

UNDERSTANDING A SALES AND USE TAX AUDIT

An audit is a way to determine whether you've collected or paid the correct amount of tax on past sales or purchases. It's also an opportunity to educate you on how sales and use tax laws apply to your industry.

Preparing for an audit

Once you've been notified of an audit, there are some things you can do to make the process easier for you and the auditor:

- Work closely with the auditor.
- Discuss using downloaded electronic records with the auditor.
- If you make exempt sales, verify your resale and exemption certificate file is complete.
- Have your records available when the auditor arrives.
- Set aside a work area for the auditor.
- Be sure to ask any questions you may have.
- Discuss your rights as a taxpayer with the auditor.

How far back can an audit go?

If you have a valid seller's permit and regularly file returns, the audit will generally cover the most recent three years of business. If you don't have a permit or haven't regularly filed returns, we may review records for up to seven years.

Statute Waiver

You may be asked to sign a statute waiver at the start of the audit. This is an agreement between you and the auditor that sets the specific time period that will be reviewed and allows additional time for you and the auditor to discuss any issues before the audit is final.

Audit overview

Once you've been selected for an audit, the examination will be assigned to an auditor. The auditor will:

- Contact you to schedule an appointment.
- Interview you to become familiar with your business and records.
- Discuss your rights as a taxpayer.
- Explain the audit procedures and the records needed to conduct the audit.

The records reviewed may vary based on industry; however, most auditors will generally review the following:

- Sales tax returns
- Sales and purchase invoices
- Income tax returns
- Sales, purchase, and job cost journals
- General ledger
- Equipment records, depreciation schedules
- Sales and use tax work papers
- Contracts, scope of work details
- Resale/exemption certificates
- Additional records required by the audit

Sales

Your sales records will be examined to ensure all taxable sales have been reported and properly taxed. The auditor will also verify that all the sales tax you collected from your customers was paid to the state. For any sales that were not taxed, you'll need to provide the auditor with all the supporting documents. This includes any sales tax exemption certificates you've accepted.

Understanding a Sales and Use Tax Audit – Page 2

Purchases

Your purchase records will be reviewed to make sure tax was properly paid on any asset additions or other items that were bought for your own use. This may include items originally bought tax exempt but later put to a taxable use. For any purchases that were not taxed when acquired, the auditor will verify whether you didn't have to pay tax or if tax is still due.

Electronic Records

The auditor will request electronic records when available. This improves the accuracy of the audit and reduces the amount of time needed to complete the audit. The auditor will explain the preferred electronic format when requesting records.

Sampling

Sampling is frequently used to minimize the number of records that will need to be reviewed, saving both you and the auditor time and effort. The auditor will discuss the sampling process and use your input in making sampling decisions.

contact the auditor. If you disagree with the findings or the way the audit was conducted, you can discuss the disputed results or address your concerns about the examination process with the auditor's manager.

When the audit is completed, we'll issue a Notice of Deficiency, No Change, or Refund Determination. The amount of the deficiency or refund will include interest and any penalties that apply. Interest will continue to accrue until the deficiency is paid in full.

If you agree with the adjustments

You have the option to prepay all or a portion of your deficiency once the audit has been completed. This will keep interest from continuing to accrue on the paid portion of the deficiency.

If we can't reach an agreement

You have 63 days from the date we issue an audit determination to protest the results. You'll receive information about the protest process with the audit determination.

CONCLUDING THE AUDIT

After reviewing all the documents, the auditor will explain any adjustments to you or your representative. If you have information that hasn't been provided or believe a mistake has been made, please promptly

This publication doesn't provide full explanations of Idaho tax laws or rules. For more information, contact:

- (208) 334-7660 in the Boise area or toll-free at (800) 972-7660
- Hearing impaired: TDD (800) 377-3529
- tax.idaho.gov