 - ▶ Penalty
 - > Interest
 - Concurrent Responsible Party Assessment
- ➤ Watch for "Pitfalls"
- > Don't ignore deadlines given by the auditor
- ➤ Don't ignore written correspondence from the State regarding your audit assessment



Miscellaneous Information

> The Key to a Successful Sales/Use Tax Audit





➤ Keep the lines of COMMUNICATION open with the auditor



What to Expect During a Sales/Use Tax Audit Questions?

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