

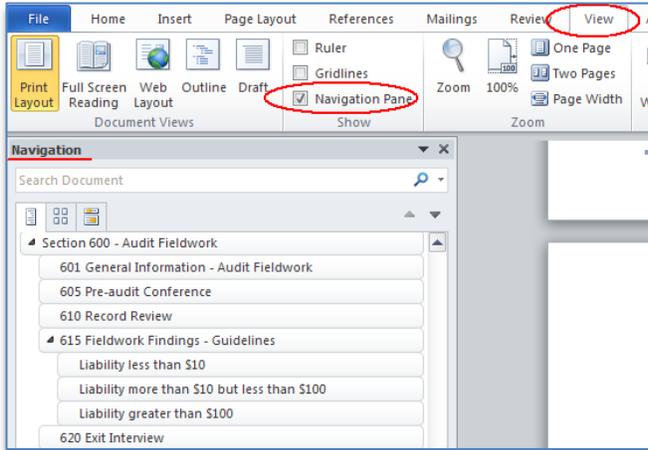
Sales Tax Auditor Manual

- Auditor Standards
- Audit Process & Procedures



Revised: May 2019

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Sales Tax Auditor Manual

Audit Division • Sales Tax Audit Bureau

Statement of Purpose

The purpose of this manual is to provide guidance to auditors in conducting audits, and to provide information relating to work as an auditor and as an Idaho State Tax Commission (ISTC) employee.

The manual provides a framework, specific to the work performed by a sales and use tax auditor. It incorporates procedures and techniques that have proved to be sound and practical. When making audit determinations and presenting audit results, auditor judgment is important and can provide for deviations from the guidelines set forth in this manual with manager approval. The relevant circumstances to support any approved deviations must be documented.

Auditors are expected to carefully study and understand this audit manual to conduct audits and prepare reports in a uniform manner consistent with approved tax auditing practices. Further guidance is provided in this manual to support the auditor's understanding of policies and procedures for ISTC employees and the various associated programs, tax types, resources, and other related items.

Section Divisions

The audit manual is divided into two (2) main sections: Auditor Standards and Auditor Procedures.

Auditor Standards

This section provides an overview of auditor expectations as they relate to professional responsibility. It provides a clear account of behavior considered correct and right when dealing with challenging issues or difficult decisions. The standards outlined in this manual are not a substitute for experience and good judgment.

Audit Processes and Procedures

This section is a guide to conducting sales and use tax audits. It incorporates processes and techniques proven over time to be sound and practical. However, the procedures outlined in this manual are not inflexible. If an auditor encounters a situation not adequately covered by this manual, they are expected to work with their manager to conduct audits and prepare reports in a uniform manner consistent with approved tax auditing practices.

Sales Tax Auditor Manual

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AUDITOR STANDARDS SECTION

S100 • Auditor Responsibility and Standards

S101 • General Information

The State of Idaho expects its employees to meet the highest standards of professional and ethical conduct. The Tax Commission is charged with the responsibility of enforcing Idaho's complex tax laws. Tax Commission employees must be especially aware of the need to consistently meet these standards. The agency personnel manual is controlling in any conflicts between it and this audit manual in sections regarding employee conduct.

A Code of Ethical Conduct applies to all Tax Commission employees. Auditors are required to read this manual and understand its purpose. Intentional disregard of procedures and guidelines may lead to disciplinary action. Guidelines for the confidentiality of taxpayer information are incorporated within this manual.

S105 • Auditors' Responsibility to the Taxpayer

The effectiveness of the Tax Commission in serving the public interest depends upon taxpayers' perception of the Tax Commission and its employees. Auditors are expected to conduct themselves in a manner that enhances public respect for, and confidence in, the auditor and the Tax Commission. Auditors must be diplomatic, courteous, and professional. They must perform their duties in an impartial and conscientious manner, avoiding any appearance of impropriety.

Further, Idaho's Taxpayer Bill of Rights, created as [Title 63 Chapter 40, Idaho Code](#), provides additional guidance as to rights taxpayers have when dealing with the Tax Commission, as well as providing limitations on conduct for agency employees. Refer to [Section P1025 • Communicating Taxpayer Rights](#) and [Appendix: Publications – Taxpayer Rights](#) for further guidance.

S110 • General Standards for Auditors

Auditors are professionals with the expectation to exercise the highest skill and best judgment throughout the performance of their official duties. They must adhere to the principles of auditing and conduct audits using approved auditing standards. Auditors have the responsibility to employ the standards listed below when auditing or reviewing taxpayer records:

- A. The examination is performed by a person or persons having adequate technical training and proficiency as a tax auditor.
- B. In all matters relating to the assignment, independence in mental attitude is maintained by the auditor.
- C. Due professional care is exercised in the performance of the examination and the preparation of reports.

Auditors of the Tax Commission are required to act professionally and strive towards the goals noted below:

- A. Keep informed of changes in sales, income, miscellaneous and income tax withholding tax laws, rules and policies as provided by management. Be aware of new auditing methods and techniques when auditing these tax types.
- B. Disclose to their manager any potential conflict of interest involving audit work.
- C. Maintain integrity with regard to all audit decisions and procedures.
- D. Ensure work is adequately planned and properly supervised.
- E. Obtain sufficient, competent, and evidential documentation through inspection, observation, inquiries and confirmation to afford a reasonable basis for judgments and decisions regarding the areas under examination.
- F. Present concise reports and working papers to substantiate taxpayer's compliance or noncompliance with the pertinent tax laws and rules.

S115 • Auditor Integrity

Proper functioning of the Tax Commission requires itself, the courts, other government agencies, and the public to be able to rely on the truthfulness of Tax Commission employees in matters of official interest.

Matters of official interest include:

- A. transactions with taxpayers, other State agencies, or fellow employees;
- B. entries on tax returns, work reports of any nature or accounts of any kind;
- C. vouchers, leave requests, application forms, and any other forms which serve as a basis for appointment, reassignment, promotion, or other personnel actions; and
- D. affidavits or transcripts of testimony, whether or not made under oath.

S120 • Conflicts of Interest and Auditor Standards

The objectivity and integrity of the auditor is essential to the audit process. To ensure audit results are not compromised, the auditor should avoid conflicts of interest. A conflict of interest is a situation where an employee's private interest, usually of a financial or economic nature, conflicts with or raises a reasonable question of conflict with their official duties and responsibilities. These items could potentially impair the judgment and credibility of the auditor.

An auditor, upon receiving an assignment involving a person acting either as principal or agent, with whom a social, business or other relationship of a nature that might raise a conflict of interest, or give the appearance of impairing the auditor's impartiality or independence, will discuss with their manager the possible need to have the audit reassigned. Managers will resolve questions of doubt in the manner least likely to raise any actual or perceived conflict of interest. An auditor will not perform an audit that creates an actual or perceived conflict of interest.

The following activities are prohibited conflicts of interest:

- A. Preparing any tax return for a consideration, other than a State salary, in the course of their employment. An auditor may prepare returns on request from relatives, friends or Tax Commission employees without compensation. Participation in the Volunteer Income Tax Assistance (VITA) program is allowed and encouraged.
- B. Purchasing property, either personally or through an agent, or as an agent for another, at any sale of property seized for non-payment of taxes or owned by the Tax Commission. This rule applies whether the sale is conducted by the Tax Commission or by its agent.
- C. Acting on behalf of the State of Idaho in transacting business with a private concern in which the employee, spouse or minor child has a financial interest. The Tax Commission employee has a financial interest in such a private concern if the employee is negotiating, or has any other arrangement, concerning prospective employment with such private concern.
- D. Receiving or agreeing to receive any compensation for any services rendered by the employee or another in relation to any proceeding, contract, claim, controversy, charge or other matter in which the State of Idaho is directly or indirectly interested before any agency of the State of Idaho.
- E. Receiving any improper consideration for procuring any contract with the State of Idaho.
- F. Receiving any salary for services performed for the State of Idaho from any source other than the State of Idaho.
- G. Soliciting or agreeing to accept for one's self or for another, either directly or indirectly, anything of value to influence their performance of an official duty or present the opportunity for the committing of any fraud upon the State of Idaho. De minimis items, such as meals costing less than \$50 per year, per taxpayer, are allowed.

- H. Participating on a private basis, either directly or indirectly, in any financial transaction if access to official information is not available to the general public, relevant to the transaction; or if the personal transaction is, or may reasonably be expected to be, in conflict with the auditor's official interest or duties.

S125 • Irregularities

To enforce the tax laws of the State of Idaho, any irregularities or improprieties Tax Commission personnel observe must be reported through proper channels. It is the duty of any auditor observing any of the following to report the acts to their manager immediately:

- A. any attempt to bribe a State employee;
- B. any violation of revenue laws;
- C. any loss or damage of Tax Commission records or property;
- D. any breach of Tax Commission policies or other serious misconduct on the part of fellow employees;
- E. any unauthorized disclosure of confidential information; and
- F. any unethical practices or misconduct by a tax practitioner.

S130 • Confidential Information and Technological Security

Generally, it is not within the scope of an auditor's duties or authority to make public any financial data or other information disclosed in a tax return, report, application or acquired during an audit. Much of the information an auditor acquires while performing their duties is confidential and must be treated as such. The statutes relating to confidentiality are found in **Sections 63-3076 and 63-3077, Idaho Code**. These sections of the law are part of the Idaho Income Tax Act, but they are also incorporated into most other tax acts administered by the Tax Commission.

It is not possible to foresee all situations regarding disclosure that might arise; therefore, this section is intended as a general guideline. When in doubt, auditors should direct any questions regarding disclosure of confidential information to their manager. Any violations of confidentiality may result in civil and criminal penalties, in addition to any Tax Commission disciplinary action.

Confidential Information Disclosure – Tax Commission Employees: Nothing in this section is intended to preclude discussion of an audit or a taxpayer's business with another Tax Commission employee who also has an official interest in the same taxpayer for the same or another tax.

Confidential Information Disclosure – Authorized Persons: It is the personal responsibility of the auditor for ensuring taxpayer information is only disclosed to a person authorized to review it.

In a business environment, an authorized person may be:

Entity	Authorized Persons
Sole Proprietorship	Owners (or spouse, if business is community property)
Limited Liability Company (LLC)	Managers, Members (owners, corporate officers, controllers)
Partnership	Partners
Corporation	Directors, officers, controllers, tax managers
Trusts	Fiduciary (Trustee)

Additional persons known by the auditor to be individuals with responsibility for preparing and filing tax returns or maintaining records relating to such returns on behalf of a business entity may generally be considered authorized employees for such disclosures as may be necessary for conducting an audit.

Confidential Information Disclosure – Taxpayer Representatives: An auditor may disclose confidential information to a taxpayer or a representative who has been named by the taxpayer. An authorized representative of a taxpayer may be a receiver, trustee, executor, administrator, assignee, or guarantor. It may also be a person named by a taxpayer in a signed Power of Attorney form (POA) or authorized by a letter written and signed by the taxpayer granting another person to act on the taxpayer's behalf and to receive confidential information. Refer to [Section P800 • Power of Attorney \(POA\)](#) for further guidance.

Confidential Information Disclosure – Miscellaneous Tax Enforcement: There are other specific conditions that allow an auditor to make limited disclosures of information. Auditors may need to review transactions or examine specific records of all parties involved to determine the correctness of a return or return information, or for any other purpose relating to the duties of administering or enforcing Idaho tax laws. However, the auditor will not disclose other audit or investigation information. Discussions must be limited to the specific activity that occurred between the parties involved in order to understand the transaction.

The auditor may not disclose information obtained from examining a successor's records to a predecessor. Refer to [Section P1245 • Pursuing Successor's Liability](#) for further guidance.

Note: Information contained in tax liens and court records of enforcement proceedings are public records.

Confidential Information Disclosure – General Public: Care must be taken when making disclosure over the telephone, especially when the auditor does not originate the call. If the auditor is not satisfied with the identity of the caller, no disclosure should be made until the auditor verifies the identity of the caller. Confirmation can be done by terminating the current call and reconnecting with the caller using a known telephone number (e.g., a telephone book, Tax Commission records, etc.).

Any member of the public may enquire whether a taxpayer, such as a retailer, is permitted. An auditor may disclose if a taxpayer is registered with the Tax Commission pursuant to registration or licensing laws. A "yes" or "no" answer should include a statement such as; "Our records as of today indicate..." or similar language.

An employee may also provide a taxpayer's permit number, as it is required to be publicly posted in a conspicuous place. However, a list of all businesses having permits is something not publicly available and cannot be released.

Confidential Information Disclosure – Other Government Agencies: Confidentiality provisions also extend to other government agencies. Through exchange agreements, the Internal Revenue Service and other tax authorities may request to receive certain confidential information to assist them in enforcement of their tax programs. Before any disclosure is made, the auditor must ensure agency guidelines allow for disclosure, understand what can be disclosed, and verify the individual receiving the information is authorized to do.

Note: If an auditor has any concerns, requests may be referred to the Tax Commission's Government Liaison Specialist.

Confidential Information Disclosure – Unattended: Auditors should exercise extreme care in protecting taxpayer's records kept within their possession. In the work area, records should not be left unattended or be easily accessible to others. When conducting fieldwork, auditors should be aware of their surroundings. Unattended laptops must be locked or turned off. Devices (i.e., laptops, flash drives, etc.) and/or sensitive paper records that cannot be properly secured should remain in the auditor's possession. Refer to **Sections [S140 • Clean Desk Policy](#); [P300 • Federal Tax Information](#)**; and **[P3435 • Safeguarding Information and Equipment](#)** for further guidance.

Use of Technology: The auditor is responsible for safeguarding all equipment used within the scope of their position or duties at the Tax Commission and confidential information contained within that equipment. Utmost care must be exercised to ensure taxpayer information is not compromised. All confidential information contained on any technological equipment must be encrypted. When conducting fieldwork, auditor must ensure encrypted laptops and storage devices contain only information related to the audit being conducted. All electronic files should be securely stored, as direct by IT Policy and Administrative Guidelines.

Note: Special rules apply for transmitting confidential data by unencrypted electronic methods. Refer to **Sections [S135 • Safeguarding Federal Tax Information](#); [P300 • Federal Tax Information](#); [P645 • Taxpayer Correspondence](#)**; and **[P3435 • Safeguarding Information and Equipment](#)** for further guidance.

S135 • Safeguarding Federal Tax Information

(Referenced from [S130](#); [P645](#))

Federal Tax Information (FTI) is taxpayer data received from federal sources. Safeguarding FTI is not only important, but required by federal law (**[26 USC 6103 • Confidentiality and Disclosure and Return Information](#)**). In addition, **[IRS Publication 1075 • Tax Information Security Guidelines for Federal, State, and Local Agencies](#)** provides requirements necessary for developing safeguard and disclosure standards, and

procedures required to protect FTI. Anyone with access to FTI must be aware that any unauthorized access or disclosure may lead to both criminal and civil penalties, including time in prison if convicted.

Note: FTI may never be transmitted electronically. Refer to [Section P300 • Federal Tax Information](#) for further guidance.

S140 • Clean Desk Policy

(Referenced from [S130](#))

Auditors must take extreme care in protecting taxpayer's records kept within their possession. This includes records provided from the taxpayer's premises, records obtained from government and regulatory agencies, and records received from the Tax Commission's own files. Following the clean desk policy will help reduce the risk of improper disclosure, information theft, fraud, or a security breach caused by sensitive information being left unattended and in plain view.

Taxpayer information should not be readily visible to unauthorized individuals. All federal information must always be secured. When an auditor is temporarily away from their desk, information should be covered, turned face down, or stored securely. At the end of the day or whenever a work area will be unoccupied for an extended period of time, the following guidelines must be followed:

- A. Sensitive and confidential paperwork, including data stored on digital media, must be removed from the auditor's workspace and secured. When the volume of information does not allow for secure storage, information must be covered or placed face down. Any boxes containing taxpayer information or displaying taxpayer names must be covered.
- B. When disposing of sensitive or confidential information, designated confidential shred bins must be used. Under no circumstances may sensitive or confidential information be placed in regular shred paper bins.
Note: Special procedures apply for disposal of FTI.
- C. Computer workstations and laptops must be locked when the desk is unoccupied and completely shut down at the end of the workday, unless instructed otherwise.
- D. Keys for accessing drawers or filing cabinets must not be left unattended at a desk.
- E. Printers and fax machines should be treated with the same care under this policy.
 - Any print jobs containing sensitive and confidential paperwork must be retrieved immediately. This includes any documents scanned to network drives.
 - All paperwork left over at the end of the workday will be properly disposed of.
- F. Passwords may not be left on sticky notes posted on or under a computer, nor may they be left written down in an accessible location.

A clean desk policy is an important security and privacy control and necessary for nondisclosure compliance.

S145 • Auditor Involvement in Politics

Tax Commission employees are specifically permitted by law to express their opinion either publicly or privately on political subjects and candidates and be politically active. Refer to [Section 67-5311, Idaho Code](#), for further guidance.

Employees are permitted to:

- A. contribute funds to a political party or candidate;
- B. participate in the formulation or activities of a public employee or political action committee;
- C. write letters to the editor, as an individual, on political subjects;
- D. circulate literature or petitions on behalf of the candidates;
- E. arrange for groups to meet candidates;
- F. type and stuff envelopes with campaign literature;
- G. do research on specific issues;
- H. make or write speeches for a candidate;
- I. make telephone calls on behalf of candidates;
- J. display lawn signs, bumper stickers, buttons and badges;
- K. canvas political precincts on behalf of candidates;
- L. encourage individuals to vote and/or register to vote;
- M. hand out political pictures, stickers, badges, buttons, etcetera; and
- N. solicit voluntary contributions.

Employees are not permitted to:

- A. use state time, equipment, supplies, or resources for political activity;
- B. use official authority or influence as a state employee for the purpose of interfering with an election to or a nomination for office or affecting the result;
- C. use official authority or influence as a state employee to directly or indirectly coerce or attempt to coerce, command, or direct any other employee to pay, lend, or contribute any part of his or her salary to any party, committee, organization, agency, or person for political purposes; and
- D. run for partisan political office, but may run for nonpartisan political office

None of these activities may be performed during working hours or include anything that would be disruptive in the workplace.

A department head has the discretion, under law, to allow or not allow a leave of absence with or without pay for employee political activity and to regulate all forms of political activity on state time. However, a department head may not restrict an employee's political activity on their time in any manner.

In the absence of any rule to govern a particular situation, an auditor will be guided by the following:

An auditor may not engage in any behavior, activity, association, or relationship that tends to discredit the Tax Commission. Any employee whose conduct does not conform to the rules may be subject to disciplinary action and additional penalties.

S150 • Audit and Casework Performance Management System

(Referenced from [P2205](#))

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

Sales Tax Auditor Manual

Audit Division • Sales Tax Audit Bureau

AUDIT PROCESS & PROCEDURES SECTION

P100 • Audit Selection, Assignment, and Inventory

P101 • General Information

[Redacted pursuant to Idaho Code § 74-109(4)]

P105 • Primary Tax Types

Auditors in the Sales Tax Audit Bureau are primarily responsible for auditing records dealing with the following tax and/or fee types:

Sales Tax

Sales Tax (Section [63-3619](#), Idaho Code) is a tax on the sale, rental, or lease of tangible personal property. The tax also applies to some services and temporary lodging.

Use Tax

Use Tax (Section [63-3621](#), Idaho Code) is a tax on tangible goods used or stored in Idaho. If sales tax has not been paid on these goods, use tax is owed, unless the items are held for resale or an Idaho exemption applies. The use tax rate is the same as the sales tax rate.

Travel and Convention Tax

Travel and Convention Tax (Section [67-4711](#), Idaho Code; [IDAPA 35.01.06.011.02](#)) is a gross receipts type sales tax imposed on the receipts derived from providing a place to sleep, for a period of less than thirty-one (31) continuous days, to an individual, by operators of hotels, motels, campgrounds, or short-term rental marketplaces. The tax applies to vacation home rentals as well. However, it would not include non-sleeping areas, such as meeting rooms or banquet halls. Refer to [Appendix: Auditing Guidelines](#) for further guidance.

Auditorium District Tax

An **Auditorium District Tax (Section [67-4917B](#), Idaho Code; [IDAPA 35.01.06.011.03](#))** is a sales tax on the receipts derived by hotels, motels, and short-term rental marketplaces located within the district, from the furnishing of rooms for a period of less than thirty-one (31) continuous days. This would include

non-sleeping areas, such as meeting rooms or banquet halls. The tax is collected from the occupant or user and remitted to the Tax Commission.

Audits are conducted only on auditorium taxes administered by the Tax Commission. Refer to [Appendix: Auditing Guidelines](#) for further guidance.

E-911 Fee

An **E-911 Fee** (Section [31-4813](#), Idaho Code; [IDAPA 35.01.14](#)) is imposed on the sale of prepaid wireless telecommunications service. It is not imposed on the sale of any device, such as a cell phone, that utilizes the prepaid wireless telecommunication service. The fee is collected by the seller at the point of sale and remitted to the Tax Commission. Refer to [Appendix: Auditing Guidelines](#) for further guidance.

