

SALES & USE TAX MANAGED AUDITS

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This publication is intended to help business owners understand and prepare for a managed audit. Managed audit candidates are typically new businesses and small-business owners.

What is a managed audit?

A managed audit is a review of your business records to identify and correct any errors in collecting or paying tax on past sales or purchases. You perform the audit with the help of a sales tax specialist from the Idaho State Tax Commission. The tax specialist reviews your records for a test period, usually one year. Then you audit your records from previous periods, using the test period review as a guide.

What's the reason for managed audits?

Our goal is to provide education on how sales and use tax laws apply to your business in a way that creates minimal disruption to your business activity.

The Managed Audit Program lets you complete an audit at your own pace within a certain time without the presence of a tax auditor. This program promotes fairness and equity by ensuring that all business owners are paying the proper amount required by the sales tax law.

It also creates a link between you and the Tax Commission, which can provide you more help and information in the future.

Why was my business selected for the Managed Audit Program?

There's no single reason that your business might be selected for a managed audit. An audit isn't an indication that you're doing something wrong; it just helps confirm that your business is complying with Idaho's sales and use tax laws.

How do I prepare for a managed audit?

After we contact you and set up an appointment, you can make the review easier by:

- Setting aside a work area
- Having your records available when the tax specialist arrives
- Being prepared to explain how you keep your records and pay taxes

How will I know what is taxable?

The tax specialist will review one year of your records at your business to determine whether sales and use taxes have been collected and paid correctly. The specialist may request supporting invoices for major purchases that appear on your depreciation schedule or asset list.

After the review, the tax specialist will discuss the results with you.

What is the most common sales tax error?

The most common error is not getting a Sales Tax Resale or Exemption Certificate (ST-101) from a buyer to support a nontaxed sale.

What are the most common use tax mistakes?

Use tax errors commonly occur when you buy materials and supplies through the Internet, catalogs, or from other out-of-state vendors.

These vendors usually don't collect Idaho sales tax. When you receive the purchased items in Idaho, you may owe use tax because you didn't pay sales tax when you bought them.

How far back do I have to review my records?

If you haven't filed a sales and use tax return, you'll review records from the date you first started business or for seven years, whichever is the shorter period.

If you have a sales tax permit or a use tax number and file returns regularly, you'll review records for three years or from the start of your business, whichever is shorter.

How much time do I have to finish the managed audit?

After you sign the Managed Audit Agreement form, you have about 30 days to complete the audit review.

Do I have to pay interest on any tax due from the managed audit?

Yes. Interest is required by Idaho law and must be added to any tax due. The tax specialist will calculate the amount of tax and interest due. If you've overpaid sales or use tax, you'll receive a refund, plus interest.

Do I have to pay penalties?

There are no penalties if you fulfill the terms of the Managed Audit Agreement. However, if you don't follow the agreement, negligence and nonfiler penalties may apply.

If I owe money as a result of the audit, when do I have to pay?

Payment is usually due within 30 days after the audit is completed. However, if the tax amount is large enough that it causes a financial hardship to pay it within 30 days, you can request a payment plan.

Do I need a sales or use tax permit?

If you make retail sales, you should apply for a sales tax permit. If you don't make retail sales but do buy products from out-of-state vendors, you should apply for a use tax number.

You can get your permit by applying online at business.idaho.gov. Once you receive a sales tax permit or use tax number, you'll have a way to pay any future taxes.

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

- Idaho State Tax Commission: In the Boise area, 334-7660; Toll free, (800) 972-7660
- Hearing impaired: TDD (800) 377-3529
- tax.idaho.gov