

What to Expect During a Sales/Use Tax Audit

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Department of
Taxation

What to Expect During a Sales/Use Tax Audit

- 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

What to Expect During a Sales/Use Tax Audit



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.

CDE Customer

Purchaser's name
123 Customer Way

Street address
Columbus, OH 43229

City, state, ZIP code

Debra L. Day

Owner

Signature
03/05/2014

Title

Date signed

Vendor's license number, if any



What to Expect During a Sales/Use Tax Audit

- 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 Department of TAXATION
P.O. Box 530 - Columbus, OH 43261-0530

Form TBOR-1
Word Fill-in
Rev. 2/04

DECLARATION OF TAX REPRESENTATIVE

Taxpayer's Name

DBA

Address

City State Zip

FEIN or Social Security Number (Only use social security number if requesting individual income tax representative or if business does not have a FEIN.)

Representative Information

Representative's Name & Firm

Address

City State Zip Code

Telephone Number Fax Number

E-mail Address

Authorized Signature

The taxpayer identified above authorizes the representative identified above to represent the taxpayer before the Department of Taxation. This authorization includes the authority to view and receive copies of returns, reports or other documents filed by the taxpayer or prepared by the Department of Taxation concerning the business, property or transactions of the taxpayer, request alternative methods of taxation, present evidence or legal arguments to any employee of the Department of Taxation, raise objections to audit findings or assessments, file petitions or applications and waive statutes of limitation. This authorization does not authorize the tax representative to sign any form or declaration where the Ohio Revised Code specifically requires that the form or declaration be signed by the taxpayer. The taxpayer understands that the acts of the authorized representative may increase or decrease the taxpayer's tax liabilities and legal rights. The taxpayer must indicate all restrictions, if any, to this authorization in the space below.

I certify, under penalties or perjury, that I am the taxpayer or that I am a corporate officer, LLC member, general partner, guardian, tax manager or similar employee authorized to act on tax matters, executor, receiver, administrator, or trustee on behalf of the taxpayer and that I have the authority to execute this form on behalf of the taxpayer. If this form is not properly completed, this Declaration of Tax Representative will not be processed.

Signature Date

Name (print) Title

Telephone Number Fax Number

Restrictions to this Declaration The following restrictions are placed on this Declaration of Tax Representative:

Expiration Date This Declaration is valid until . If no expiration date is given, this Declaration will expire one year after the date that it is signed.

Send this declaration to: Ohio Department of Taxation, Office of Chief Counsel – TBOR-1, P.O. Box 530, Columbus, OH 43216-0530, or fax to (614) 465-7979. (Use same address to revoke declaration.)



“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

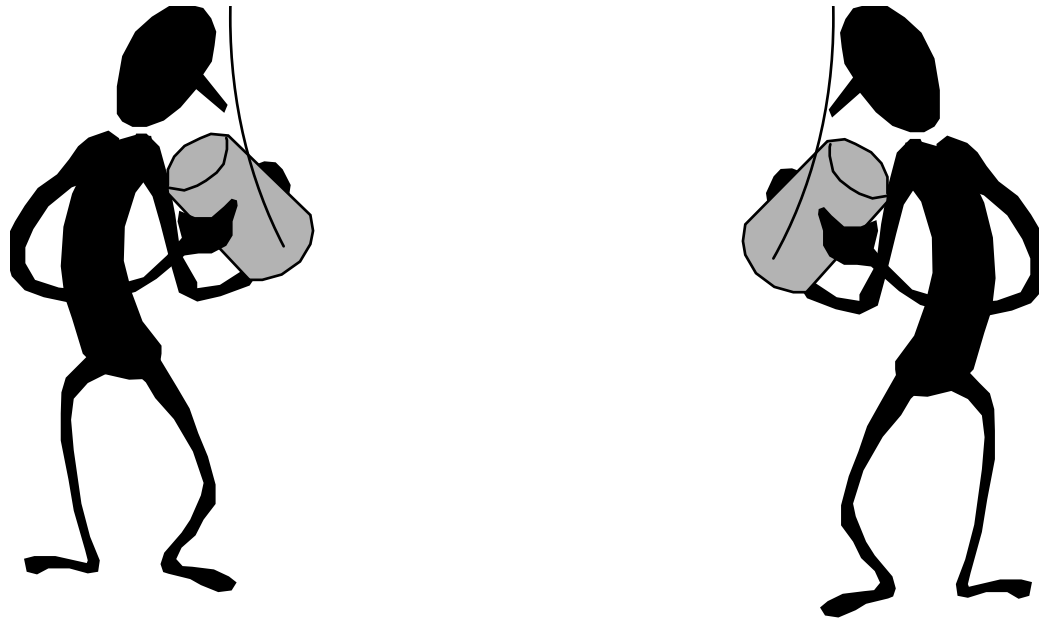


Miscellaneous Information


- 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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