Amusement Device Permit Fee

An **Amusement Device Permit Fee** (Section [63-3623B](#), Idaho Code; [IDAPA 35.01.02.109](#)), also known as an Amusement Device Tax (ADT), is an annual permit fee required for each amusement device. In lieu of a sales tax, the owner, lessee, or person having the right to impose a charge for use of the amusement device must pay an annual fee on or before July 1 of each year. An official decal, evidencing the payment of the fee, must be affixed to each device in use. Refer to [Appendix: Auditing Guidelines](#) for further guidance.

Income Tax Withholding

Income Tax Withholding (Section [63-3035](#) and [63-3036](#), Idaho Code; [IDAPA 35.01.01.870 - 874](#)) is the amount of taxes taken out of an employee's paycheck. The amount withheld is applied to the amount of income tax due to the State of Idaho in a given year.

An **Income Tax Withholding** account number is required of each employer that pays salaries, wages, or other compensation to an employee for services performed in Idaho, including agricultural, household, and domestic employers. In addition, each person who withholds Idaho income tax must have an income tax withholding account number. In general, an employer is required to withhold from all salaries, wages, tip, bonuses, or other compensation paid to an employee for services performed in Idaho.

Audits are conducted as needed or directed. Refer to [Appendix: Auditing Guidelines](#) for further guidance.

Other taxes or fees

Auditors may be directed to conduct reviews of other tax types and fees, as necessary.

P110 • Nexus

A taxpayer has nexus when they have a physical presence in Idaho. The following activities may create nexus:

- Having at least one employee in Idaho engaging in any activity that allows the person to establish or maintain a presence in Idaho. This would include a home office or similar location.
- Owning, renting, leasing, maintaining, or having the right to use real or tangible personal property located either temporarily or permanently in Idaho.
- Having goods delivered to Idaho in vehicles owned, rented, leased, or used by the taxpayer. This would include related parties acting on behalf of the taxpayer.
- Having sales staff, representatives, peddlers, or canvassers as agents of dealers or distributors under whom they operate or from whom they obtain the tangible personal property sold by them, even if such persons are independent contractors. This includes multi-level and network marketing firms.

Auditors should always seek guidance from their manager regarding potential nexus issues.

P115 • Audit Selection Sources

[Redacted pursuant to Idaho Code § 74-109(4)]

P120 • Audit Discovery Resources

[Redacted pursuant to Idaho Code § 74-109(4)]

P125 • Audit Candidate Research by Auditor

[Redacted pursuant to Idaho Code § 74-109(4)]

P130 • Audit Candidate Review by a Tax Audit Manager

[Redacted pursuant to Idaho Code § 74-109(4)]

P135 • Audit Candidate Review by the Bureau Chief

[Redacted pursuant to Idaho Code § 74-109(4)]

P140 • Assignment of Audit by a Managing Tax Auditor

(Referenced from [P610](#))

[Redacted pursuant to Idaho Code § 74-109(4)]

P145 • Management of Audit Inventory

[Redacted pursuant to Idaho Code § 74-109(4)]

P150 • Reassignment of an Audit

[Redacted pursuant to Idaho Code § 74-107(1)(b); Idaho Code § 74-107(15); and Idaho Code § 74-109(4)]

P155 • Rescinding an Audit Assignment

[Redacted pursuant to Idaho Code § 74-107(1)(b); Idaho Code § 74-107(15); and Idaho Code § 74-109(4)]

P200 • Pre-Audit Research

(Referenced from [P610](#))

P201 • General Information

[Redacted pursuant to Idaho Code § 74-107(1)(b); Idaho Code § 74-107(15); and Idaho Code § 74-109(4)]

P205 • GenTax Research Tools

[Redacted pursuant to Idaho Code § 74-107(1)(b); Idaho Code § 74-107(15); and Idaho Code § 74-109(4)]

P210 • Internet Searches

[Redacted pursuant to Idaho Code § 74-109(4)]

P215 • Other States – Sales Tax Laws and Rules

When a taxpayer conducts business in other states, those states may have statutes in conflict with Idaho law. For this reason, the auditor should be familiar with sales and use tax laws that may affect the audit.

Example: A car is leased with the option to purchase. In Idaho, sales tax would be collected on each payment. In this case, the car is first leased in a state that requires tax to be paid when it is titled. The tax is a motor vehicle sales tax, similar to an Idaho retail sales tax. When the car is titled, tax is collected on the full retail value of the leased vehicle. The lessor then moves to Idaho and continues to make monthly lease payments. Those payments, which have already been properly taxed, may not be subject to Idaho tax. When a sales or use tax is legally paid to another state, tax is generally not due to Idaho, even if Idaho would normally impose a tax.

Any potential sales tax issues found while researching other state's laws should be discussed with the auditor's manager. When appropriate, the auditor should seek further information from the taxpayer regarding any items at issue.

P220 • Idaho Business Registration System (IBR)

[Redacted pursuant to Idaho Code § 74-107(15)]

P225 • Secretary of State

Idaho requires businesses to register with the [Secretary of State](#) when conducting business in the state. Its searchable database provides access to available information for corporations, limited liability companies, and limited partnerships of record with the Secretary of State, including copies of the most recent statements of information filed, if the statements have been imaged. The auditor may determine when the company

started business in Idaho, the type of business it conducts in Idaho, the assumed business name, or the ownership structure.

IDAHO SECRETARY OF STATE

- Idaho requires a corporate name to contain the word corporation, incorporated, company, limited, or a similar abbreviation.
- Idaho requires a foreign company to identify at least one officer/director (Corporation), member/manager (LLC), or partner/general partner (LP/LLP).

If the company is not an Idaho company, it could be registered as a foreign company (formed somewhere else, but doing business in Idaho) or not registered at all (formed somewhere else, but not doing business in Idaho). The auditor may search other state's business registration records for similar information.

Note: When seeking information about a publicly traded company, such as ownership or operations, the auditor may also check with the [Securities and Exchange Commission](#) (SEC). A review of annual reports, such as a 10-K, provides a comprehensive summary of a company's financial performance. Information may also assist the auditor in understanding the taxpayer's operations and industry.

P230 • Contract Desk

[Redacted pursuant to Idaho Code § 74-107(1)(b); Idaho Code § 74-107(15); and Idaho Code § 74-109(4)]

P235 • Income Tax Withholding Account

Businesses must have an Idaho withholding account number if they 1) have one or more full or part-time employees in Idaho, and 2) the IRS requires them to issue W-2 Wage and Tax Statements. This applies to all employers, including agricultural and domestic employers. An out-of-state employer may register to withhold on Idaho income for an employee having an Idaho filing requirement, even if they do not have Idaho employees.

[Redacted pursuant to Idaho Code § 74-109(4)]

P240 • Political Climate

Auditors should be aware of the political climate when conducting current or beginning new audits. Any recent or proposed legislation could lead to changes in sales tax laws and rules. Active or recent protests may also affect the outcome of an audit based on application of new interpretations of laws and rules.

P245 • Referring Audits

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

P300 • Federal Tax Information

(Referenced from [S130](#); [S135](#); [P205](#); [P405](#); [P645](#))

P301 • General Information

Federal Tax Information (FTI) is taxpayer data received from the federal government. It also includes any information created by an auditor or a staff member derived from a federal source. Since the information is owned by the federal government, employees must follow established Tax Commission protocol when handling FTI.

P305 • Comingled FTI

FTI can be either permanently or temporarily comingled. Temporary comingling occurs when data can be independently verified by the taxpayer or through another nonfederal source. Examples of temporarily comingled FTI include addresses and names. Permanently comingled FTI will always retain its status as FTI.

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

Note: Information provided directly by an individual or a third party from their own source is not FTI.

P310 • Requesting FTI

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P315 • Safeguarding FTI

Anyone having access to federal information is responsible for maintaining confidentiality. *[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]* For this reason, all federal information:

- must be labeled as FTI or “Federal Information” with either a stamp or written across the top of the document;
- must always be kept in an **orange** folder and stored in a locked file cabinet labeled “Contains Federal Information” when not being used;
- may not be photocopied or emailed;
- should not be taken out of the office; and
- must be destroyed, according to IRS requirements, when no longer needed.

All persons having access to federal information should be aware there are penalties for improper disclosure. Violations may lead to disciplinary action, up to and including dismissal. Violators may also be subject to any criminal or civil penalties as provided by law.

Refer to IRS Publication 1075 for the most recent security guidelines on safeguarding and protecting federal information.

[IRS Publication 1075](#) provides the following guidance for commingled FTI:

“...Agencies should strive to avoid maintaining FTI as part of their case files. In situations where physical separation is impractical, the file should be clearly labeled to indicate that FTI is included and the file should be safeguarded. The information itself also will be clearly labeled. Before releasing the file to an individual or agency not authorized access to FTI, care must be taken to remove all such FTI. If FTI is recorded on electronic media with other data, it should be protected as if it were entirely federal tax information. Such commingling of data on tapes should be avoided if practicable. When data processing equipment is used to process or store FTI and the information is mixed with agency data, access must be controlled by:

- Systemic means, including labeling. See section 9.0, Computer System Security for further guidance.
- Restricting computer access only to authorized personnel.
- When technically possible, data files, data sets, shares, etc. must be overwritten after each use... “

P320 • Understanding and Setting FTI Indicators

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P325 • Obtaining Access to FTI Stored in GenTax

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P400 • Reviewing Income Tax Returns

(Referenced from [P205](#))

P401 • General Information

The income tax return can contain valuable information for sales tax audits. Taxpayers filing an Idaho income tax return are required to provide a copy of their completed federal return, including all supporting schedules. *[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]*

P405 • Requesting an Income Tax Return

The auditor may request an income tax return directly from the taxpayer, a taxpayer's authorized representative, or through the Tax Commission's Government Liaison Specialist.

When a return cannot be located or is not able to be viewed, the auditor may request a copy of the income tax return directly from the taxpayer.

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

All return information received must be treated as confidential. In addition, the auditor will need to follow established protocols when a return and/or return information is requested and received. Refer to [Section P300 • Federal Tax Information](#) for further guidance.

Note: The information reported on income tax returns should only be used as a guide. It is necessary to review source documents to verify a return's completeness and accuracy.

P410 • Income Tax Return Information

Information beneficial for sales tax audit purposes includes, but is not limited to:

Filing Cycle: A taxpayer reports their income based on their tax year. This may be a calendar year (January 1 – December 31) or a fiscal year (12 consecutive months). Understanding the filing cycle is important when reconciling what has been reported on income tax returns and recorded in accounting records with amounts reported on Idaho sales and use tax returns.

Gross Receipts or Sales: Amounts reported can be used to reconcile total sales reported to Idaho on the sales and use tax returns and to check for completeness of the accounting records. Auditors will need to adjust sales by the Idaho apportionment factor to determine Idaho sales when reviewing a multistate company.

Apportionment: Idaho allows taxpayers to allocate and apportion their business income by multiplying it by a fraction to determine an apportionment percentage. Activities included in the apportionment percentage calculation are property, sales, and payroll. An Idaho factor is computed for each activity. The factors are

used to compute the Idaho apportionment factor, which is applied to the income of the unitary business to determine the portion of income earned in Idaho.

Idaho applies the destination test to assign receipts from sales of tangible personal property to the numerator of the sales factor, a “throwback” rule for receipts from sales in states where the taxpayer is not taxable, and an “income-producing activity test” for assigning receipts other than those from sales of tangible personal property to the numerator of the sales factor.

Understanding that the apportionment factor is a weighted percentage, not comprised only of sales, will keep the auditor from incorrectly applying the factor to total gross income when trying to determine total amount of Idaho sales for the filing period.

Idaho Throwback Sales: Throwback sales are receipts from sales made to states where the Idaho seller’s income is not taxable in that state. The throwback rule is designed to ensure that all taxpayer’s sales are attributed to a state where the taxpayer’s income is taxable, avoiding “nowhere” sales. The rule applies when an Idaho seller is not taxable in another state.

When throwback sales are recorded on an income tax return, the auditor may use the information to determine sales made into other states, which may have been included as non-taxable sales on sales and use tax returns.

Cost of Goods Sold: These are generally the cost of materials and direct labor associated with the production of goods sold by a company. It may include other direct or indirect costs (overhead).

Understanding what the taxpayer included in COGS calculations may help with purchase reconciliations, especially when auditing a contractor.

COST OF GOODS SOLD						
Cost of Goods Sold	=	Beginning Inventory	+	Purchases	-	Ending Inventory

Note: A business may not desire their COGS to exceed 60% of gross sales. Nor to exceed 70% of gross sales when including labor costs. A high COGS to gross sales ratio may indicate that some revenues have not been reported.

COGS has a direct correlation with inventory.

COMMON COGS RATIOS	$\frac{\text{COGS}}{\text{SALES}}$	=	% GROSS MARGIN
	$\frac{\text{REVENUE} - \text{COGS}}{\text{REVENUE}}$	=	% GROSS MARGIN
	$100\% - \% \text{ COGS}$	=	% GROSS MARGIN
	$\frac{\text{GROSS MARGIN}}{\text{COGS}}$	=	% MARKUP

GROSS MARGIN %
Measures production costs to revenues. This tells how much of sales revenue is profit.

MARKUP %
Provides the percentage difference between actual cost and selling price.

Artificially inflating inventory allows COGS to be underreported, leading to higher than actual gross profit margin and an inflated net income. Examples of ways COGS can be manipulated or altered include: 1) allocating more to inventory manufacturing overhead costs than was incurred; 2) overstating discounts; 3) overstating returns to suppliers, altering the amount of inventory in stock at the end of an accounting period; 4) overvaluing inventory on hand; and 5) failing to write-off obsolete inventory.

Rent Expense: The amount the taxpayer pays for the use of property they do not own. In general, rent expense may be deducted only if the rent is for property used in their trade or business.

Note: Rent Expense for a small business may average 5% to 15% of gross sales. A high percentage may indicate that not all revenues are being reported.

Balance Sheet: A statement of the assets, liabilities, and owner's equity at a specified point in time, detailing the balance of income and expenditures over the preceding period.

A review of the balance sheet over the audit period may provide the auditor with information related to asset additions or deletions along with purchases that were made. In addition, allowances for bad debts can provide an auditor with an opportunity to discuss any possible bad debts and how those bad debts were handled in regards to sales tax.

Depreciation Schedule: A statement listing assets, usually long-term or fixed assets, the taxpayer uses to identify the timing and amount of depreciation for accounting and tax purposes. The depreciation expense is calculated and used to "write-off" the cost of purchasing high-value assets over time.

The auditor can use depreciation schedules to determine if any new assets were acquired or if any assets were removed, reflecting a possible sale or acquisition of a business asset.

Idaho Investment Tax Credit: A taxpayer, with certain restrictions, may claim the Idaho investment tax credit on purchases of new and used tangible property placed into service in Idaho. If a credit is claimed, the auditor can expect to see asset additions in taxpayer records.

Compensation of Officers/Payroll Expense: The taxpayer reports compensation of officers and payroll expenses, along with the income tax apportionment factor for Idaho payroll. This information can help the auditor identify the size of the taxpayer's workforce in Idaho and assist with income tax withholding reconciliations.

P415 • Types of Income Tax Returns

The auditor should become familiar with the types of income tax returns filed by different entities, such as a sole proprietor or a corporation.

Individual Proprietorship Income Tax Returns: Individual proprietorships and single member LLCs calculate their business profit or loss for income tax and include this information on their individual income tax return using the appropriate schedules. Schedules used include:

- **Schedule C** (Profit or Loss from Business)
- **Schedule E** (Supplemental Income and Loss)
- **Schedule F** (Profit or Loss from Farming)

When working with these entity types, the auditor will need to use the appropriate schedule when reconciling accounting records, the total income reported on the income tax return may contain income from various sources and not just include sales from the business. Expenses, equipment use, and employee information can also be found on the schedules. In an audit, the amounts reported should be reconcilable to the source in the taxpayer's books and records.

Partnership and Limited Liability Company Income Tax Returns: A partnership must file an annual return to report the income, deductions, gains, losses, and other required information from its operations. These are considered informational returns, since the partnership does not pay income tax. Instead, the partnership "passes through" any profits or losses to its partners. Each partner includes their share of the partnership's income or loss on the individual's income tax return.

Auditors can use the partnership return to identify partners, asset sales, total gross receipts, and expenses. They can then be used in the reconciliation of the sales and use tax returns and the accounting records.

Subchapter S Corporation Income Tax Returns: Similar to partnerships, S Corporations are corporations that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes. Shareholders of S Corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates.

C Corporation Income Tax Returns: C Corporations are recognized as a separate taxpaying entity. A corporation conducts business, realizes net income or loss, pays taxes, and distributes profits to shareholders. The profit of a corporation is taxed to the corporation when earned, then taxed to the shareholders when distributed as dividends.

Note: Some C Corporation income tax returns may be consolidated returns including income from various companies. Additional research may be required to determine income derived from specific business activities.

P420 • Basic Review of an Income Tax Return

Auditors should conduct a comparison of sales reported for federal income tax purposes with Idaho sales and use tax returns. This may be more difficult when a taxpayer files a consolidated federal income tax return. However, the auditor may request working papers from the taxpayer, or their representative, showing how these figures were obtained.

When conducting a reconciliation between gross receipts recorded in the taxpayer's accounting records and gross receipts reported on tax returns, material differences should be analyzed further. The auditor may then

determine if the difference is the result of taxable or nontaxable sales. Differences encountered in reconciliations may be due to timing, accounting basis (cash vs accrual), or netting of gross sales where gross sales shown on the sales tax returns may be the net of sales minus deductions. It will always be necessary to discuss, with the taxpayer, any discrepancies to validate the auditor's findings.

Other useful information for a sales tax examination found in an income tax return include:

- Idaho apportionment factor, which is an analysis of property, sales, and payroll in Idaho. (**Example:** Idaho Form 42)
- Changes in property ownership during the year for real property improvements, acquisitions, and disposals. (**Example:** Idaho Form 41)
- Total of gross receipts, assets, and various expenses that can be used as a check against the amounts shown on the taxpayer's books. (**Example:** IRS Form 1120)
- Cost of Goods Sold details, which can serve as a check against the taxpayer's equity accounts. Since changes in COGS affect both the balance sheet (owners' equity = assets – liabilities) and income statement (gross profit and loss), owner's equity accounts can be affected. (**Example:** IRS Form 1120)
- Capital Gains and Losses information, which can indicate other income sources, such as the sale of assets. (**Example:** IRS Schedule D; IRS Form 4797)
- Information about controlling interests and ownership of other companies. (**Example:** IRS Form 1120; IRS Schedule K)
- Balance Sheet per books, which details changes in assets and liabilities, including buildings and land, during the year. (**Example:** IRS Form 1120; IRS Schedule L)
- Amounts shown in reconciliation of income to book schedules may be traced to taxpayer's books and records to test for completeness. (**Example:** IRS Form 1120; IRS Schedule M)
- A computation of Investment Tax Credit, which may provide a listing of assets purchased. Claiming the credit may also identify affiliated companies located in Idaho. (**Example:** Idaho Form 49).
Note: Assets cannot be both expensed for depreciation purposes (Section 179) and claimed as an Investment Tax Credit.
- Credits taken for road tax paid on fuel, which may indicate the taxpayer has exempt activities. (**Example:** IRS Form 4136; Idaho Form 75).
Note: The calculated amount of credit allowed on the form may not typically be reflected on the taxpayer's ordinary books.
- Recapture of Investment Tax Credit, which identifies property that ceased to qualify as Idaho investment tax credit property and were subsequently sold. (**Example:** Idaho Form 49R)
- A business income tax return prepared for Idaho, which includes a line item for sales and use tax to be reported (Sales/Use Tax Due). Although the tax is reported, it does not represent a filed sales and use tax return and does not affect the statutory time limitations for review. (**Example:** Idaho Form 41)

P425 • Taxpayer Information from Other States

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

P500 • Pre-Audit Planning

P501 • General Information

[Redacted pursuant to Idaho Code § 74-109(4)]

P505 • Additional Research

[Redacted pursuant to Idaho Code § 74-107(15) and Idaho Code § 74-109(4)]

P510 • Preliminary Audit Plan

(Referenced from [P620](#))

A preliminary audit plan is a roadmap, allowing the auditor to focus on the direction the audit should go. Although the approach to most audits may be similar, the initial audit plan will be unique for each taxpayer. The initial audit plan highlights the key audit elements based on the relevant information gathered by the auditor during research. This should be used as a discussion tool during the initial conference with the taxpayer.

Once discussions with the taxpayer begin, the preliminary audit plan will evolve into a working audit plan that is mutually agreeable. This plan may be adapted, updated, and changed based on the audit progress, circumstances, and information obtained. The taxpayer must be made aware of the audit plan and be allowed to provide input prior to its implementation. Refer to [Section P620 • Audit Plan](#) for further guidance.

P515 • Determination of Potential Audit Periods

Prior to contacting the taxpayer, the auditor will consider an appropriate audit beginning and ending date, taking into consideration the taxpayer's filing status (frequency) and tax year (fiscal vs calendar). Based on research, the auditor should understand how far back an audit may need to go. However, the auditor needs to contact the taxpayer before establishing the actual audit periods. If items identified for review are in jeopardy of falling out of statute, the auditor should make the effort to begin the audit as soon as possible, allowing sufficient time to establish a reasonable audit period.

In addition, the proposed audit period should take into consideration the amount of time a taxpayer will need to sign a statute of limitations waiver (statute waiver). An auditor risks losing periods without having a properly executed statute waiver. Refer to [Section P700 • Statute of Limitations Waiver](#) for further guidance.

Note: Once the auditor and the taxpayer have established and agreed upon the audit period, with a signed statute waiver, the auditor must obtain approval from their manager before adjusting beginning and ending dates. Refer to [Section P920 • Discussing a Proposed Audit Period](#) for further guidance.

P520 • Determining Potential Field Audit Dates

Since audit travel may be required, the auditor should determine potential dates to conduct fieldwork. The auditor should embrace the concepts of “cost-effective” and “efficient methods” when deciding the nature, type, timing, and necessity of travel and related expenses while performing audits. There may be times when it is economical for an auditor to travel on their own to conduct an audit. However, when conducting large or multiple audits in a geographic area, team audits may be economically efficient, but require proper coordination and sufficient workload.

Traveling during peak times, when higher rates are charged for hotels and transportation, should be avoided. Before confirming fieldwork dates with a taxpayer, the auditor will estimate total cost of travel and discuss those expenses with their manager. Additional guidance may be provided or alternative travel options for consideration may be recommended. The bureau chief should be included in the discussion, especially when travel costs will exceed normal expectations. Refer to [Section P3400 • Audit Travel](#) for further guidance.

Note: The Government Services Administration (GSA) travel website may be a good indicator of peak travel times, based on the per diem rates allowed. Actual travel dates for fieldwork should not be set until there is sufficient data to identify how many records will be reviewed and where the review will take place. Refer to [Section P1015 • Determining Fieldwork](#) for further guidance.

P600 • Audit File

P601 • General Information

The audit file contains all the documents required to complete the audit. It also records all important events and provides an audit trail of how the audit was conducted.

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P605 • Elements of an Audit File

There are many components to conducting audit. However, only certain items become necessary parts of the audit file.

General elements of an audit file:

- [Audit Approval and Assignment](#)
- [Case Activity Record](#)
- [Audit Plan](#)
- [Audit Sampling Plan](#)
- [Audit Working Papers \(STA Macro\)](#)
- [Audit Report](#) (Preliminary and Final)
- [Audit Notes](#)
- [Taxpayer Correspondence](#)
- [Statute of Limitations Waiver](#)
- [Power of Attorney](#)
- [Other Information](#)

AGENCY STYLE GUIDE: Avoid elaborate, mixed, or tiny fonts. Use a generally accepted font, like Times New Roman, for text. Each font presents itself different. Although 12 point is recommended for body text, a 12-point Arial text may appear larger than a 12-point Times New Roman text. To maintain readability, avoid anything less than a 10-point font.

P610 • Audit Approval and Assignment

(Referenced from [P140](#); [P605](#))

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

P615 • Case Activity Record

(Referenced from [P605](#); [P945](#))

The Case Activity Record (CAR) is used to chronologically track audit contacts, steps, and events that occurred during the examination. This includes discussions with the taxpayer about important audit decisions such as audit plans, audit documents, audit sampling plans, audit fieldwork, and audit findings. It should also be used to note when supplemental information, such as when a statute of limitations waiver, was sent or when a

Power of Attorney form (POA) was received. Any changes in address, phone number, ownership, point-of-contact, or anything that may affect the audit need to be recorded here as well.

For consistency, auditors must utilize the CAR contained within the current sales and use tax audit macro (STA MACRO). The primary fields in the body of the CAR include the date (when the activity occurred), person contacted (name and title), and the case activity (what occurred). Although the level of detail needed in the CAR will vary depending on the type of event or activity, the amount of information contained in the CAR should be sufficient for anyone to know what has occurred at any given time. It is not necessary to record every email sent or received; however, recording emails documenting important benchmarks are an important component of the CAR. It is also not necessary to copy and paste entire email strings into the "CASE ACTIVITY" field. The auditor may summarize the conversation, issue, or resolution in the CAR and then refer to the actual correspondence for the specifics.

For accuracy, auditors need to record activity as it occurs. In all cases, the auditor must be able to clearly and objectively explain what has transpired. The auditor should state the facts in a manner free from subjective statements such as "I feel" or "I think" or any other value statement. Instead, auditors should plainly and factually state what happened. **Example statement:** *"The tax accrual account shows that some sales tax collected may not have been remitted."*

More than just a journal, the CAR can assist in other ways.

45-Day: Date fields can be quickly scanned to determine the amount of time that has occurred between taxpayer contacts. Auditors must maintain contact throughout the examination process, with no more than 45 days passing between contacts, unless a specific arrangement has been made in writing for a longer period of time. It also allows for documenting a taxpayer's reasonable request to not be contacted for a period of time, such as for income tax return preparation or year-end closing.

Stages: A unique or distinctive entry may be used to show the start of a new stage.

48 5/24/2017
ISSUED PAR
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Audit Notes: Information in the CAR may be used to further develop the Audit Notes.

Refer to [Section P945 • Discussing Preferred Forms of Communication](#) and [Appendix: STA MACRO](#) for further guidance.

P620 • Audit Plan

(Referenced from [P510](#); [P605](#); [P1200](#))

An audit plan provides both the auditor and taxpayer a guide of what is expected to be reviewed during the examination. A well-thought-out audit plan addresses all material or relevant activity of the taxpayer's business. It should include all the basic elements of an audit (e.g., reconciliations of sales tax collected,

reviews of sales and purchases, etc.), but be flexible enough to be expanded or adjusted as needed depending on discussions, observations, or initial findings.

The audit plan addresses what needs to be reviewed (action), where the data is recorded (potential source), why it needs to be reviewed (purpose), and how it is going to be reviewed (sample plan).

For Sales:

Action	Potential Source	Purpose
Total Sales Reconciliation (Sales Recorded to Sales Reported)	*Income Tax Returns *General Ledger *Sales Journal *POS System Reports *Sales and Use Tax Returns	Determine taxability of all income sources not reported to Idaho
Sales Tax Collected to Remitted	*General Ledger *Sales Journal *POS System Reports *Sales and Use Tax Returns	Determine if all taxes, even if collected in error, was given to Idaho
Taxed Sales	*General Ledger *Sales Journal *Invoices *Sales and Use Tax Returns	Determine if the proper tax rate was applied
Non-Taxed Sales	*General Ledger *Sales Journal *Invoices *Sales and Use Tax Returns	Determine what was not taxed and why

For Purchases:

Action	Potential Sources	Purpose
Expenses	*Income Tax Returns *General Ledger *Purchases Journal *Invoices *Sales and Use Tax Returns	Determine if tax was properly paid on purchases
Asset Purchases	*Income Tax Returns *General Ledger *Purchases Journal *Invoices *Sales and Use Tax Returns	Determine if tax was properly paid on purchases

Audit plans are considered when performing initial research, started prior to taxpayer contact, expanded during the pre-audit discussions, and confirmed after reviewing financial data. Information used to develop a Preliminary Audit Plan ([Section P510 • Preliminary Audit Plan](#)) should be incorporated into a working audit plan. This includes the areas of concern that were part of the original audit justification. If sampling is required, a sampling plan should also be created. Refer to [Section P625 • Audit Sample Plan](#) for further guidance.

Once the auditor and taxpayer have agreed upon an audit plan, any necessary changes or deviations must be discussed with the taxpayer. If the auditor and the taxpayer cannot reach an agreement, the auditor will inform their audit manager and discuss how to proceed. Refer to [Section P1200 • Developing an Audit Plan](#) for further guidance.

The audit plan addresses the what, why, and how.

Example: The auditor needs to address sales that were not taxed. The audit plan may include:

- What will be reviewed
 - Exempt Sales
- Why it needs to be reviewed
 - To determine if exempt sales were valid
- What types of documentation will need to be reviewed
 - Sales Journal, Sales Receipts, Exemption Certificates
- How the review will be conducted (source and scope)
 - Detailed review of all exempt sales for the audit period
- How credits will be handled
 - Customer returns will be matched to original purchase
- How the results will be used
 - Sales without a valid exemption will be held taxable

Note: The auditor's manager may request to review the audit plan prior to beginning the field work.

P625 • Audit Sampling Plan

(Referenced from [P605](#); [P620](#); [P1200](#); [P1310](#))

The audit sampling plan defines the way records will be reviewed to determine final audit results. It provides the framework for tasks to be performed, and it also serves as a historical record of audit procedures used. Once areas of interest are identified, the auditor needs to determine the best approach for reviewing records. The bureau's preferred sampling method is electronic random sampling, when appropriate. Detailed reviews are performed when sampling is not practical, or the risk of sampling error is high to either the taxpayer or the state. Other sampling methods used must be within the standards set by the bureau and the reasons be well-documented. Refer to [Section P1300 • Audit Scope and Projection](#) for further guidance.

The auditor will discuss the proposed sampling methods with the taxpayer. This allows the taxpayer and/or their representative to have input toward, and an understanding of, audit sampling procedures. Once the auditor and taxpayer have agreed upon an audit sampling plan, the Case Activity Record (CAR) will be used to document that the proposed sampling procedures have been discussed with the taxpayer. As part of the audit process, a copy of the accepted sampling plan should be provided to the taxpayer. The taxpayer and/or their representative must be notified of any necessary changes or deviations from the original sample plan.

Deviations from the bureau's sampling standards must be approved by the auditor's manager. *[Redacted pursuant to Idaho Code § 74-107(15)]*

Note: If a taxpayer has concerns or declines the use of proposed sampling methods, the auditor should talk with their manager on how to proceed.

P630 • Audit Working Papers

(Referenced from [P605](#))

Audit working papers document the records examined and the audit results. Auditors will use the bureau's most current sales and use tax audit macros (STA MACRO) when performing an audit. These macros may be edited when necessary to accommodate the information reviewed. However, they should follow the format provided in **Section [P1400 • Work Papers](#)**.

P635 • Audit Report

(Referenced from [P605](#))

An audit report is a written narrative of the auditor's findings and provided to the taxpayer. It allows the auditor to document what was reviewed, what audit procedures were used, and the results of their findings. It may also be used by the taxpayer as a reference in understanding how sales tax laws affect their business. During an examination, two audit reports are generally issued. The first, a Preliminary Audit Report (PAR), sets the basis for discussion, allowing the taxpayer to address any items potentially at issue. The last, a Final Audit Report (FAR), summarizes the final audit findings based on all information provided. For consistency, auditors should use the bureau's guidelines on the format and content of an audit report. Review to **Section [P1500 • Preliminary and Final Audit Report](#)** for further guidance.

P640 • Audit Notes

(Referenced from [P605](#))

The Audit Notes provide supplemental information about the taxpayer, their operations, how the audit was conducted, and any notable issues or concerns encountered during the audit process. It is not meant to be a duplication of information found in other reports, but rather a more expository account of the examination process. When creating the Audit Notes, auditors should consider the following areas:

Company Description/History

- Company name. Address. Permit numbers. Audit periods. Contacts.
- When the company began. Where were they formed. What they do in general (industry).
- When the company began business in Idaho. What they do in Idaho.
- Number of overall locations. Number or list of Idaho locations.
- Divisions. Affiliates. Revenues overall. Revenues in Idaho.

Prior Audits

- Tax types. Dates. Results.
- Prior issues. Prior or current protests.

Taxpayer Records

- Accounting system (electronic, manual).
- Software used for sales, purchases.
- Availability of records (electronic, paper).
- How records are stored (onsite, offsite).
- Sales and Use Tax Return preparation.
- Internal controls.

Audit Methods (Reconciliations/Sales/Purchases/Assets)

- What was reviewed.
- Methods used to determine completeness of records.
- Reconciliation processes and results.
- How records were reviewed (detailed, sampled).
- Methods used for sampling along with explanations.
- Major customers. Major suppliers.

Penalty

- Why was or was not a penalty imposed/applied.
- What type of penalty.

Protest Issues

- Describe any taxpayer disagreements.
- Identify specific protest items.
- For potential protests, describe areas at issue, and why they were held.

General Comments

- Barriers encountered during the audit process.
- Other information.

The Audit Notes are not provided to the taxpayer during the normal audit process. However, they are available upon request from the taxpayer and/or the taxpayer's representative. The auditor's manager will provide direction on the format and type of information that should be included in the Audit Notes.

P645 • Taxpayer Correspondence

(Referenced from [S130](#); [P605](#))

Auditors are required to keep copies of all written correspondence with the taxpayer. *[Redacted pursuant to Idaho Code § 74-107(15)]* This includes both paper and electronic correspondence. Auditors will follow agency guidelines when creating any type of communication.

Letters – Created within GENTAX

[Redacted pursuant to Idaho Code § 74-107(15)]

Letters – Created outside of GENTAX

Much of the correspondence generated in audit is created outside of GenTax to adapt to a specific taxpayer's situation. These include free-form letters, created on official letterhead, that do not conform to the parameters of available form letters. However, for many situations, the bureau has developed some pre-approved letters that auditors should use whenever possible.

[Redacted pursuant to Idaho Code § 74-107(15)]

Forms and Templates

Many of the forms and templates used in audit have gone through an approval process for verbiage and content. These forms must be used when appropriate and may not be edited or copied into other correspondence.

Electronic Mail (email)

(Referenced from [P945](#))

Taxpayers and auditors regularly use email as an efficient method of communications and data transfer. Since auditors work with confidential taxpayer information in the field and in the office, email encryption is necessary to ensure confidentiality of taxpayer information. However, encryption may not be practical for some taxpayers. For this reason, an auditor must obtain authorization from the recipient verifying their awareness of the risks when using non-secure email. Refer to **Section [P945 • Discussing Preferred Forms of Communication](#)** for further guidance.

Note: Auditors may never email federal data. Refer to **Sections [S135 • Safeguarding Federal Tax Information](#)** and **[P300 • Federal Tax Information](#)** for further guidance.

When sending mail to the taxpayer or their representative using the USPS or a private mail carrier, the auditor should make a scanned copy of the original correspondence and attach it to the audit file.

When sending email, the taxpayer should be informed that email is not secure, and that sensitive data will need to either encrypted or redacted. If taxpayers insist on getting the information non-redacted or unencrypted, the auditor must receive written authorization from the taxpayer.

Example: I understand that email is not a secured way to protect my sensitive information, but I am willing to accept this risk.

****Never email SSN's, bank account or credit card numbers, or federal data****

P650 • Statute of Limitations Waiver

(Referenced from [P605](#))

Taxpayers may be asked to sign a statute of limitations waiver (statute waiver) at the start of the audit. This is an agreement between the taxpayer and the auditor that sets a specific period of time that will be reviewed and allows additional time for the taxpayer and the auditor to discuss any issues before the audit is finalized. [Redacted pursuant to Idaho Code § 74-107(15)] Refer to [Section P700 • Statute of Limitations Waiver](#) for further guidance.

P655 • Power of Attorney

(Referenced from [P605](#))

Taxpayers may request the auditor work with a representative that is not an employee of the company for part or all of the audit. A Power of Attorney form (POA) allows the taxpayer to designate a representative to act on their behalf. [Redacted pursuant to Idaho Code § 74-107(15)] Refer to [Section P800 • Power of Attorney \(POA\)](#) for further guidance.

P660 • Other Information

(Referenced from [P605](#))

There are times when other information about the taxpayer or from the taxpayer needs to be preserved. This includes relevant files that cannot or would be extremely difficult to recreate. [Redacted pursuant to Idaho Code § 74-107(15)]

P700 • Statute of Limitations Waiver

(Referenced from [P515](#); [P650](#); [P925](#))

P701 • General Information

Idaho imposes time limits for when taxes can be asserted. If the time limit has expired, taxpayer records generally cannot be examined. However, the law does allow both the taxpayer and the Tax Commission to enter into a written agreement to keep activity that occurred during a period of time from expiring. This is known as a statute of limitations waiver (statute waiver).

A taxpayer is encouraged, but not required, to sign a statute waiver when the audit begins. It benefits the taxpayer by allowing additional time to discuss any issues before the audit is finalized. Without one, the auditor may need to estimate tax liability before a reviewable period is lost. Refer to [Section P725 • Estimated Determinations](#) for further guidance.

P705 • Time Limitations for Review

In general, a notice of determination is issued within three years after the due date of the return or the date the return was filed, whichever is later. However, in cases where no return has been filed, a determination is issued within seven years of the time a return should have been filed. Refer to [Section 63-3633, Idaho Code](#), for further guidance.

Three-Year Limitation

Most audits cover a period of three years, when the taxpayer has held a valid seller’s permit for the period being reviewed.

Example: Taxpayer files sales tax returns monthly on the due date. Today is March 12, 2018. Any purchase made in February 2015 can be reviewed.

March 2015							March 2015						
Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
1	2	3	4	5	6	7	1	2	3	4	5	6	7
8	9	10	11	12	13	14	8	9	10	11	12	13	14
15	16	17	18	19	20	21	15	16	17	18	19	20	21
22	23	24	25	26	27	28	22	23	24	25	26	27	28

What was the date 3 years ago?
03/12/2015

When was February 2015 return due?
03/20/2015

February 2015 can be reviewed.

If it is March 23, 2018, then February 2015 would be out of statute and not reviewable.

The amount of taxes imposed by this chapter shall be assessed within three (3) years after the due date of the return or the date the return was filed, whichever is the later {ICS 63-3633 (a) (1)}

If the return was filed late, the three-year period is measured from the actual filing date of the return, rather than from the due date of the return.

Seven-Year Limitation

When a taxpayer is not permitted or has not filed a return, the audit period may cover a period of up to seven years.

FAILURE TO FILE A RETURN: In the case of taxes owed by a person who has failed to file a return as provided in section 63-3623, Idaho Code, the amount of taxes imposed in this chapter shall be assessed within seven (7) years of the time the return upon which the tax asserted to be due should have been filed. {ICS 63-3633 (c)}

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

It is also important to consider how major events affect audits, such as law or rule changes or judicial findings. In this case, the audit period may need to be adjusted to reflect the situation. Auditors should always seek approval from their manager before conducting extended time-period examinations.

Note: When a decision has been made to audit a seven-year period, any returns filed more than three years ago are generally not available for audit. **Example:** The taxpayer is a non-filer, but filed three returns five years ago. Those three returns would be excluded for review in a seven-year audit period, unless certain conditions allow for review.

No Time Limitation

(Referenced from [P720](#))

In instances of fraud, or when sales tax was collected from a customer but was not remitted to Idaho, no time limitation applies. The auditor may go back to the first incidence of fraud, or to when the first tax was collected.

63-3633. PERIOD OF LIMITATION UPON ASSESSMENT AND COLLECTION. The periods of limitation upon assessment and collection provided in this section shall not apply to:

SALES TAX COLLECTED AND NOT REMITTED - taxes collected by a retailer, seller or any other person who has failed to pay over such taxes to the Tax Commission. {ICS 63-3633(d)(2)}

FRAUDULANT ACTS - In cases where the facts disclose a false or fraudulent act with the intent to evade tax. {ICS 63-3633(d)(1)}

FRAUDULANT RETURNS - In the case of a false or fraudulent return with the intent to evade tax, or a willful attempt in any manner to defeat or evade tax, the tax may be assessed, or a proceeding in court for collection of such tax may be begun without assessment, at any time. {ICS 63-3633(b)}

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P710 • Elements of a Valid Statute of Limitations Waiver

The statute allows for a written agreement between the taxpayer and the auditor to hold a period of time in place for review.

63-3633. PERIOD OF LIMITATION UPON ASSESSMENT AND COLLECTION. (g) Where, before the expiration of the time prescribed in this section for the assessment of any tax imposed by this act, both the Tax Commission or its delegate or deputy and the taxpayer have consented in writing to its assessment after such time, the tax may be assessed at any time prior to the expiration of the period agreed upon. The period so agreed upon may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.

The Tax Commission has prescribed forms to be used for a statute waiver. The statute waiver must:

- **Identify the taxpayer**
This includes the company's legal name and the name on the seller's permit (dba).
- **Identify the permit number and tax type**
This is necessary, since the review is tied to returns that were or should have been filed.
- **Identify the audit period to be extended**
This audit period is used as the block of time to keep in statute.
- **Identify the date when the statute waiver will expire**
This is necessary to show when the period of time kept open for review will expire.
- **Be signed and dated by the auditor before it is sent or presented to the taxpayer**
The statute waiver will be signed and dated by the auditor prior to being given to the taxpayer. This is done so the statute waiver becomes enforceable when signed by the taxpayer. When the signed statute waiver is received from the taxpayer, the auditor will review it for accuracy before acceptance.

- **Be signed and dated by a person who can legally bind the taxpayer**

The person signing the statute waiver must be a "Duly Authorized Officer" or representative. This can be an owner, an employee, or a designated representative.

The auditor must not date the statute waiver on behalf of the taxpayer. The validity of the agreement to extend the statute of limitations depends upon the taxpayer's signature and date. If a taxpayer signs a statute waiver, but does not date it, the auditor should check with their manager on how to proceed if the old statute waiver expires in a short time period.

- **Be executed before the statute of limitations or prior statute waiver period expires**

Both the auditor and the taxpayer must have signed and dated the statute waiver prior to the expiration of the statute of limitations (typically the 20th day of the month following the first period of the audit period for a monthly filer).

Note: It is the auditor's responsibility to review the signed statute waiver for accuracy before it can be accepted. If the statute waiver is found to be in error, a new one will need to be obtained.

P715 • Using a Statute of Limitations Waiver

It is important to obtain the statute waiver early in the audit to avoid having filing periods go out of statute.

Auditing Multiple Permits

A single statute waiver may be used when auditing multiple tax types with the same audit period. If different tax types having different audit periods are being audited, a statute waiver is needed for each unique audit period.

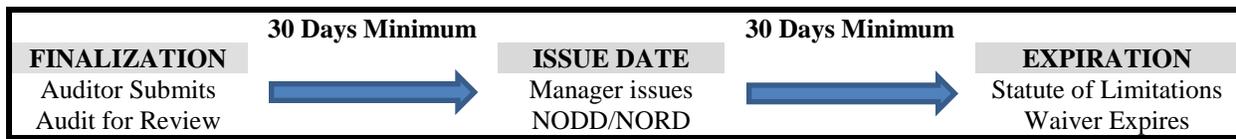
If the business under audit has, or has had, multiple permits for the same location during the audit period, all relevant permits should be identified on the statute waiver. Related companies with separate records and permit numbers should have separate statute waivers.

Extending the Statute of Limitations Waiver

(Referenced from [P2105](#))

Auditors may not allow a statute waiver to expire. The audit must either be issued 30 days prior to expiration or the expiration date must be extended. To extend the statute waiver, the auditor will duplicate the information on the original statute waiver, but with a new expiration date. Any extensions must be executed at least 60 days before the current statute waiver expires.

Discussions with the taxpayer about statute waiver extensions should start at least 90 days prior to the current statute waiver expiration. This allows the auditor and the taxpayer time to determine if an additional extension will be needed to complete the audit. It is the bureau's policy to have finalized audits to the manager no less than 60 prior to a statute waiver expiring.



The auditor is required to have a complete awareness of statute waiver expiration dates for each open audit.

Note: There may be circumstances where the manager may allow less days for review. However, the auditor must document that they have discussed those options with their manager. The auditor will notify the taxpayer that the audit has been completed before the audit is submitted for review.

Determining a Statute of Limitations Waiver Expiration Date

The length of time it takes to conduct an audit is based on many factors such as size, complexity, location, and type of industry. Additional time may be needed when auditing multiple divisions or sections. After discussions with the taxpayer, the auditor should have a better understanding of how much time is needed to conduct fieldwork. If the audits are being conducted simultaneously, requiring separate determinations, the auditor will need to discuss with the taxpayer and their manager whether all audits need to be issued at the same time, or if the issue dates should be staggered.

Auditors should choose statute waiver expiration dates based on the anticipated time it will take to complete the audit. A static expiration date, such as the end of the year or of a quarter (i.e., March 31, June 30, September 30, and December 31) for all statute waivers should not be used for every audit. This could overwhelm the reviewer if multiple, complex audits are submitted at the same time. In addition, auditors should not automatically set statute waivers to expire every twelve months.

The auditor should also allow ample time for the taxpayer to review the working papers and for internal review procedures to be completed.

Note: The auditor should not consider the statute waiver expiration as a gauge of when to perform the audit. Normally, audits should be submitted long before a statute waiver is due to expire.

Auditors should allow 30 days between **finalization** and **issue date** for Manager Review
Auditors need to allow 30 days between **issue date** and **statute waiver expiration date** for mailing

P720 • Conducting an Audit Without a Statute of Limitations Waiver

Auditors are always encouraged to obtain a statute waiver for each audit. However, there may be circumstances when an audit can be completed without one, such as a single issue or non-filer with less than seven years of activity. When working without a statute waiver, the auditor must be diligent to avoid allowing any periods under review to be affected by statutory time limitations. Refer to [Section P705 • Time Limitations for Review](#) for further guidance.

On occasion, a taxpayer may not desire to sign a statute waiver. If an audit cannot be completed before time expires, the auditor may need to estimate audit results using the best available information. The bureau has established guidelines that must be followed when making a provisional determination. Refer to **Section P725 • Estimated Determinations** for further guidance.

P725 • Estimated Determinations

(Referenced from [P701](#); [P720](#); [P925](#); [P3130](#))

When appropriate, an estimated determination may be issued before the statute of limitations expires. This type of estimation is based on the best available knowledge or information. The auditor must seek approval from their manager and show that issuing an estimated audit is necessary.

The number of periods covered in an estimated determination should be minimal; not the entire audit period, but enough time to allow completion the audit. Any amounts issued should be reasonable. **Example:** If the auditor is relying on income tax return information, care should be taken to only extend items with potential tax consequences.

TAXPAYER NAME:	XYZ INC	It is March 31st of the current year. The first quarter of the period will expire in April. The auditor may consider issuing a determination covering the first quarter, focusing on liability related to purchases.
INDUSTRY:	WHOLESALE, FARMING	
TYPE OF FILER:	QUARTERLY	
AUDIT PERIOD:	JANUARY, PLUS 36 MONTHS	

The bureau chief should be included in discussions related to issuing estimated determinations. A summons should be used, when necessary, to obtain the appropriate records. Refer to **Section P3100 • Use of Summons** for further guidance.

Note: *[Redacted pursuant to Idaho Code § 74-107(1)(b)]*

P800 • Power of Attorney (POA)

(Referenced from [S130](#); [P655](#); [P930](#))

P801 • General Information

A Power of Attorney form (POA) is a legal document allowing a designated third party to act on behalf of a taxpayer. The taxpayer may designate a lawyer, an accountant, or any other competent adult person to represent them during an audit. Auditors are prohibited from disclosing any taxpayer information to a third party (any person that is neither the taxpayer nor an employee of the taxpayer) without a valid POA. A POA is valid if it has not expired and is specific to the tax type and periods in question.

P805 • Required information

For a POA to be valid, the following information needs to be provided:

- taxpayer's name or company legal name, along with their SSN, EIN, Permit Number, or other identifying number that relates to the return or return information to be disclosed;
- spouse's name and SSN (if applicable);
- taxpayer's physical address;
- representative(s) name, firm/company name (if applicable);
- representative(s) address;
- representative(s) signature;
- tax/fee type(s);
- permit number(s) (if applicable);
- tax period(s)/year(s); and
- signature(s) of the taxpayer(s).

Refer to [IDAPA 35.02.01.702.02.b.i](#) for further guidance.

P810 • Acceptable POA Formats

The Tax Commission has developed a POA that meets all necessary criteria. Although preferred, taxpayers are not required to use this specific form. In most cases, any form or document is acceptable as long as all the information required by the Tax Commission is provided. Examples include:

- federal POA forms (requires all Idaho information; must reference Idaho or Idaho form numbers);
- durable, general, and military POA forms;
- court-ordered representatives or guardianships; and
- any document received with all the required information from the ISTC form.

Note: When not using the prescribed Tax Commission POA form, auditors should review Agency POA procedures before accepting alternative POA forms.

P815 • POA Procedures and Auditor Responsibility

Auditors will discuss with the taxpayer who the designated contact will be during the audit process. When the designee is an employee, no POA is needed. However, if the taxpayer designates an attorney, accountant, or some other representative who is not an employee to act on their behalf, a POA will be required. It is the auditor's responsibility to be familiar with the POA process to protect themselves and the Tax Commission.

Reviewing Existing POA's

Auditors will check if the taxpayer has any existing POA's on file. This is necessary since, once granted, a POA remains in effect unless revoked or until it expires on a specific date. If the taxpayer wishes to use an alternate POA for the designated tax type, a new POA must be obtained. The taxpayer also may revoke all prior POA's when providing a newly executed form. Existing POA's should be examined to ensure the audit period is covered for the tax types under audit.

If the taxpayer wishes to revoke or withdraw a POA on file, they can write "REVOKE" across the top of the executed form, along with their signature and date. Alternatively, the taxpayer may opt to provide a signed and dated statement with their name, address, and SSN/EIN identifying the name and address of the representative being revoked or withdrawn. Auditors should review any newly executed POA's carefully to determine if any prior POA's have been revoked.

Note: Discussions with any unconfirmed contact could result in unauthorized disclosure. *[Redacted pursuant to Idaho Code § 74-107(15)]*

Requesting a POA

The taxpayer should designate the specific individual(s) who will act on their behalf, not merely the name of an accounting or law firm. It is not unusual for the taxpayer to have multiple representatives during an audit. The auditor will discuss acceptable POA formats and may direct the taxpayer to use the Tax Commission's preferred POA form, which is available on the website. *[Redacted pursuant to Idaho Code § 74-107(15)]* Refer to [Appendix: Power of Attorney](#) for further guidance.

If the POA only names five individuals to serve as a POA for a firm, the auditor can disclose information to **only those named individuals**. However, if a valid POA lists only the entity name and does not list a specific individual, **any employee** for the entity can act as an attorney in fact for the taxpayer.

Note: The taxpayer can appoint, change, or add a representative at any time. The auditor must NEVER enter information on a POA for a taxpayer. The use of highlights on the copy that will be executed should be avoided. Highlighted items generally do not copy well and may be hard to read.

Receiving a POA

When a POA is received from a taxpayer, it is imperative the form be processed in a manner that allows other departments within the agency to know that the taxpayer has established someone to act on their behalf. The auditor will review the POA. *[Redacted pursuant to Idaho Code § 74-107(15)]*

If a POA is incomplete or inaccurate, the auditor must return it to the taxpayer immediately. Without a valid POA, audit issues cannot be discussed with the designated representative. The auditor must exercise reasonable discretion in determining whether a valid power of attorney exists. The valid POA will be forwarded to the bureau's administrative support staff for further processing.

Communicating with the POA

Once a POA has been designated, the auditor must be clear as to the taxpayer's direction concerning the extent of the POA's involvement during the audit. Depending on circumstances, the taxpayer may engage the service of a POA at the beginning of audit fieldwork, but would prefer the auditor to not involve the POA in any other correspondence and communication until notified otherwise.

If the taxpayer directs the auditor to communicate with the POA, it will be necessary to determine if the taxpayer desires to be included in the correspondence process. Some taxpayers may request to be included in any or all correspondence, while others do not want to be contacted at all during the audit process. It is, however, bureau policy to send a notice of determination or any summons directly to the taxpayer and a copy to the attorney-in-fact listed on the POA. The auditor should discuss the process with the taxpayer and determine if the POA should receive any finalized working papers or reports when the audit is issued.

Note: If the POA fails to respond to the auditor's request for information within seven days, the auditor may contact the taxpayer directly. Refer to [Title 63 Chapter 40, Idaho Code](#), for further guidance.

P820 • Discussions Without a POA

A taxpayer may invite other individuals, such as an accountant, to take part in audit discussions. When the taxpayer is present, a POA is not necessary when engaging in conversations with those not directly employed by the taxpayer. However, any further contact with these individuals when the taxpayer is not present, regarding taxpayer matters, requires a valid POA.

Some representatives may be directed by the taxpayer to contact the auditor directly before a valid POA has been executed. When this occurs, the auditor must limit communications to general tax matters until a valid POA has been executed. The auditor may not disclose or confirm the taxpayer is under audit. Rather, the representative should be directed to contact the taxpayer and obtain a valid POA. The representative's name, position, employer, and what was discussed should be documented in the Case Activity Record (CAR).

P900 • Initial Taxpayer Contact

P901 • General Information

The purpose of the initial contact is to notify the taxpayer they have been selected for audit. It also provides an opportunity for a brief discussion regarding:

- type of audit(s) that will be conducted;
- overview of audit process and types of records that are typically reviewed;
- proposed audit period;
- purpose of a statute of limitations waiver;
- taxpayer rights and responsibilities;
- industry publications;
- verification of contact information (name, position, address, phone, email);
- verification of mailing address (important for any notice of determination);
- verification of physical address where the audit will be performed; and
- scheduling a pre-audit conference.

P905 • Initiating Contact

Determining the appropriate person to contact at a business can be difficult when conducting comprehensive audits. For this reason, the auditor will attempt to make initial contact with the taxpayer by phone. This allows the auditor to identify the appropriate person to speak about the audit. Auditors should identify themselves and request to speak with the individual or department that handles the specific tax type being audited. If unsuccessful, the auditor may visit the taxpayer or send an audit notification by first class mail.

Note: A pre-call letter, notification that the taxpayer has been selected and will be contacted by phone at a later date, should only be used when the contact person has been verified. Due to the size and complexity of many audits, general correspondence can be lost or misdirected creating additional delays in starting the audit.

If the taxpayer requests verification when contacted, auditors can provide some options:

- call the ISTC published phone number and ask to be transferred
- call the auditor's published number from the on-line state employee directory
- request the auditor send an email with their information
- request the auditor send a letter with their information

A taxpayer cannot use these methods to avoid an audit. If a response is not received within a reasonable amount of time, a letter may be sent.

P910 • Notification of Audit Selection

(Referenced from [P515](#))

Once notification of the audit has been given, the auditor should discuss the audit process and schedule a pre-audit conference. If the taxpayer's availability is limited when first contacted, the auditor will need to arrange an appointment with the taxpayer to discuss the audit process. This should be completed within a few business days of initial contact and prior to sending an audit confirmation letter.

Note: By statute ([Section 74-109, Idaho Code](#)), audit selection methods cannot be disclosed. If the taxpayer requests to know why they are being audited, the auditor's best response is to inform the taxpayer that the audit was assigned by their manager.

P915 • Discussing General Types of Records Reviewed

During the initial contact, the auditor gives the taxpayer a brief overview of what to expect in the audit process. This discussion should be limited to the general types of records that are reviewed, the need for electronic records, and the anticipated length of the audit. The taxpayer should be made aware that all their business records are subject to examination and must be kept until the process is complete.

In anticipation of a pre-audit conference, the auditor could request the taxpayer provide electronic records, such as a general ledger, sales journals/records, purchase journals/records, etc. However, depending on the size of the company, the company location, or the industry type, it may be best to wait until the pre-audit conference to identify specific records to be reviewed.

Note: It is acceptable to make the taxpayer aware of the general types of records that may be requested based on the taxpayer's industry. However, auditors should avoid making a general request for all records. The request should be limited to only those necessary to complete the audit. Understanding how the taxpayer documents their transactions is key to determining what should be reviewed to expedite the audit process.

P920 • Discussing a Proposed Audit Period

(Referenced from [P515](#))

The auditor will discuss the proposed audit period with the taxpayer. It is recommended, but not necessary, to establish an audit period at this time. Auditors should allow the taxpayer to provide input and address any concerns with the proposed period. The taxpayer may recommend an audit period that may be more conducive to the audit process, such as one that coincides with their fiscal year. When a specific issue must be addressed and is in jeopardy of a statutory limitation for review, the auditor may establish the period to ensure proper review.

Note: Once an audit period has been established and agreed to, it may not be changed without the approval of the auditor's manager and appropriate taxpayer notification.

P925 • Discussing the Statute of Limitations Waiver

The auditor should discuss the statute of limitations for reviewing records and the ability to hold the audit period in statute with a statute of limitations waiver (statute waiver). This is an agreement between the taxpayer and the Tax Commission to set the examination period to establish any refund or liability. It allows both parties more time to review and discuss the findings based on the best available information before a notice of determination (e.g., NODD, NORD, etc.) is issued.

The statute waiver is not mandatory. However, without an agreement, it may be necessary to calculate an estimated refund or liability amount based on the best available information. Refer to **Sections [P700 • Statute of Limitations Waiver](#)** and **[P725 • Estimated Determination](#)** for further guidance.

Note: If the audit period has been established, the statute waiver should be included with the audit confirmation letter.

P930 • Discussing a Primary Contact

The auditor should establish the primary contact for the audit process. The taxpayer may immediately request that a third-party representative be used. If a power of attorney is necessary, the auditor will discuss available options. Refer to **Section [P800 • Power of Attorney](#)** for further guidance.

P935 • Scheduling a Pre-Audit Conference

During the initial contact, the auditor will have an opportunity to schedule a pre-audit conference. This allows the auditor and the taxpayer to discuss the audit process, accounting system and records, develop an audit plan, and obtain the appropriate records for review. The conference may be conducted at the taxpayer's location, when appropriate, or on the telephone if travel is necessary. Sufficient time should be provided to allow the taxpayer to prepare for the audit. Refer to **Section [P1000 • Pre-Audit Conference](#)** for further guidance.

Note: If traveling to meet the taxpayer, the auditor should confirm location and ask for directions. It is good to discuss the availability of parking, number of auditors, workspace requirements, work hours, and any other prerequisites, such as checking in, obtaining a visitor's badge, etc.

P940 • Taxpayer Rights and Responsibilities

The auditor will have an opportunity to provide an overview of the taxpayer's rights and responsibilities, highlighting key information about the audit process, such as the right to talk to an auditor's manager. The taxpayer should also be aware of their opportunity to rate the auditor's performance using a survey provided at the end of the audit. This information will also be provided in written form with the audit confirmation letter, allowing the taxpayer time to read before the pre-audit conference. The auditor will also discuss these

rights and responsibilities again during the pre-audit conference. Refer to [Section P1025 • Communicating Taxpayer Rights](#) for further guidance.

P945 • Discussing Preferred Forms of Communication

(Referenced from [P615](#); [P645](#))

During the audit process, the auditor will need to maintain contact with the taxpayer or their designated representative. Communication must be made at least every 45 days unless notified by the taxpayer that an extended period is necessary. This is typically done through mail, email, or phone. Although email communications can easily facilitate the exchange of information in a timelier manner, the method of communication should be left to the taxpayer. Contact information should be verified and documented in the Case Activity Record (CAR). Refer to [Section P615 • Case Activity Record](#) for further guidance.

Note: Any email communication must follow agency guidelines, which may require encryption or redaction of certain items. Refer to [Section P645 • Taxpayer Correspondence](#) for further guidance.

P950 • Verification of GenTax Information

[Redacted pursuant to Idaho Code § 74-107(15)]

P955 • Notice of Audit Confirmation and Appointment

The audit confirmation letter serves as a written notice to the taxpayer that they are under audit. It generally follows the initial contact phone call and serves as a review of what has been discussed, allowing auditor to:

- confirm initial telephone contact;
- confirm an opening (pre-audit) conference date, time, and location (if known);
- identify proposed audit period;
- identify type of audit(s) and applicable permit(s);
- provide statutory authority for conducting the audit;
- identify the types of electronic books and records that may be required;
- discuss a statute of limitations waiver;
- enclose documentation about taxpayer rights and responsibility;
- enclose documentation about general sales and use tax obligations for the taxpayer's industry; and
- provide a business card with appropriate contact information.

Note: The content of the confirmation letter may be adapted when necessary.

The letter may be mailed or attached to an email. *[Redacted pursuant to Idaho Code § 74-107(15)]* Regardless of format, it must be clear that the specific taxpayer has been notified of the audit. An entry on the Case Activity Record (CAR) should be made of when the letter was sent.

Specific statutes and rules that must be referenced in a confirmation letter include:

- [63-3042](#): Examination of Books and Witnesses
- [63-3624](#): Administration
- [IDAPA 35.01.02.111](#): Records Required and Auditing of Records

In accordance with **Sections [63-3042](#) and [63-3624](#), Idaho Code**, and **[Idaho Sales and Use Tax Administrative Rule 111](#)**, copies of which are enclosed, you are requested to make available the books and records of your business transactions concerning Idaho *Sales and Use* taxes.

P960 • Taxpayer Request to Delay Audit

The taxpayer may request to delay the start of the audit for various reasons. When the request is reasonable, the auditor may arrange to contact the taxpayer at an agreed upon future date. The request and the auditor's response should be documented in the Case Activity Record (CAR). Auditors should discuss with their manager any unusual or repeated postponements to determine the appropriate action.

Note: When appropriate, the auditor may discuss establishing an audit period and seek a statute waiver to hold that period for review. If items at issue are in jeopardy of falling out of statute with the proposed delay, the auditor should seek a statute waiver. If the taxpayer is not willing to sign a statute waiver, the auditor needs to seek guidance from their manager on how to proceed.

P1000 • Pre-Audit Conference

(Referenced from [P935](#))

P1001 • General Information

The opening (pre-audit) conference is a meeting between the auditor and the taxpayer or the taxpayer's designated representative, prior to beginning the examination of the taxpayer's books and records. It sets the foundation of an audit and generally sets the tone of the auditor's dealings with the taxpayer. The taxpayer should be left with the impression that the auditor will be honest and fair, flexible, and interested in serving and educating the taxpayer.

P1005 • Overview of the Audit Process

The auditor should make the taxpayer aware of the purpose of the audit, what is expected of the taxpayer, as well as what the taxpayer may expect of the auditor.

Purpose of Audit: An audit is a way to determine whether the taxpayer has collected or paid the correct amount of tax on past sales or purchases. It is also an opportunity provide education how sales and use tax laws apply to the taxpayer's industry.

An examination of sales

The taxpayer's sales records will be examined to ensure all taxable sales have been reported and properly taxed. The auditor will also verify that all sales tax collected from the taxpayer's customers was paid to Idaho. All nontaxed sales will be examined, and the taxpayer will be asked to provide the auditor with all supporting documents. This includes any sales tax exemption certificates the taxpayer accepted.

An examination of purchases

The taxpayer's purchase records will be examined to make sure tax was properly paid on any asset additions or other items that were purchased for the taxpayer's own use. This may include items originally purchased tax exempt but later put to a taxable use. For any purchases that were not taxed when acquired, the auditor will verify whether the taxpayer did not need to pay tax or if tax is still due.

Review of Records: The auditor will explain that records need to be provided in an electronic format. This allows items of interest to be easily determined, improving the accuracy of the audit and reducing the amount of time needed to complete the audit. Sampling is frequently used to minimize the number of records to be reviewed. The taxpayer will be asked for their input in making sampling decisions, once the auditor has verified the completeness of necessary records.

Audit Findings: After reviewing all available documents, preliminary results of the audit findings will be provided to the taxpayer. Sufficient time will be allowed for discussion and review of any additional documentation. Once the audit is completed, a notice of determination (e.g., NODD, NORD, etc.) will be issued. 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 the taxpayer agrees with the adjustments, they have the option to prepay all or a portion of the deficiency. Otherwise, the taxpayer has 63 days from the audit determination issue date to protest the results. Information about the protest process is provided with the notice of determination.

Note: If the taxpayer disagrees with the findings or the way the audit was conducted, they can discuss the results or address their concerns about the examination process with the auditor's manager.

Taxpayer Rights and Responsibilities: The auditor will need to address the taxpayer's rights and responsibilities of the audit, with an emphasis on the audit process and appeal rights. The taxpayer should also have an expectation of how long the audit will take. Refer to [Section P1025 • Communicating Taxpayer Rights](#) for further guidance.

Taxpayer Survey: The taxpayer will be notified that, when the audit is completed, a survey will be provided for them to evaluate their experience with the audit process. Refer to [Section P1030 • Audit Division Surveys](#) for further guidance.

P1010 • Taxpayer Interview

A pre-audit meeting allows the auditor the opportunity to ask questions about the taxpayer's business and how their records are kept. Auditors should develop questions from their pre-audit research, adapting them to the taxpayer's activity. This may assist in making the initial contact more professional and efficient for both the auditor and the taxpayer. Having the appropriate discussions before the audit can help identify areas of interest to include in the audit plan. Refer to [Section P1200 • Developing an Audit Plan](#) for further guidance.

Business Activities

The auditor should discuss what the business does in Idaho.

- **Discuss taxpayer's history:** date business began, major changes, ownership, changes in location, evolution of activity
- **Obtain an operational flow chart:** who owns who, what reports to what
- **Discuss taxpayer's business operations:** what they do in Idaho, what they do outside of Idaho
- **Obtain a list of divisions for their business operations, if applicable:** what they do in Idaho, what they do outside of Idaho
- **Discuss taxpayer's tax-exempt activities, if any:** sales, purchases for resale, wholesale, production exemption, etc.
- **Obtain a list of all locations that have Idaho activity:** located in or outside of Idaho
- **Obtain annual reports for years under audit:** business activity information, financial performance, ownership
- **Obtain financial documents:** financial statements and income tax returns, income statements, balance sheets, sources and uses of cash, etc.
- **Request a tour of the facilities:** to better understand the taxpayer's business, products, possible manufacturing exemptions and utilization of assets. This may be done during the fieldwork process.

Accounting Systems

The auditor should determine how business activity is recorded in the taxpayer's books and records.

- **Discuss accounting software used to record business activity:** current, historical; major changes
- **Obtain a chart of accounts and review with taxpayer any areas of interest:** assets, income and expenses
- **Obtain a tax matrix chart, if available:** taxpayer designation of taxable and exempt customers and accounts
- **Discuss how income is tracked (audit trail):** what is tracked, where it is tracked, and to what level of detail
- **Discuss levels of sales activity:** ask about extraordinary items, frequency of deposits
- **Discuss how expenses are tracked (audit trail):** what is tracked, where it is tracked, and to what level of detail
- **Discuss levels of purchases:** ask about extraordinary items
- **Discuss any changes in accounting staff or accounting procedures:** what changed and when

Record Maintenance and Storage

The auditor should determine how records are kept and how they are stored.

- **Discuss availability of records:** determine cause of missing records
- **Discuss location of records:** on site, off site, how accessed
- **Discuss how records are stored:** by date, customer/vendor
- **Discuss what information needs to be included on audit schedules to locate source documents:** check, invoice, and voucher numbers; etc.
- **Ask who was responsible for filing tax returns during audit period:** Have the taxpayer explain how a recent sales and use tax return was completed and from where information was obtained

Internal Controls

The auditor needs to determine the integrity of the financial and accounting information.

- **Obtain an organizational flow chart (departmental):** what department reports to what department
- **Obtain an accountability chart:** who can do what (sales activities, purchasing activities, record keeping activities)
- **Determine administrative controls:** oversight of day-to-day operations, approval authority, asset controls
- **Determine accounting controls:** how financial information is recorded, tracked, documented; separate or shared responsibility of financial functions (bookkeeping, deposits, reporting, auditing); controlled access to accounting systems (adding, deleting, changing, reconciling financial information); performance of internal audits; approval authority (large payments and expenses, review of transactions)
- **Obtain list of bank and credit card accounts used in business activity:** how accounts are used, how activity is recorded, frequency of use, etc.

The reliability of the taxpayer's internal control system will help determine risk of potential material misstatements in records. Refer to [Section P1205 • Understanding Internal Controls](#) for further guidance.

Audit Expectations

The auditor will explain the audit process to the taxpayer.

- **Discuss audit periods:** considers how the taxpayer files
- **Discuss areas to be examined:** reconciliations, sales, asset sales, purchases, asset additions, etc.
- **Discuss what audit procedures may be used:** sampling, detail
- **Discuss the anticipated length of the audit:** expectation of when final audit results may be issued
- **Discuss the statutory requirement regarding the confidentiality of records:** confidentiality agreements are not necessary
- **Obtain a statute of limitations waiver:** if needed
- **Obtain a Power of Attorney form from authorized person:** if needed

Initial discussions will help the auditor develop an understanding of what will need to be reviewed and to what depth. Refer to [Section P1300 • Audit Scope and Projection Procedures](#) for further guidance.

P1015 • Determining Fieldwork

(Referenced from [P520](#))

Many taxpayers can provide source documents in an electronic form, allowing the audit to be conducted remotely. Discussions with the taxpayer about reviewing records can help the auditor anticipate possible travel.

The auditor should not set fieldwork dates until there is sufficient data to identify how many records will be reviewed. When fieldwork has been determined, the auditor should:

- determine the location where records will be reviewed;
- estimate the amount of time needed for review; and
- obtain details regarding space available and the number of auditors that can be accommodated.

The auditor should confirm fieldwork at least two weeks prior to travel. Additional telephone contact should be made a few days prior to starting the audit to avoid problems with misunderstandings, undelivered mail, or any unforeseen circumstances. Refer to [Section P3400 • Audit Travel](#) for further guidance.

P1020 • Identify NAICS

North American Industry Classification System ([NAICS](#)) is the standard used by federal statistical agencies in classifying business establishments for collecting, analyzing, and publishing statistical data related to the U.S.

business economy. These six-digit codes are used to identify groups of businesses based on common and shared characteristics. [Redacted pursuant to Idaho Code § 74-107(15)]

[Redacted pursuant to Idaho Code § 74-107(15)] Taxpayers will generally provide a code when filing their income tax returns.

P1025 • Communicating Taxpayer Rights

(Referenced from [S105](#); [P940](#); [P1005](#))

All comprehensive auditors are required to communicate taxpayer rights, to the taxpayer being audited, at both the opening (pre-audit) and closing conferences. How the auditor presents those rights may vary depending on the audit.

Taxpayer Rights: The auditor must make the taxpayer aware of their rights, provided under Idaho laws, as well as those in Tax Commission rules and policies.

TITLE 63 REVENUE AND TAXATION		<u>WHAT ARE THE TAXPAYER RIGHTS?</u>
CHAPTER 40 TAXPAYERS' BILL OF RIGHTS		
63-4001	DEFINITIONS.	<p>The rights of a taxpayer, under Idaho Law as well as those in Tax Commission policies, include:</p> <ul style="list-style-type: none"> • <i>The Right to Quality Service</i> • <i>The Right to be Informed</i> • <i>The Right to Confidentiality</i> • <i>The Right to Representation</i> • <i>The Right to Appeal</i> • <i>The Right to Payment Options</i> • <i>The Right to Pay Only the Tax Owed</i> • <i>Other Rights</i> <p>The Taxpayer Bill of Rights are identified in Sections 63-4001 through 63-4011, Idaho Code. Auditors are responsible to know and understand taxpayer rights.</p>
63-4002	ACQUISITION OF LOCATION INFORMATION.	
63-4003	COMMUNICATION IN CONNECTION WITH TAX COLLECTION.	
63-4004	HARASSMENT OR ABUSE.	
63-4005	FALSE OR MISLEADING REPRESENTATIONS.	
63-4006	UNFAIR PRACTICES.	
63-4007	MULTIPLE TAX OBLIGATIONS.	
63-4008	RECORDING OF INTERVIEWS.	
63-4009	INSTALLMENT PAYMENTS.	
63-4010	QUOTAS PROHIBITED.	
63-4011	CIVIL LIABILITY.	

Taxpayer Responsibilities: The auditor will take time to explain the general audit process, including the taxpayer's legal responsibility to maintain and provide records. This allows the taxpayer to understand what is expected from them during the audit, as well as provide guidance on resolving any issues related to the audit, including audit procedures used or audit finding interpretations.

The taxpayer should have already received select publications (i.e., **Publication 647 • Idaho Taxpayer Rights**; **Publication 230 • Audits - Your Rights & Responsibilities**; **Publication 150 • Understanding a Sales and Use Tax**

Audit), explaining their rights and responsibilities, with the audit confirmation letter. However, the auditor may need to provide another copy during the pre-audit process (prior to conducting fieldwork) and post-audit conference (prior to submitting final audit findings for review). It is important the auditor fully covers all portions of the publication(s) and completely answer any questions the taxpayer may have about their rights at both the beginning and ending of the audit.

Note: As noted, the auditor is expected to discuss taxpayer rights and responsibilities at least twice with the taxpayer. These conversations will be documented in the Case Activity Record (CAR). Any questions the taxpayer has, and the auditor’s response, must also be documented in the CAR. Unusual issues or questions, such as a lack of records, or a taxpayer’s refusals to provide records, may be discussed in the Audit Notes.

P1030 • Audit Division Surveys

(Referenced from [P1005](#))

All comprehensive auditors are required to discuss audit surveys with the taxpayer at both the opening (pre-audit) and closing (post-audit) conferences. The auditor should explain that the taxpayer will have an opportunity to provide feedback on the audit process after the final audit findings have been issued, and that results are used to improve the Tax Commission’s relationship with the taxpayer.

<p style="text-align: center;">The Audit Division Survey is used to enhance the Tax Commission’s relationship with the taxpayer.</p> <p style="text-align: center;">Completed surveys show where educational efforts are strong or may be lacking.</p> <p style="text-align: center;">Taxpayer feedback identifies the kind of service provided through the process.</p> <ul style="list-style-type: none"> • <i>FAIRNESS</i> • <i>CONSISTENCY</i> • <i>COMPLIANCE</i> • <i>SECURITY</i> • <i>PULIC CONFIDENCE</i> 	<div style="text-align: right; font-size: small;">Letter ID: _____</div> <p style="text-align: center;">Idaho State Tax Commission AUDIT DIVISION SURVEY</p> <p style="font-size: x-small;">Your opinions about our customer service are important to us. Since you were recently contacted by a member of our audit staff, please help us by taking a few minutes to respond to the statements below:</p> <table style="width: 100%; border-collapse: collapse; font-size: small;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 5%;"></th> <th style="width: 5%; text-align: center;">Satisfy Completely</th> <th style="width: 5%; text-align: center;">Satisfy Mostly</th> <th style="width: 5%; text-align: center;">Neutral</th> <th style="width: 5%; text-align: center;">Dissatisfy Mostly</th> <th style="width: 5%; text-align: center;">Dissatisfy Completely</th> </tr> </thead> <tbody> <tr> <td colspan="7">1. The Tax Commission representative was:</td> </tr> <tr> <td style="padding-left: 20px;">a. 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Note: When a comprehensive audit is complete, the bureau’s administrative support staff will send a survey to the taxpayer, their representative, or both. Auditors will need to identify the appropriate taxpayer and applicable representative contact information (name, title) when submitting the audit for review. A survey may also be needed when the audit is resolved without issuing a notice of determination, but generally not required for an audit that has been canceled. *[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]*

P1100 • Reviewing Financial Records

P1101 • General Information

A review of financial records may be as extensive or limited as the situation dictates. It begins by discussing with the taxpayer how transactions are documented and to what level of detail. Some may track every transaction, while others will summarize business activity. Auditors should not assume that every taxpayer maintains financial records in an identical manner. It is necessary to have a complete understanding of each taxpayer's books and records to know what to request and how an analysis of financial records should be conducted.

P1105 • Understanding Accounting Cycle

After discussing with the taxpayer their business practices and procedures, the auditor needs to become familiar with how the taxpayer records and processes each transaction from beginning to end. Understanding the accounting cycle helps the auditor identify available accounting records and assists in the review for accuracy and completeness. A basic account cycle may include:

Transactions: what is tracked

Journal Entries: chronologically recording transactions in the source ledger

General Ledger: posting a summary of the transactions to individual accounts

Trial Balance: calculating balance of those accounts

Adjusting Entries: correcting errors and posting adjustments to accounts

Financial Statements: balance sheet and income statement preparation from adjusted balances

Closing: revenue and expense accounts are closed or zeroed out for the next accounting cycle

Note: Some industries may use an accounting cycle based on activities rather than using calendar months. Instead, they may use a **4-5-4** calendar or a **4-5-5** calendar. Auditors must take this into account when reconciling sales and use tax accruals for taxpayers that file monthly.

ACCOUNTING CALENDARS – MANAGING ACCOUNTING PERIODS

A **4-5-4** calendar divides a year into four quarters. Each quarter has 13 weeks. The **first** and **last** month of each quarter has **four** weeks. The **middle** month of each quarter has **five** weeks.

A **4-5-5** calendar divides a year into four quarters. Each quarter has 13 weeks. The **first** month of each quarter has **four** weeks. The **middle** and **last** month of each quarter has **five** weeks.

P1110 • General Financial Statements

A review of financial statements may provide a more complete overview of the condition of a business and can be useful in audit as well. They are generally comprised of the following:

Balance Sheet

A balance sheet is a statement of assets, liabilities and owner's equity at a specific point in time.

For Audit: A review of the balance sheet can reveal sales and use tax accruals, sales and use tax payment, and use tax accrued on asset purchases.

Income Statement

An income statement, sometimes referred to as a profit and loss statement, shows revenues and expenses for a specific accounting period.

For Audit: A review of an income statement may reveal sales tax paid to vendors (expense) and use tax accrued on expenses

Statement of Cash Flows

A statement of cash flows summarizes the flow of cash in and out during the reporting period for operating, financing, and investing activities.

For Audit: A review of a statement of cash flows may reveal information about inventories, accounts payable, prepaid expenses, and even sales and purchases of equipment.

Statement of Retained Earnings

A statement of retained earnings shows changes in equity that occurred during a reporting period.

For Audit: Not generally reviewed since it does not provide information from an operational perspective. This statement is more commonly used when issuing financial statements to outside investors and lenders.

P1115 • General Ledger

The general ledger is a detailed or summarized compilation of all financial transactions within a business recorded on a specific document, used to create financial statements. It contains a debit and credit entry for transactions, so that total debits match total credits. If the taxpayer records every transaction in a subsidiary or source ledger, the general ledger may only contain summary data. In this case, the general ledger may not be the source ledger for recording transactions. Knowing this will help auditors select the best ledgers for review.

A general ledger is comprised of all the individual accounts needed to record the assets, liabilities, equity, revenue, expense, gain, and loss transactions of a business. When examining the available accounting records, understanding the basic accounting equation and the normal account balances is important. This will help the auditor identify and select the appropriate transactions.

For Audit: When the general ledger detail is obtained for audit purposes, several of the most material expense account totals can be compared to the income statements or trial balance sheets for the same period. An auditor may compare several expense account totals to the general ledger balances for the same period. If accounts payable data was obtained for audit purposes, a reconciliation is performed to identify differences due to entries from other journals (Payroll, General Journal, Accounts Receivable, etc.).

ASSETS = LIABILITIES + OWNER'S EQUITY				ACCOUNT TYPE	NORMAL BALANCE	
ASSETS			LIABILITIES			
Cash	D E B I T		Accounts Payable	C R E D I T	Asset	Debit
Supplies			Notes Payable		Liability	Credit
Inventory			Bonds Payable		Revenue	Credit
Accounts Receivable			Wages Payable		Expense	Debit
Prepaid			Interest Payable		Gain	Credit
Property/Plant/Equipment			Taxes Payable		Loss	Debit

Note: Auditors should always ask the taxpayer how they track their sales and purchases, and how much detail is recorded. Smaller companies or certain industries may not use a general ledger or may call it something else. Some general ledgers may be prepared by a third party and only contain summary data that has been provided from the taxpayer. Although it is usually appropriate to request a general ledger, auditors should have the correct expectation of its content and how it can be used for the audit.

Chart of Accounts

A chart of accounts is a listing of all accounts used in the general ledger. It is usually sorted by account numbers, and in the order of appearance in the financial statements. The following is an example of how accounts may be structured:

BALANCE SHEET ACCOUNTS	
ASSETS	1000 - 1999
LIABILITIES	2000 - 2999
OWNER'S (STOCKHOLDER'S) EQUITY	3000 - 3999
INCOME STATEMENT ACCOUNTS	
OPERATING REVENUES	4000 - 4999
JOB COSTS/COST OF GOODS SOLD	5000 - 5999
OPERATING EXPENSES	6000 - 6999
NON-OPERATING REVENUES AND GAINS	7000 - 7999
NON-OPERATING EXPENSES AND LOSSES	8000 - 8999

The chart of accounts is useful in identifying accounts of interest for audit and to check for completeness of the general ledger.

Note: Auditors should ask taxpayers about accounts that are in the chart of accounts but are not in the general ledger. And, ask about any accounts that may have been used in one period but not another.

P1120 • Trial Balance

The trial balance is a listing of the general ledger accounts, with all debits and credits, run at the end of an accounting period, showing the ending balance of account.

A trial balance is different from the other financial statements because it is the only one that lists all accounts; the income statement and the balance sheet split the accounts, and the cash flow statement (sources and uses) uses the same accounts as the balance sheet.

For Audit: Account totals shown on a trial balance should reconcile to the general ledger that was provided.

P1125 • Subsidiary Ledgers and Special Journals

Auditors should always review the original (source) books of entry used to create the general ledger entries. Taxpayers may utilize subsidiary ledgers or special journals. Some may use a combination of source ledgers; one to record sales and another to record purchases. However, with the prevalent use of electronic accounting systems, many subsidiary ledgers and special journals may not exist.

General Journal

A general journal is a chronological record of all transactions, with each transaction affecting at least two accounts. It shows an explanation of each transaction, affected accounts, and the amount the account was increased or decreased.

Example: A taxpayer may record the collection of sales tax on sales by crediting a sales tax liability account. Conversely, when sales tax is paid, the liability will be debited.

RECORD July 1 sale, ID tax 6%				RECORD July sales tax paid			
DATE	ACCOUNT	DEBIT	CREDIT	DATE	ACCOUNT	DEBIT	CREDIT
07/01/2016	Accounts Receivable	106.00		08/20/2016	Sales Tax Liability - July	6.00	
	Sales		100.00		Cash		6.00
	Sales Tax Liability		6.00				
(To record sales and sales tax liability)		<u>106.00</u>	<u>106.00</u>	(To record sales tax liability remitted)		<u>6.00</u>	<u>6.00</u>

Sales Journal

The sales journal is a specialized subsidiary ledger used to track the sales of items that customers have purchased. It also provides a summary of invoice information for sales made on credit (accounts receivable), and typically includes transaction date, account number, customer name, invoice number, and sale amount.

Note: Entries should be analyzed to determine if the proper sales or revenue accounts were properly credited (the accounts receivable would be debited). This would include any sales tax liability or accrual accounts.

Cash Receipts Journal

The cash receipts journal is a subsidiary ledger used to track cash received from sales. It can also be used to track sales made by check, debit card, or money order.

Note: Entries should be analyzed to determine if the proper sales or revenue accounts were properly credited. This would include any sales tax liability or accrual accounts.

Accounts Receivable Ledger

An accounts receivable ledger is a subsidiary ledger used to record credit sales made to customers. It is a current asset account and is expected to have debit balance. Information recorded typically includes invoice date, invoice number, customer name, description or code identifying what was sold, and total amount billed. Some may include information on sales tax liability as well.

Note: Entries should be analyzed to determine if the proper sales or revenue accounts were properly reported in the correct time period. Auditors should consider reviewing bad debts that may have affected any sales tax liability. The auditor should also examine the accounts receivable from the owners, partners, officers, or employees of a firm for evidence of taxable sales or services not otherwise recorded in the sales or revenue accounts. An examination of partners' drawing accounts and employees' advance accounts could also reveal undocumented sales.

Cash Payment or Disbursement Journal

The cash payments or disbursement journal is a specialized subsidiary ledger used to track cash payments or purchases made. It can also be used to track purchases made by check, debit card, or money order. Smaller businesses may use check registers as their journal. When that occurs, auditors should consider an examination of cash accounts for use of multiple bank accounts, which could indicate the use of multiple check registers.

Note: Entries should be analyzed to determine if the proper expense accounts were properly debited. This would include any use tax liability or accrual accounts.

Purchase Journal

The purchase journal is a specialized subsidiary ledger used to track purchases. These are purchases made on credit that typically include office supplies, services, and resale goods. Any transaction entered into the purchases journal involves a credit to the accounts payable account and a debit to the expense or asset account to which a purchase relates. For example, the debit relating to a purchase of office supplies would be to the supplies expense account. The journal also includes the recordation date, the name of the supplier being paid, a source document reference, and the invoice number. Optional additions to this basic set of information are the payment due date and authorizing purchase order number.

Note: Entries may be made in the purchase journal for sales at cost or returned merchandise. Inventory withdrawals which should have been reflected in the inventory accounts may also appear as credits in the purchase journal. These postings should be examined for taxable sales or services.

Accounts Payable Ledger

An accounts payable ledger is a subsidiary ledger used to record credit purchases from a supplier of goods or services. It is a current liability account and is expected to have a credit balance. Information recorded typically includes invoice date, invoice number, vendor name, description or code identifying what was purchased, and total amount purchased. Some entries may also include information on taxes paid.

Note: Entries should be analyzed to determine if the proper expense accounts were properly recorded in the correct time period. Auditors should consider reviewing credits to expense accounts for returns, goods received but not invoiced, and invoice-specific accounts. A credit entry will increase the balance in Accounts Payable and a debit entry will decrease the balance.

P1130 • Asset Analysis

Auditors should analyze fixed asset accounts, including leasehold improvements and construction in progress, to determine if any purchases and sales of assets were recorded. Credit entries may represent asset deletions that may have a sales tax consequence.

Note: If a taxpayer does not separately track fixed asset purchases, other accounts or source documents may need to be reviewed. Auditors should discuss where these types of purchases are recorded in order to address them in the audit.

Auditors should also analyze prepaid/deferred assets accounts to determine if the entries indicate a true prepayment and not installment payments on items already purchased. A prepaid asset is an expenditure of money in advance of when the money is due. **Example:** A taxpayer might pay up front for supplies or advertising materials, even though the payments are due monthly. Under accrual accounting, a part of prepaid assets is converted to actual expenses in a later month.

Note: The tax obligation generally occurs when the taxpayer is billed or when the item is received. Prepayments included in a sample could distort results if a purchase has not yet been made.

Refer to **Sections [P1210 • Items Subject to Sales Tax](#)** and **[P1215 • Items Subject to Use Tax](#)** for further guidance.

P1135 • Tax Accrual Analysis

Tax accrual accounts are used to account for any sales and use tax obligations. Auditors should understand how the taxpayer uses accrual accounts to determine any potential liability. Taxes properly accrued must be remitted in a timely manner. Accruals should be traced to payable accounts.

Sales Tax Accrual: This generally represents the actual amount of sales tax collected and accrued by period. However, amounts could also include sales tax obligations from other sales activities, such as sales through vending machines.

Taxpayers may adjust the sales tax accrual accounts for various reasons, including:

- refund of sales tax to the customer on returned merchandise;
- refund of sales tax to the customer on an exempt purchase;
- administrative correction – sales tax accrued to wrong state; and
- administrative correction – sales tax over accrued, but not collected.

Any sales tax collected from a customer must be accounted for and remitted in full when due. Auditors should review any adjustments to ensure they are valid.

Note: Any Idaho sales tax collected, even if in error, is property of the state, and must be remitted or refunded. All taxes collected are required to be remitted by the 20th day after each reporting period.

- | | |
|---|---|
| <ul style="list-style-type: none"> • Is a sales tax accrual account being used? • Is all tax accrued reported here? • Are there adjustments to accruals, other than for payments on tax returns? | <ul style="list-style-type: none"> • What are the sources of its entries? • Has everything accrued been paid? |
|---|---|

Use Tax Accrual: This generally represents the amount of use tax accrued on taxable purchases where sales tax was not collected by the vendor. Auditors should analyze accruals to identify purchases on which tax was accrued and trace to payable accounts and sales tax return working papers. Adjustments taken after taxes have been paid should be reviewed.

Note: Auditors should not automatically hold taxable any purchase where tax was accrued but not paid. The taxpayer is only obligated to pay tax on what is legally owed, not on what they accrued. **Example:** The taxpayer may have errantly accrued use tax on an exempt purchase, and then reversed or cancelled it.

P1140 • Revenue Accounts Analysis

Auditors should identify all sources of revenue to determine if any potential sales tax liability exists. This includes an examination of miscellaneous income, services income, rental income, and other income accounts to determine if they contain retail sales. In addition, gains or losses for asset sales or disposal could indicate a retail sale with potential tax consequences.

All sales accounts should be reviewed for unusual entries during the audit period that increase or reduce overall revenue. This may include adjustments for discounts, returns, and bad debts. Since revenue accounts affect income statements, reconciliations can be made to trial balances and financial statements for specific periods. Exceptions may disclose incorrect postings, missing invoices, or incomplete data.

Note: Some accounts may have been added, removed, or not utilized during the audit period. A chart of accounts can be used to quickly identify revenue and income accounts.

P1145 • Expense Accounts Analysis

Auditors should identify all expense accounts to determine if any potential use tax liability exists. This may include cost of sales accounts (e.g., resale inventory) for possible taxable accounts and/or activity within accounts that generally are not expected to include taxable transactions, such as shop supplies purchased by a repair shop.

All expense accounts should be reviewed for unusual entries during the audit period that increase or reduce overall expenses and liabilities. This may include adjustments for discounts and returns. Since expense accounts affect balance sheets and income statements, reconciliations can be made to trial balances and financial statements for specific periods. Exceptions may disclose incorrect postings, missing invoices, or incomplete data.

Note: A chart of accounts can be used to quickly identify expense and purchase accounts.

P1200 • Developing an Audit Plan

(Referenced from [P620](#); [P625](#); [P1010](#))

P1201 • General Information

The audit plan provides a general roadmap for both the auditor and taxpayer of what will be reviewed and to what extent. Although audit techniques may vary with size, type, and taxpayer record keeping system, the direction of the audit will be substantially the same in most cases. Elements reviewed in an audit generally include:

- verification that all Idaho sales were accurately reported on tax returns;
- determination that sales tax was properly collected on taxable transactions and remitted to the state;
- verification that non-taxed sales were properly documented; and
- determination that the taxpayer has properly paid tax on all taxable purchases.

An effective audit plan requires a thorough understanding of the taxpayer's business and properly identifying areas that need to be reviewed.

Note: An audit plan is different from an audit sampling plan, which would identify methods for selecting records to be examined. Refer to **Sections [P625 • Audit Sampling Plan](#)**, and **[P1310 • Developing an Audit Sampling Plan](#)** for further guidance.

P1205 • Understanding Internal Controls

(Referenced from [P1010](#))

The taxpayer's system of internal control must be analyzed and evaluated to determine the reliability of the records being examined. The depth of the audit examination is determined in great part by the reliability of the taxpayer's internal control system. Not all internal controls used in financial reporting are relevant to an audit. Each system, with the potential of materially misstating sales and purchase information, must be analyzed for specific strengths and weaknesses. Some characteristics of good internal controls include:

- access controls
 - adequate protective measures (e.g., passwords, etc.)
 - adequate supervision of duties
- approved authority
 - adequate system of authorization
 - internal verification
- separation of duties
 - clearly defined responsibility for each function
- standardizing documents
 - adequate source documentation

Access controls involves controlling access to different parts of an accounting system. It is important to understand who grants access, who has access, and how access is granted (such as using passwords).

Approval authority involves requiring specific authorization for certain types of sales and purchase transactions. Risk of errors or fraudulent activities are reduced when accounting records that have been seen, analyzed, and approved by appropriate authorities.

Separation of duties involves splitting responsibility for bookkeeping, deposits, reporting, and auditing. When a single employee has full access, the potential for errors or fraudulent acts increase. When critical tasks are performed by two or more people or require a review by someone else, the risk is reduced.

Standardizing documents involves maintaining consistency in source documents used for financial transactions, such as sales invoices, purchase orders, and expense reports. Standard document formats, such as using chronological numbering for each transaction, can make it easier to review transactions and check for completeness.

Auditors should have the taxpayer conduct a simple walk-through of how transactions are processed to confirm their understanding of the taxpayer's accounting system. The auditor should be able to follow a transaction from its origin, through the taxpayer's accounting system, until it is reflected in financial records. Having a better understanding may assist in identifying areas that are more likely to be at issue that would not have been identified without the walk-through.

P1210 • Items Subject to Sales Tax

(Referenced from [P1130](#))

Taxpayer sales records will be examined to ensure all taxable sales have been reported and properly taxed. The auditor will also verify that all sales tax collected from taxpayer customers was remitted. For any sales not taxed, the auditor will review all supporting documentation. This would also include any sales tax exemption certificates that have been accepted.

Note: Sales invoices are source documents and usually represent the original record of a transaction. Taxpayers may have multiple copies of invoices; one copy of sales invoices may be filed in numerical while another copy may be filed by customer number. Taxpayers may also have multiple sets of invoices; for example, one set for parts sales and one set for repair/service sales. It is a necessary part of audit procedure to examine a representative number of these invoices to determine:

- how the transactions are recorded on the invoices;
- if tax was properly assessed; and
- how the invoices are filed (invoice number, customer's name, transaction date).

Sales Tax Exemption Certificates

Some sales are exempt from tax. These sales usually fall into one of the following categories:

- buyer is exempt;
- buyer's industry is exempt;
- goods will be put to an exempt use;
- goods will be resold; or
- buyer has been granted Direct Pay Authority (buyer will remit applicable taxes to the state themselves).

The exemption certificate provided to the seller by the purchaser must:

- include the name and address of the purchaser;
- be signed by the purchaser or their agent;
- indicate the permit number issued to the purchaser or that the purchaser is an out-of-state retailer (if purchasing for resale);
- describe the primary nature of the business; and
- indicate the general character of the tangible personal property sold by the purchaser in the regular course of business.

The auditor will review exemption certificates to ensure the exemption is valid. For exempt purchases other than for resale, the exemption claimed must exist as a matter of law, and the goods purchased must be consistent with the exemption claimed. Refer to **Section 63-3622, Idaho Code**, for further guidance.

Note: No exemption certificate is needed for items that are specifically exempt by statute or shipped out-of-state by vendor. However, records must clearly show why the transaction was exempt.

Although the most common exemption form used is the ST-101 (Sales Tax Resale or Exemption Certificate), other prescribed forms may be used, depending on circumstances:

<i>New Resident or Nonresident Military (Use Tax Exemption)</i>	<i>ST-102</i>
<i>Nonresident Military (Use Tax Exemption)</i>	<i>ST-102NM</i>
<i>Cash Purchases (Qualifying Government Agencies)</i>	<i>ST-104G</i>
<i>Lodging Accommodations (Qualifying Credit Card Payment)</i>	<i>ST-104HM</i>
<i>Interstate Commerce Vehicles (IRP)</i>	<i>ST-104IC</i>
<i>Vehicle/Vessel (Non-Resident Purchase; Interstate Carrier)</i>	<i>ST-104MV</i>
<i>Vehicle/Vessel (Non-Resident Purchase)</i>	<i>ST-104NR</i>
<i>Park Model Recreational Vehicle (Modification Affidavit)</i>	<i>ST-108PM</i>
<i>Occasional Sale (Office Trailer, Transport Trailer)</i>	<i>ST-108TR</i>
<i>Boat Registration Sales Tax Affidavit</i>	<i>ST-109</i>
<i>Grocer with Records Reduction Authority</i>	<i>ST-111</i>
<i>Family or American Indian Sale</i>	<i>ST-133</i>
<i>Capital Asset Transfer</i>	<i>ST-133CATS</i>
<i>Gift Transfer Affidavit</i>	<i>ST-133GT</i>

Special rules apply for occasional sellers and sales to qualifying United States diplomats.

Product Sales

A review of product sales generally requires the auditor to:

- **examine sales summary records** (e.g., general ledger sales accounts, sales journals). Trace non-taxed sales to sales invoices. Consider services, discounts, freight-in and freight-out.
- **examine sales invoices**. Test check against sales summary records to account for all sales. If serially numbered, account for all invoices by visual verification.
- **review taxed sales** for proper application and calculation of tax.
- **examine resale and exemption certificate file** for validity and completeness.

Note: A detailed review of whole unit sales may be more appropriate than sampling.

Fixed Asset Deletions

An examination of fixed asset records (e.g., general ledger, fixed asset accounts, gain or loss accounts, recapture of Idaho Investment Tax Credit, depreciation schedules) could reveal unreported taxable sales. A retailer that sells assets or other items of tangible personal property must treat the sale as a retail sale even when it is something not sold in its regular course of business. These types of sales should be traced to source documents for proper tax application.

Miscellaneous Income

An examination of all income records (e.g., general ledger, deposits) or accounts could reveal other sales subject to sales tax. Income may be derived from other activities such as employee sales, scrap and by product sales, rental sales, vending machine sales and other miscellaneous sales. Auditors should discuss with the taxpayer all revenue sources to determine how to proceed.

Verification of Total Sales

The auditor must be completely familiar with how the taxpayer documents and reports their sales. If the company reports sales to other states, the auditor should also understand how the taxpayer identifies and tracks Idaho sales. When determining total sales, auditors should consider:

- reviewing the chart of accounts for revenue accounts;
- reviewing the taxpayer method of reporting sales (journals/ledgers, accounts);
- reviewing income/revenue accounts that are not used to report sales;
- determining how Idaho sales are recorded (customer name, mailing address, billing address, other);
- determining how cash sales are handled;
- determining how credit sales are handled;
- determine how returns and refunds are handled;
- determining how intercompany sales and transfers are handled; and
- determining how bad debts are handled.

Taxpayers should explain how they report sales on tax returns. Auditors should be able to recreate the same results using taxpayer records.

Reconciliation of Total Sales

A complete reconciliation of total sales is conducted to determine completeness of records and identify revenues that are not reported as sales. Auditors should consider:

- reconciling total sales per detail sales records to total sales per summary sales records;
- reconciling summary sales records to sales recorded in the general ledger;
- reconciling sales recorded in the general ledger to sales reported in the financial statements, such as an income or profit/loss statement;
- reconciling sales recorded in the general ledger to sales reported on sales tax returns; and
- reconciling sales reported on sales tax returns to sales reported on income tax return.

The auditor should be able to identify revenue/income that has not been reported to the state to determine any potential sales tax liability.

Note: Auditors must always verify the completeness of records that were made available for the audit. The original books of entry (sales journal, accounts receivable ledger, cash receipts journal, etc.) should be traced to source documents, such as sales invoices, and vouched to the general ledger accounts to ensure that all sources of sales were recorded/provided. A test period within the audit period may be used. When discrepancies are found, the auditor should examine additional periods to determine if the unrecorded or erroneously recorded transactions were isolated or recurring. Unusual recordings should be further scrutinized.

Verification of Sales Tax Collected

Taxpayers are required to account for all sales taxes collected from their customers. When sales tax is charged, auditors must verify how much is collected, identify which transactions are taxed, and understand how tax is accounted for. Auditors should consider:

- Reviewing source sales documents, such as sales invoices
 - Does the taxpayer charge sales tax?
 - Does the taxpayer charge the proper sales tax rate?
 - Does the taxpayer separately state sales tax from the selling price?
 - Does the taxpayer incorrectly include sales tax in the selling price?
- Analyzing types of transactions that are taxed and not taxed
 - Does the taxpayer identify sales of specific transactions as non-taxable?
 - Does the taxpayer identify sales to specific industries as non-taxable?
 - Does the taxpayer identify sales to specific customers as non-taxable?
- Determining how sales are recorded
 - Does the taxpayer use a specialized ledger?
 - Does the taxpayer record sales transaction detail?

- Does the taxpayer separately record sales tax?
- Does the taxpayer enter sales at the end of each day?
- Does the taxpayer record sales by a calendar day or by a period of time?
- Does the Point-of-Sales (POS) system, if used, accurately record all sales?
- Determining how taxable sales are recorded
 - Does the taxpayer include sales tax in their gross sales figures?
 - Does the taxpayer include tips or gratuities in their gross sales figures?
 - Does the taxpayer separate sales tax from the selling price?
 - Does the taxpayer include sales tax in the selling price?
 - Does the taxpayer track tax collected using sales tax accrual accounts?
- Determining how exempt sales are recorded
 - Does the taxpayer separately record exempt sales?

If the company reports sales into Idaho from other states, the auditor should also understand how the taxpayer identifies and tracks Idaho sales and tax collected from out-of-state locations and vice versa.

Reconciliation of Sales Tax Collected to Remitted

A reconciliation of sales tax collected to sales tax remitted is required for the entire audit period. Taxpayers can track the amount of sales tax collected using accrual accounts. Totals of accrued sales taxes can be found in the general ledger sales tax payable account, a sales journal that includes a sales tax entry, or any other type of sales listing that includes a sales tax entry listed from the source documents showing total sales tax charged. The auditor should verify that all sources of sales tax were included in the total sales tax accrual amounts reported. When the taxpayer has multiple locations and/or multiple sales journals, the auditor should verify that all sources of sales tax were posted to the sales tax accrual account for the audit period.

- Sample invoices for taxes collected and compare to sales tax accruals.
- Compare tax accruals (sales tax payable accounts) to sales tax reported on returns.
- Review debit entries to sales tax accrual accounts for reductions other than payments. This may include refunds of tax or adjustments for bad debt.
- Review any credit entries for possible tax collections from sources not previously known.
- Verify any adjustments claimed on sales tax returns against what was remitted. Refer to **Section P1220 • [Adjustments or Amendments to Claimed on Returns](#)** for further guidance.

Note: Retailers are required to remit all taxes collected from purchasers, even when collected in error, except any difference that may result from use of the bracket system, or when tax was properly refunded to their customer.

P1215 • Items Subject to Use Tax

(Referenced from [P1130](#))

Auditors will review taxpayer purchase records to ensure that tax was properly paid on any asset additions or other items that were purchased for personal or company use. This may include items originally purchased tax exempt, but later put to a taxable use. For any purchases that were not taxed when acquired, the auditor will verify whether tax did not have to be paid or if tax is still due. Source documents, such as vendor invoices, should be reviewed for tax consequences and traced to source ledgers to verify completeness of entries.

Methods of Payments

Taxpayers may utilize different methods of payments to make purchases of goods and services.

Cash purchases may be recorded in a cash disbursement journal.

Check purchases may be recorded in a check register; third party records may include bank statements.

Debit Card purchases may be recorded in a check register; third party records may include bank statements.

Credit Card purchases may be recorded in a purchases journal; third party records may include credit card or bank statements.

Purchase Card purchases may be recorded in a purchases or procurement journal; third party records may include credit card or bank statements.

Invoiced purchase amounts may be recorded in the general ledger or in specialized ledgers. The auditor should discuss with the taxpayer how purchases are recorded. When purchase detail is not documented or not complete, the taxpayer may be requested to provide bank records, such as bank or credit card statements.

Note: Auditors may use bank statements to validate entries in the taxpayer's ledgers and to test for completeness. However, it is not bureau practice to request all bank statements, covering the entire audit period, for every audit.

Ordinary Expenses and Purchases

Taxpayers routinely purchase goods and services that are not resold nor put to a qualified exempt use.

Ordinary expenses are the non-asset purchases that are typically used in the normal course of business.

Auditors should discuss with the taxpayer how these purchases are recorded (e.g., general ledger expense accounts, cash disbursements journal, accounts payable) and to what level of detail. In addition, some goods may be purchased on an as-needed basis or outside the normal scope. These could be considered extraordinary and may need to be addressed separately when sampling.

Any credits to expense accounts should also be reviewed to determine what occurred. Understanding credits will assist the auditor in addressing them in the audit. Material credits could indicate items that were returned or discounted. Other credits could indicate sales, which could be an income account disguised as an expense account, or a situation where a taxpayer uses an offset to expenses to record irregular sales.

Auditors need to discuss with taxpayers how credits will be addressed in the audit. Refer to **Section [P1235 • Handling Refunds in an Audit](#)** for further guidance.

Prepaid Expenses or Deferred Charges

Prepaid expenses are future expenses that are paid in advance. It is shown on the balance sheet as a current asset until it is consumed. Most prepaid assets are consumed within a year. Examples of prepaid expenses include insurance, leases, rentals, and office supplies. Auditors should examine asset records and trace to source documents for proper tax application.

Note: The potential tax consequence is generally not recognized until the item has been billed or received.

Inventory Withdrawals

An inventory withdrawal occurs when a taxpayer removes items from their resale inventory for consumption by the taxpayer, giveaways, or donations. Auditors should identify any potential accounts that may be used to record inventory withdrawals. A review of any unusual credits to inventory accounts could also indicate items removed from the resale inventory.

Note: When an owner withdraws goods for personal use, their draw account would be debited and the inventory account would be credited.

Contractors or Subcontractors Purchases of Materials

Contractors include prime contractors, general contractors, subcontractors, and speculative builders. They are the consumers (end users) of all the goods they use. As a result, they must pay sales tax on all purchases, including all equipment, tools, and supplies they use to build, improve, repair, or alter real property. The property may be commercial, residential, or for a government entity.

Auditors should examine purchase records (e.g., general ledger purchases, expense and inventory accounts, cash disbursements journal, accounts payable, job cost files) and trace to source documents for proper tax application. In addition, a review of contract files (plans and specifications) could show materials supplied by project owners, government entities, or other contractors. Consideration should be given to subcontractors that furnish materials only, transfers of equipment into Idaho, out-of-state suppliers, and out-of-state delivery for use in Idaho.

Bulk Purchases of Parts and Supplies for Mixed Use

Taxpayers may keep bulk inventories of parts and supplies used in both taxable and exempt activities. Auditors should discuss with taxpayers to determine if tax was paid when purchased or accrued when issued from inventory. Purchase records should be examined and traced to source documents for proper tax application.

Fixed Asset Additions

Fixed assets are tangible items purchased for use in the business and not intended for resale. They generally have a life of over a year and are depreciated for tax purposes. The exact category types of fixed assets (e.g., computers, furniture, fixtures, vehicles, equipment) will vary by business and industry.

When examining fixed assets, auditors should consider:

- examining fixed asset records (e.g., general ledger fixed asset accounts, gain or loss accounts, depreciation schedules, construction in progress accounts, leasehold improvements), and tracing to source documents for proper tax application;
- reviewing authorizations for capital expenditures;
- reviewing assets reported on income tax returns (e.g., depreciation schedule, Idaho Investment Tax Credits, changes in the balance sheet, changes in the property apportionment factor, capital gains or losses);
- reviewing transfers of assets from production to non-production areas; and
- reviewing transfers of assets into Idaho from outside of Idaho.

Note: Taxpayers may have a detailed depreciation procedure that specifies exactly how fixed assets are categorized and depreciated based on its assigned asset class. Understanding this may help identify fixed asset accounts and determine when items may have been acquired.

Use Tax Verification

Auditors need to understand how the taxpayer identifies purchases not properly taxed, calculates the tax due, accrues the tax, and codes the invoice to show that tax was accrued. Audit procedures for a use tax review include:

- reconciling use tax accruals to use tax reported on sales and use tax returns;
- reviewing supporting documentation for use tax reported on sales and use tax returns;
- identifying purchases accrued on but not paid;
- understanding material fluctuations of use tax reported on sales and use tax returns;
- verifying that taxes accrued from purchase invoices are recorded in the use tax accrual account;
- tracing coded purchases to use tax accrual accounts;
- tracing adjustments to supporting documentation; and
- verifying supporting documentation on non-taxed transactions where the taxpayer notes that sales tax was remitted to their vendor.

When reviewing purchase invoices, items not properly taxed by the vendor should be traced to the use tax accrual account.

Note: It should be clear what items use tax was paid on. When recurring errors are found in the taxpayer's use tax reporting, the records may not be reliable. In that case, the auditor may want to consider any use tax reported as an offset to overall liability.

P1220 • Adjustments or Amendments Claimed on Returns

(Referenced from [P1210](#))

Adjustments for additional tax due or credits claimed are often made on the next return due after the adjustments are discovered. When adjustments are recorded on line 7 of a sales and use tax return form, they must be accompanied by an explanation and any documents supporting the claimed adjustment. When appropriate, it must be verified that the state received the tax before the adjustment was taken. Auditors will review the taxpayer's supporting documentation for any adjustments made.

Circumstances that may allow claiming adjustments or amending prior returns may include a refund of tax, payment of tax in error, accounting errors, or bad debt. Refer to [Section P2900 • Refund Audit](#) for further guidance.

Refund of Sales Tax

Debits to the sales tax accrual account may be taken for sales that were rescinded, refunded, or taxed in error.

Accounting Errors

Deductions for accounting or bookkeeping errors may be claimed when the taxpayer can show that no liability existed. This may occur when a retailer transposes numbers on sales or when sales were overstated.

Note: The auditor must ensure the adjustment does not include actual sales tax collected, even if in error, from the customer and remitted to the state.

Bad Debt

Deductions for a bad debt may be claimed when a seller has remitted sales tax to the state, but the customer has defaulted on their obligation to pay. Sales on which no tax was remitted cannot be claimed as bad debts for sales tax purposes. The person claiming the adjustment must own the debt and make the adjustment within three years the tax was paid to the state. Examples include:

- **insufficient funds** – when a retailer accepts payment for goods with a check, which fails to clear the bank, a credit to sales tax remitted may be taken if the vendor cannot collect the amount owed on the sale.
- **unsecured credit sales** – when a retailer is not able to collect on an accounts receivable from an unsecured sale of taxable tangible personal property, an adjustment to sales tax owed may be claimed on line 7 of the sales and use tax return for the period the adjustment was made.
- **secured credit sales** – when a retailer is not able to repossess the property sold, an adjustment to sales tax payable may be claimed on a sales and use tax return for the period in which the adjustment was made. The process can be very complicated when the sales transaction includes both taxable and non-taxable components, such as optional warranties, trade-ins, and delivery charges.

Note: Special rules apply when collateral is repossessed and seasonably resold.

When claiming a bad debt deduction, taxpayer records must show:

- date of sale;
- name and address of the purchaser;
- amount on which the retailer charged tax;
- amount of the invoice (taxable and nontaxable charge);
- partial payments or trade-ins applied to the debt;
- evidence that the uncollected amount has been designated as a bad debt and has been written off; and
- evidence that a bad debt deduction has been or will be claimed for income tax purposes

Refund claims for qualified bad debt must be submitted in writing within three years from the time tax was paid to the state. Only the person who ultimately bears the loss if the purchaser defaults on payment obligations may claim an adjustment or refund for a bad debt. In most cases, this may be the retailer that made the original sale, paid the sales tax to the state, and carries the loss for any non-payment. However, special rules apply to bad debts assigned to a third party, such as a financial institution

Bad Debts and Repossession, Rule 063

Sales Price, Section 63-3613, Idaho Code

Refund requests from auto dealerships and finance companies may pose a challenge based on available records, allocation of payments, rules regarding repossession, and amounts claimed.

Some procedures used by taxpayers to record a bad debt may vary depending upon the accounting methods and procedures used, and may include:

- **writing-off a specific invoice or transaction tied directly to a bad debt expense** (Debit to Bad Debt / Credit to Accounts Receivable);
- **writing-off estimated bad debts** – when a taxpayer estimates bad debts based on historical information by recording the amount in an allowance for doubtful accounts (Debit to Bad Debt / Credit to Allowance for Doubtful Accounts);
- **consolidating debts** – when a taxpayer consolidates all account balances, even those that were not originally taxed; and
- **charging an account other than bad debt expense** – when a taxpayer charges a loss directly against sales accounts or cost of goods sold instead of a bad debts expense account.

The amount of bad debt usually appears as a line item in the income statement, generally within operating expenses. Auditors should examine the accounting records and federal income tax returns to determine if bad debt deductions have been properly computed and written off. Verification of deductions can be made by:

- examining individual accounts receivable write-offs;
- determining if all payments and/or credits were applied to the total sales amount; and
- verifying that any unpaid balance is applicable to a taxable transaction.

In addition, auditors should review accounting records to determine if any collections have been made on bad debts previously written off. If a bad debt previously written off has been recovered, the bad debt adjustment taken should be reversed and any sales tax due should be paid.

P1225 • Other Areas Examined

When conducting an examination, situations may arise that require adjustments to the audit plan. This may include:

- reviewing other tax types or fees not previously identified; and
- reviewing motor fuels records where credit has been taken on Idaho Form 75 or when state motor fuel tax has not been paid.

Any new issues that would require a review of additional permits or a major change to the audit plan need to be discussed with the auditor's manager before being pursued. Areas that are not within the general scope of this bureau may need to be referred to the appropriate bureau or audit section.

P1230 • Reciprocity of Taxes Paid

Idaho allows a credit of taxes properly paid to another state when:

- the tangible personal property subject to use tax has been subjected to a general retail sales or use tax by another state of the United States; and
- the amount of tax paid was equal to or greater than the amount of tax levied by Idaho.

If the tax correctly paid to another state is less than the amount of Idaho tax due, the balance of tax must be paid. In determining whether a tax is due in the state where paid, the Tax Commission will be bound by the laws, rules, and administrative rulings of the state to which the tax is paid. Refer to **Sections [63-3615](#) and [63-3621](#), Idaho Code**; and **[IDAPA 35.01.02.072.07](#)** for further guidance.

Note: Taxes paid in error to another state may not be used to offset Idaho use tax.

The Multistate Tax Compact (**Section [63-3701](#), Idaho Code**) defines "State" as a State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any Territory or Possession of the United States.

**ARTICLE V
ELEMENTS OF SALES AND USE TAX LAW
Tax Credit**

1. Each purchaser liable for a use tax on tangible personal property shall be entitled to full credit for the combined amount or amounts of legally imposed sales or use taxes paid by him with respect to the same property to another State and any subdivision thereof. The credit shall be applied first against the amount of any use tax due the State, and any unused portion of the credit shall then be applied against the amount of any use tax due a subdivision.

Auditors will need to review the state where the transaction occurred to determine if reciprocity exists, if the tax paid was a general retail tax, and if the tax was properly paid.

P1235 • Handling Refunds in an Audit

(Referenced from [P1215](#); [P2915](#))

Auditors are required to address refunds within the audit. However, the treatment is dependent on whether records are reviewed in detail or in a sample. When conducting a detailed examination, the administrative standard to handling refunds in an audit is to ask the taxpayer to request a refund directly from their vendor(s). If the taxpayer can provide evidence that a vendor refuses to or cannot refund the tax, the refund may be addressed directly within the audit. Refer to [Section P2915 • Routine Examination Resulting in a Refund](#) for further guidance.

For all detail examinations (i.e., examinations of every transaction sharing specific criteria), auditors must adhere to Sales and Use Tax Administrative Rules Rule 117 ([IDAPA 35.01.02.117](#)).

The pertinent part of Rule 117 is as follows:

REFUND CLAIMS (RULE 117)

- 01. In General.** Application for refund of sales or use taxes paid in excess of those properly imposed by the Sales Tax Act, shall be in accordance with the provisions of this rule.
- 02. Payment of Sales Tax by a Purchaser to a Vendor.** When a purchaser has paid sales tax to a vendor, and later determines that the sales tax was paid in error, the purchaser shall request the refund from the vendor to whom the excess tax was paid. If the purchaser can provide evidence that the vendor has refused to refund the tax, he may then file a claim for refund directly with the Tax Commission.

Sampling, however, is an accepted auditing approach that does not lend itself to the same administrative standard. Although Rule 117 pertains to taxpayers who seek a refund, nothing in the statute or rules prohibits an auditor from using the efficient method of error projection, even if it results in a credit against tax due. The Tax Commission and the taxpayer both benefit from this industry-accepted sampling practice.

In order to undertake sampling, the Tax Commission exercises its authority and responsibility to administer the tax act efficiently. Once a base population is developed (sample population), only a limited number of items (sample) are reviewed. As a result, any refund of tax for any Idaho purchases, where sales tax was paid in error on items for resale or that qualify for an exemption, are addressed within the error projection.

As a safeguard, if any refund is part of the projection, the auditor will ask the taxpayer to sign a statement agreeing to not seek a duplicate refund from vendors on items addressed in the audit. In order to address these refunds, the taxpayer must declare to neither seek nor accept a refund for sales tax paid in error on any

item(s) in the sample population. In addition, they must neither apply for, nor take an offset against taxes due for the items included within the error projection. If the taxpayer fails to honor this declaration, the Tax Commission reserves the right to seek reimbursement from the taxpayer for amounts due to the state. Refer to [Appendix: Declaration to Not Seek Additional Refunds](#) for further guidance.

Note: There is a statutory exception to the requirement that a purchaser seek a refund for sales tax paid to a vendor in error. A vendor who has paid sales tax on items it later resold (without ever making taxable use of them) can take a credit against tax owed and would not need to seek that refund from its vendor. An auditor who encounters evidence of tax paid on items held for resale can issue an offset, in the audit working papers.

...a deduction may be taken if the retailer has purchased property for some purpose other than resale or rental, has reimbursed his vendor for tax which the vendor is required to pay to the state or has paid the use tax with respect to the property, and has resold or rented the property prior to making any use of the property other than retention, demonstration or display while holding it for sale in the regular course of business. If such a deduction is taken by the retailer, no refund or credit will be allowed to his vendor with respect to the sale of the property (**Section 63-3613(a)1, Idaho Code**)

P1240 • Items Handled in Other Audits

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

35.02.01 - TAX COMMISSION ADMINISTRATION AND ENFORCEMENT RULES
702. DISCLOSURE OF INFORMATION: THIRD PARTIES (RULE 702).
Sections 63-3076 and 63-3077, Idaho Code.

03. Audits or Investigations. Tax Commission employees and authorized agents may make inquiries of any person or any employee of a person to collect or ascertain any tax liability, to determine the correctness of a return or return information, or for any other purpose relating to the Tax Commission's duties of administering or enforcing Idaho tax laws. Disclosures necessary to these inquiries are authorized.

P1245 • Pursuing Successor's Liability

(Referenced from [S130](#))

Idaho allows buyers of a business to be released from any potential sales and use tax liability when certain conditions are met. In general, the buyer must make an inquiry to the Tax Commission regarding any sales and use tax due from the seller. The amount of any liability the seller may have must be withheld from the purchase price. If not, the buyer becomes personally responsible for payment of any outstanding liability.

When auditing a business that has changed ownership during the audit period, the best course of action is to review records available and determine the tax liability resulting from that examination. Auditors should discuss availability of the predecessor's records with the taxpayer. **Example:** The current owner may not have supporting documents for assets that were purchased by a former owner. It may be necessary to seek records from the prior owner to determine tax liability. Since either the former or current owner can be held

responsible for a tax liability that occurred under former ownership, this determination should be made with input from the auditor's manager. Refer to **Section [63-3628](#), Idaho Code**, for further guidance.

Note: The current owner may not have access to the predecessor's records. In this case, they can be held responsible for the tax on transactions that occurred when the company was owned by the predecessor. Once a copy of the contract has been obtained and all the facts have been reviewed, the auditor's manager will provide guidance on how to proceed.

P1300 • Audit Scope and Projection Procedures

(Referenced from [P625](#); [P1010](#))

P1301 • General

Sampling is frequently used to minimize the number of records that will need to be reviewed, saving both the taxpayer and the auditor time and effort. It is based on the premise that data received is reliable and complete, providing representative results. Before any sampling technique is used, the auditor must ensure that all records are complete in order to obtain the most accurate results. The auditor will discuss the sampling process and use the taxpayer's input in making sampling decisions.

Note: [Redacted pursuant to Idaho Code § 74-107(15)]

P1305 • Completeness of Records

Before any population can be defined, the auditor must verify the integrity and completeness of the data. This can be done by reconciling the data provided by the taxpayer to the taxpayer's books and records (e.g., financial statements, detailed trial balances, source ledgers, income tax returns, etc.). The results may give the auditor information as to where the most exposure to tax dollars can be found. The auditor should also discuss with the taxpayer what historical summary reports can be provided for the purposes of verifying provided data.

Accounts

The auditor can compare the chart of accounts to accounts shown in the records provided to determine if all accounts are represented.

Transaction Dates and Frequency

Taxpayer data may be sorted and filtered to verify transactions exist for every month or on expected days. Auditors should consider payments that are sent or received on or about the same day every month, such as utility payments, credit card payments, reoccurring accounts payable payments, and other types of regular payments. Missing days or months could indicate that data is incomplete.

Invoices – Time and Chronology

Many sales transactions are coded to show a unique transaction or invoice number. They can be chronological, numeric, or by date and time value. When reviewing sales, gaps in time, days, or chronologically or sequentially numbered invoices could indicate that data is incomplete. Purchase invoices may also have expected values, such as associated check numbers. Comparing invoice numbers to dates could indicate issues with posting or recording information. Auditors should note electronically billed payments or invoices, where there is no paper or imaged record in the files.

Note: When an auditor obtains copies of invoices from other sources, transactions should be found in provided records.

Major Vendors/Customers

Many businesses make regular purchases from certain vendors or sales to specific customers. Auditors may also have knowledge of specific vendors or customers that are used. Records should show these transactions.

Account Totals

The auditor can generate account totals (control totals) from the data provided by the taxpayer that can then be reconciled to the taxpayer's transactional data. In addition, the auditor can select test transactions that are a part of the control totals and trace them to source documents to test the audit trail. If the data does not reconcile, subsequent audit tests will not be reliable. Auditor discretion can then be used to determine if a file is complete and should be accepted. Further sampling should not be performed until the control totals are verified or additional testing is conducted to determine if the records are complete.

Verifying reliability of the control totals also includes evaluating and reviewing the taxpayer's internal controls. In reviewing internal controls, a sample of transactions that make up control totals should be traced through the accounting system audit trail to the source documents. This ensures that all documentation can be located if selected for examination and gives the auditor a chance to profile the taxpayer's business activity and verify the accuracy of the data entered in the file. The auditor should observe the taxpayer's business activity and method of accounting for all transactions. In addition, source documents not present in summary records could indicate a second accounting system is being used.

Sales Tax – Account Totals

Examples of summaries that may be used to generate control totals include:

- sales by time period (e.g., monthly or annual)
- sales by location and period
- sales by customer
- sales by type of sale (taxable and exempt sales)
- sales by product/product code/product class
- sales tax charged
- sales by selling branch
- sales by destination state

Totals should break down total sales, taxed sales, exempt sales, and tax charged. The sales tax reporting procedures should also be reviewed to determine if the sales tax accruals agree with the reported amounts.

Examples of questions to be considered include:

- Are sales of tangible personal property, intangibles, and services each separately identified?
- Is the method of identifying these types of sales reliable?
- Is sales tax applied at the line item level or invoice level?
- Is the entire invoice subject to sales tax, or only specific line items?
- Is sales tax applied automatically or manually?
- Have automated tax decisions been manually overridden?
- What types of products and services does the taxpayer sell?

- How will products and services affect the analysis of the electronic data?
- Do data fields included in the electronic file agree with paper sales invoices?

The answers to these questions may also affect the design of the sampling techniques used to examine sales transaction records.

Use Tax – Account Totals

Examples of summaries that may be used to generate control totals include:

- purchases by time period (e.g., monthly or annual)
- purchases by location and period
- purchases by department
- purchases by cost center
- purchases by account balances
- purchases by vendor
- total use tax accruals by period
- total use tax accruals by location

If the taxpayer has a use tax accrual system that captures the detail for use tax accruals in electronic format, the auditor can use the information for preparing control totals. The use tax accrued in a taxpayer's system should be reviewed to determine if the file agrees with the taxpayer's reported amounts per the tax returns. Manual adjustments made after month end closing may affect the amount reported on the use tax returns.

Totals for use tax may be more voluminous than those used for sales tax. Generally, account balances by year can be verified, but control totals should be verified monthly. If the control totals cannot be verified for the periods and accounts selected, the auditor should determine whether more periods and/or account balances should be verified.

Examples of questions to be considered include:

- Are transactions charged to the proper accounts?
- Does the taxpayer accrue use tax or pay sales tax directly to the vendor?
- Who makes the decision about taxability for use tax?
- Is sales tax billed on vendor invoices deleted before payment is made?
- Are purchase orders used to make taxability claims?
- Is use tax applied at the transaction level or account level?
- Is the entire invoice subject to tax or are only specific line items taxed?
- Do data fields included in the electronic file agree with paper sales invoices?
- When use tax is accrued on an invoice, is that use tax reported on the use tax return?
- When sales tax is paid to the vendor and captured as a separate field in the taxpayer's electronic data, can the auditor rely on this field?
- Has sales tax been paid incorrectly to the vendor on items that would qualify for an exemption?
- If allowed a discount, does the taxpayer generally take the discount?

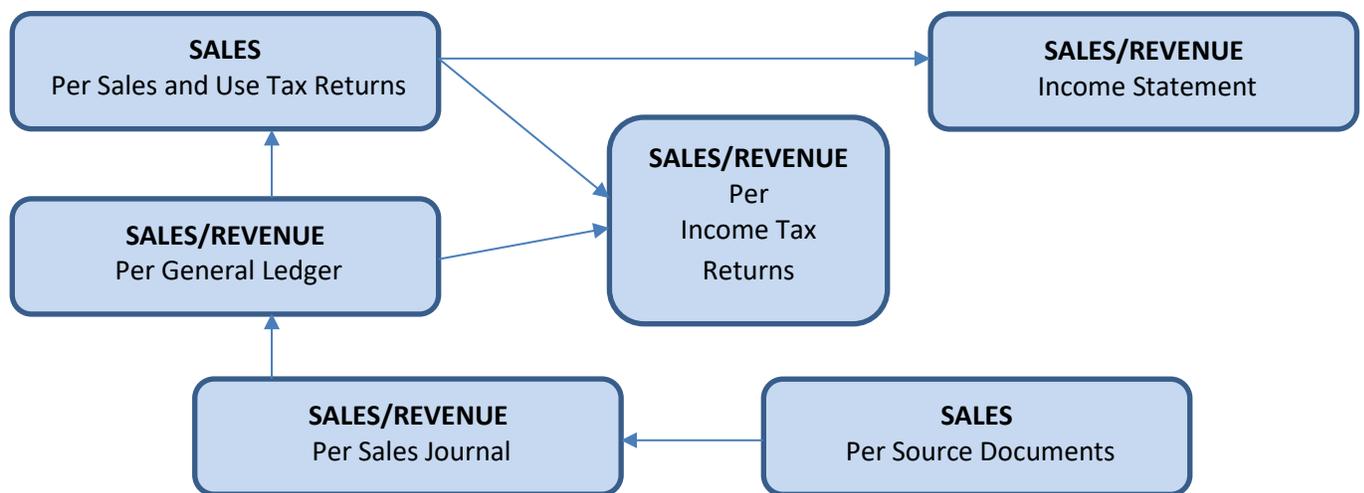
The answers to these questions may also affect the design of the sampling techniques used to examine the purchase transaction records.

Reconciliations:

Auditors perform reconciliations to identify any errors in reporting and to understand those differences. In some cases, differences may not impact tax liability. However, differences can indicate incomplete records or lead to discovering other unknown activities. Auditors should have a good understanding of the taxpayer’s internal controls to ensure accurate and meaningful reconciliations.

In general, auditors will review various records to assist in reconciliations and validate that source documents were properly recorded and subsequently reported correctly and completely.

Example of General Sales Reconciliations:



BASIC RECONCILIATIONS – SALES AND SALES TAX		
Sales per Sales and Use Tax Returns	To	Sales per General Ledger
Sales per Sales and Use Tax Returns	To	Sales per Income Tax Returns
Sales per Sales and Use Tax Returns	To	Sales per Financial Statements (Income/Profit and Loss)
Sales Tax per Sales and Use Tax Returns	To	Sales Tax Accruals/Payments per General Ledger
Sales per Source Documents (Invoices, POS)	To	Sales per General Ledger

Note: Reconciliations for purchases can be done using a similar approach.

P1310 • Developing an Audit Sampling Plan

(Referenced from [P625](#); [P1201](#))

The audit sampling plan is a mutual acceptance between the taxpayer and the auditor about the procedures that will be used to review records, once accounts and items of interest have been identified. The plan must take into consideration any factors that could materially affect the selection of sample items and application of sampling procedures. This could include taxpayer activities, cyclical or seasonal, or significant changes in the taxpayer’s business activities or accounting systems during the audit period.

The audit sampling plan should clarify what will be reviewed and how it will be reviewed by:

- identifying the records (i.e., sales, purchases, etc.) and sources (i.e., POS system, sales ledger, purchases journal, etc.) subject to review;
- indicating the transaction to be examined (i.e., invoice amount or expense charge);
- clarifying areas that will be tested and those that will be reviewed in detail (i.e., ceiling, floor, extraordinary items, etc.);
- indicating specific accounts that will be included in the sample population; and
- identifying methods used for selecting the records to be examined (detailed, random sample, stratified random sample or block sample).

The audit sampling plan should also provide the taxpayer with a clear understanding of how any tax liability will be calculated based on the records reviewed. When sampling is used, the taxpayer should be aware that total errors are generally projected over the audit period.

The plan must be discussed with the taxpayer and/or their representative. The auditor must evaluate, address, and document any concerns the taxpayer may have in the Case Activity Record (CAR). If the taxpayer's concerns are reasonable and can be substantiated, the auditor will make any necessary adjustments. Once the taxpayer has acknowledged the new proposed plan, the auditor will document the discussion and any acceptance in the CAR.

Although the auditor is required to adhere to the agreed upon sampling plan, circumstances may require the plan to be revised. When any deviations are necessary, such as changing or expanding the agreed upon test periods, the auditor will present those changes to the taxpayer and document the discussion in the CAR.

Note: All sampling plans must be within the guidelines set by the bureau. The auditor's manager may require their review and approval of sampling plans before being presented to the taxpayer. However, any deviations from bureau standards must have manager approval and be thoroughly documented in the Audit Notes. Notifications to and/or discussions with the taxpayer regarding approved deviations will be documented in the CAR. *[Redacted pursuant to Idaho Code § 74-107(15)]*

P1315 • Audit Scope and Materiality

The concept of scope and materiality is applied by the auditor in planning and performing the audit. It sets focus on what will be reviewed and to what level.

Materiality: Materiality is used in determining the scope of the audit. In many audits, high dollar transactions, considered to be extraordinary, may be reviewed in detail. This is known as establishing a ceiling. By contrast, low dollar items may be excluded from review if they are found to be inconsequential. This is known as establishing a floor. Auditors should not establish a routine floor amount (i.e., \$10, \$25) as a standard of practice, but rather it should be determined based on the population to be reviewed.

Selecting an appropriate materiality level balances the amount of transactions to be reviewed and the time necessary for review. Consideration must be given to the dollar mix and type of the transactions sampled.

Example: A business primarily makes purchases for their office supplies of \$10 or less, but higher dollar purchases are used for everything else. Setting a floor above \$10, even though the percentage of dollars not examined is low, may not be appropriate if it eliminates a review of certain business activity. Auditors must avoid selecting a cut-off based only on dollars to determine immateriality, even though total dollar amounts excluded appear insignificant due to a low expected liability.

Note: Some taxpayers may allocate large purchase dollar amounts into smaller dollar amounts to avoid a review of those purchases. For this reason, understanding the population is necessary to determine the proper materiality level.

Scope: Scope generally describes the types of transactions examined as part of the audit within a given audit period. For example, the auditor could:

- examine all transactions in detail;
- examine a sample of transactions drawn from a population of interest; or
- examine all transactions using a floor and a ceiling.

The scope is determined on the business activity of the taxpayer and areas of interest. It should be included as part of the audit sampling plan.

P1320 • Electronic Records

When both electronic and paper records are maintained, the taxpayer is required to provide machine-sensible documents when requested. For this reason, 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. Once available data has been verified for completeness, decisions can be made on how records will be reviewed. If a taxpayer does not keep electronic records, the auditor will accept traditional hard-copy documents.

P1325 • Detail Examination

Auditors should conduct a thorough examination of records to determine whether to perform a detailed audit or to use sampling methods. Although the preferred method of review is electronic random sampling, there are times when it may be necessary to examine some or all records in detail. This may occur when:

- the taxpayer objects to use of sampling;
- business activity is not consistent in size, type, or scope;
- accounting records have inadequate summary records and a poor audit trail back to source documents;
- the amount of records to review is too small to sample;
- a detailed examination can be performed as quick and efficiently as a random sample;

- reviewing whole unit sales, when dollar amounts or additional charges vary; or
- reviewing extraordinary transactions, such as large dollar items, that are not reoccurring in nature.

Note: There is no statutory requirement or administrative rule guidance for using random sampling. If a taxpayer requests a detailed review for the entire audit, the auditor will need to discuss with their manager on how to proceed.

P1330 • Sampling Methods

Sampling is frequently used to minimize the number of records that will need to be reviewed, saving both the taxpayer and the auditor time and effort. Sampling methods generally fall into two categories: statistical and nonstatistical.

Statistical Sampling is a method of sampling that permits the estimation and quantification of some population value based upon the results of a sample drawn from that population. It allows the auditor to objectively determine the precision of any estimate made and the confidence that may be placed in the result. Auditor judgment is involved in planning a statistical sample. **Example:** The auditor and the taxpayer decide the transactions or accounts to sample, what constitutes an error, selection techniques, and confidence and precision criteria. However, the overall estimate is evaluated only by using objective statistical formulas.

Note: Although **the bureau does not use statistical sampling**, it does use sampling procedures and statistical sampling software to provide audit results that can be statistically verified by a taxpayer.

Nonstatistical Sampling involves samples where the judgment required involves the sample design and analysis. Types of non-statistical sampling used by the bureau include random, block, systematic, and judgmental sampling. The bureau's preferred method of sampling is stratified random sampling. However, other methods may be used when appropriate.

Stratified Random Sampling is a type of non-statistical sampling. Although sampling methods and procedures follow statistical sampling principals, the results are not reviewed using statistical modeling. However, it still produces results the taxpayer can statistically verify at any point after the sample results have been provided.

Random Sampling involves selecting samples from a random number table or generator whose reliability has been verified, such as the Mersenne Twister. This may be appropriate when selecting a random sample of sales invoices numbered from 1,000 to 999,000 or vouchers paid from number 50 to 7,300.

Other Selection Methods may be more appropriate when a taxpayer's records are inadequate or when random sampling is not feasible. These include block, systematic, and judgmental.

- **block sampling** involves selecting samples from blocks of information. **Example:** Reviewing a block of time, such as the last three months; selecting transactions occurring in high-medium-low months; reviewing customers or vendors beginning with A through D.
Note: Block sampling should only be used when the sample is taken from a representative population.
- **systematic sampling** involves a methodical selection of taking every “nth” sale or purchase invoice instead of using a sample composed of random numbers, e.g., every tenth invoice. Sample accuracy is improved by using a random start.
- **judgmental sampling** relies on the auditor using auditing principles, common sense, bureau guidelines, and audit experience to form reasonable conclusion in the evaluation and selection of a sample. The primary limitations of judgmental samples are that they are not statistically defensible and require exercising good auditor judgment.

P1335 • Sampling Guidelines and Standards

The bureau has established guidelines and standards for sampling that must be followed.

Stratified Random Sampling involves selecting samples within different groups or strata. The population is subdivided into groups called strata. Transactions in each group have similar properties, but vary across groups. A simple random sample is taken from each stratum.

When using multiple strata, each stratum must be treated as a separate population. Each stratum must have at least 150 items of interest; however, the sample distribution size cannot exceed 50% of the count of any strata. If it is over 50%, it may best to conduct a detailed review.

There must be at least three errors per strata to project. If there are less than three errors in the strata, the items will still be extended; but treated as a detailed item and not projected.

Simple Random Sampling involves selecting samples using a random number table or generator whose reliability has been verified. There must be a minimum of 250 items of interest in the sample. If the population contains items that are not of interest, the percentage of items of interest must be determined. When a population contains items that are not of interest, the percentage of items of interest in each sampled population must first be determined. That percentage is then divided into 250 to arrive at sample size.

NOTE: 250 is only a starting point, not a directive. The sample must still be representative of the population to improve the accuracy of results. **Example:** An auditor may choose to review twelve consecutive months or use a low/medium/high approach.

Block Sampling involves selecting a sequential series of selections, such as months, for review. **Example:** An auditor may choose to review twelve consecutive months or use a low/medium/high approach.

Block samples can also be used in a stratified method:

- examine all expenses \$30 to \$999 for 3 months;
- examine all expenses \$1,000 to \$10,000 for one year; and
- examine all expenses over \$10,000 for the audit period.

When using block samples, the auditor needs to select months that are representative of average business activity as a whole for the audit period. In some cases, auditors may need to consider the following when selecting block samples:

- cyclical or seasonal activity;
- consistency of internal control or reporting procedures;
- facility closures and expansions;
- changes in ownership; and
- availability of records.

Certain areas, such as heavy equipment sales, should not be examined by using block samples exclusively. In these situations, a detailed examination or the use of a stratified sample in conjunction with a cluster would be appropriate.

Probe or Pilot Sampling involves reviewing a small amount of transactions to determine if they are items of interest and should be included in the population. If at least one error is found, a full sample should be drawn. **Example:** A taxpayer regularly uses a specific vendor to purchase their office supplies. The taxpayer may tell the auditor that they always pay tax to that vendor. The auditor may randomly examine 25 of those purchase invoices for tax paid. If tax was correctly paid on all 25 examined invoices, the auditor may consider removing that vendor from the population.

Note: Any deviations from bureau standards must have manager approval and be thoroughly documented in the Audit Notes.

[Redacted pursuant to Idaho Code § 74-107(15)]

P1340 • Projection Procedures

(Referenced from [P1405](#))

Projection procedures are the methods used to estimate liability for the audit period. Transactions for the audit period are broken down by interest rate periods and tax rate periods before the results are projected. Error rates are carried out to five decimal places. Two common methods employed are the flat rate and the percentage of error.

Flat Rate Method

A flat rate method assumes that the amount of tax consequence found in the period reviewed is the same for the entire audit period. It does not account for any fluctuations during the audit period. **A flat rate should only be used when:**

- records are not available or are not consistent to establish percentage of error projections;
- area of examination is not of material amounts, liability would be small, and time required to summarize amounts would not be a very expedient use of time; or
- the taxpayer requests a flat rate projection.

Flat Rate Method Calculation - The flat rate method is calculated by dividing the test period error amount by the number of months in the test period to arrive at the average monthly error. The average monthly error is then multiplied by the number of months in the audit period (per interest rate period) resulting in the projected amount for the audit period. This method requires no base information, such as account totals. It is simple, quick, and easily understood by taxpayers.

Example:	Test Period Errors in Dollars	\$300
	Test Periods	3
	Periods at 4% interest rate	24
	Periods at 3% interest rate	12
	Audit Period: 01/01/15 - 12/31/17	
$\$300/3 \text{ periods} = \$100 \text{ errors per period}$ $\$100 \text{ per period} \times 24 \text{ periods} = \$2,400 \text{ projected over the 4\% interest rate period.}$ $\$100 \text{ per period} \times 12 \text{ periods} = \$1,200 \text{ projected over the 3\% interest rate period.}$		

The Audit Report must demonstrate justification for using the flat rate method over the preferred and more accurate percentage of error method.

Percentage of Error Method

The percentage of error method assumes the same error occurs a certain percent of the time during the audit period. It is preferred over the less accurate flat rate method, but requires summarizing account totals of interest for each interest rate period. When used with a stratified sample, the error rate must be calculated on each stratum independently and applied to the corresponding population.

Percentage of Error Calculation - The percentage of error method is calculated by dividing the aggregate dollar amount of taxable errors found in the test period by the total dollar amount of the transactions reviewed in test period activity to calculate the error rate percentage. The resulting percentage is then multiplied by the aggregate dollar amount of transactions in each tax rate period (interest rate period) resulting in the amount taxable.

The following information is needed to compute a percentage of error:

- 1) dollar amount of errors found in sample;
- 2) dollar amount of the base for sample; and
- 3) dollar amount of the base for every interest and tax rate period in the population.

Formula: $(\#1/\#2) * \#3 =$ Projected amount for each interest and tax rate period

Examples of different bases (dollar figures for items 2 & 3) that can be used in the formula are:

- Account totals
- Nontaxable sales
- Taxable sales
- Operating expenses
- Population from which a random sample was selected
- Total sales

Note: When errors are divided by any base figure, the resulting error percentage must be applied to that same base for the larger period. When developing a percentage of error projection, figures used in the test periods must be consistent with figures used in the projection periods.

P1345 • Extraordinary Items

Extraordinary items are transactions that are unusual and nonrecurring in nature. Since the risk of sampling error is generally higher, they are often reviewed in detail or as a separate population due to their infrequency and higher dollar amounts. Examples can include fixed asset purchases. Discussions with the taxpayer may help to establish a threshold for identifying and examining potential extraordinary items.

Although a detailed review is preferred, extraordinary items may be sampled when appropriate or at the request of the taxpayer. Auditors should discuss sampling extraordinary items with their manager. Any sampling considered must be within the sampling standards set by the bureau. A discussion of extraordinary items examined and why they were considered extraordinary needs to be included in the Audit Report.

P1400 • Working Papers

(Referenced from [P630](#))

P1401 • General Information

Working papers, also referred to as schedules, document results based on established audit policies and procedures. It is important that working papers are displayed in a consistent format and order. This helps the preparation of the audit file, expedites the review process, and allows others to quickly find needed information. Auditors should always direct working paper information and comments to the intended parties. Any stylistic changes should be avoided, unless allowed by a manager.

P1405 • Working Paper Format

(Referenced from [P2601](#))

The bureau has created working paper templates, (STA MACRO), to help keep working papers as uniform and consistent as possible. Using the STA MACRO reduces the possibility of failing to incorporate pertinent information in the audit working papers. The STA MACRO does allow auditors to adapt to the need of the taxpayer. However, any working paper created must follow certain guidelines for appearance and execution.

Headings – Main

Headings provide unique information about a schedule and are comprised of the following basic components:

- Taxpayer Name
- Working Paper Name
- Audit Period
- Source
- Scope
- Edited Date
- Created Date
- Auditor
- Notes

Example:

CBA COMPANY dba WIDGETS 4 U				NOTES:	1	
QUESTIONED EXEMPT SALES					2	
AUDIT PERIOD: 10/01/2013 - 9/30/2016					3	
				EDITED:	12/18/2017	
SRC: GENERAL LEDGER		CREATED:		3/31/2017		
SCP: DETAIL, AUDIT PERIOD		AUDITOR:		dauditor		
			INVOICE	AMOUNT	AMOUNT	
LN	DATE	CUSTOMER NAME	NUMBER	QUESTIONED	TAXABLE	ITEMS/REMARKS

Explanations:

Taxpayer Name: Business Name. May also include a DBA, if necessary.	ALIGN:	TOP, LEFT
This field is automatically populated from information provided on the “Main Data Entry” tab within the STA MACRO (stored on sheet 11).		

Working Paper Name: Describes what was reviewed or QUESTIONED	ALIGN:	TOP, LEFT
The name should begin with the word "QUESTIONED" followed by a description of what was reviewed. Examples: QUESTIONED EXEMPT SALES, QUESTIONED ASSET PURCHASES When a sample or projection is used, the word "SAMPLE" or "PROJECTED" could be added: Examples: QUESTIONED EXEMPT SALES - SAMPLE; QUESTIONED PURCHASES - PROJECTED		
Audit Period: Identifies the beginning and ending dates in a numeric format.	ALIGN:	TOP, LEFT
This field is automatically populated from information provided on the "Main Data Entry" tab within the STA MACRO (stored on sheet 11). It should be displayed in a MM/DD/YYYY format.		
Source: Identifies where the data reviewed was derived from.	ALIGN:	TOP, LEFT
Provides a description of the records reviewed: Examples: GENERAL LEDGER, SALES INVOICES		
Scope: Describes the type of review performed.	ALIGN:	TOP, LEFT
Provides information about the records reviewed and applicable materiality Examples: DETAIL, AUDIT PERIOD; SAMPLED, \$100 AND ABOVE Must include limits in a stratified sample or parameters of a block Sample.		
Edited Date: Displays the date working paper was last edited.	ALIGN:	TOP, RIGHT
This field is automatically populated each time the paper is saved. It should be displayed in a MM/DD/YYYY format.		
Created Date: Displays the date the working paper was created.	ALIGN:	TOP, RIGHT
This field is automatically populated. It is a static date and should be displayed in a MM/DD/YYYY format.		
Auditor: First initial, last name of auditor.	ALIGN:	TOP, RIGHT
This field is automatically populated from information provided on the "Main Data Entry" tab within the STA MACRO (stored on sheet 11). It should be displayed in first initial, last name format.		
Notes: Provides additional clarification about the AMOUNT TAXABLE	ALIGN:	TOP, RIGHT
Notes help explain reoccurring transactions or questions in the work papers. Examples: Invalid Exemption, Out of State Purchase, Production Exempt, Need Further guidance Notes are not used to explain differences between the Amount Questioned and Amount Taxable Columns.		

Headings – Column

The column headers appear below the main headers, and may include:

- Line Number
- Date
- Customer/Vendor
- Reference
- Amount Questioned
- Amount Taxable
- Notes/Footers
- Comments/Remarks

Example:

LN	DATE	CUSTOMER/VENDOR	INVOICE NUMBER	AMOUNT QUESTIONED	AMOUNT TAXABLE	ITEMS/REMARKS
1 JAN - DEC 2019 TRANSCATIONS (6% TAX RATE)						
2	05/04/2017	J and J Doe Inc.	13579	150.54	134	1 VCT Tile; Bal is frt

Explanations:

- Line Numbers (LN)** Each line of the working paper, after the heading, is numbered.
- Date** Format used for working papers is MM/DD/YYYY.
- Customer/Vendor Name** Unique identity shown on invoice or receipt, when known.
- Reference Columns** Documents source materials or pertinent information for the questioned transaction (i.e., Invoice Number, Store Number). The number of reference columns used in the work papers is dependent upon the data reviewed and auditor/manager discretion.
- Amount Questioned** Total amount of the transaction/line item. It should include the dollar and cents of the questioned transaction.
- Amount Taxable** Portion of the amount questioned extended as taxable. Round this amount to the nearest whole dollar.
 - a. Below \$.50, drop the fraction of the dollar.
 - b. \$.50 and over, the amount taxable is rounded to the next higher whole dollar.
- Notes/Footnotes** Explains reoccurring transactions or questions in the work papers. Do not use notes to explain differences between the Amount Questioned and Amount Taxable Columns. Notes should be in the header. Lengthy notes or explanations should be at the end of the spreadsheet as footnotes.
- Items/Remarks** First, it explains amount extended as taxable. Then, it describes any differences in balance between Amount Questioned and Amount Taxable (i.e., Household appliances, Bal is installation labor). This note should explain the entire transaction, not just part of it.

Footers

Each working paper must have a corresponding footer that identifies the working paper and the page number. The most commonly used include:

PREFIX	IDENT	DESCRIPTION	PURPOSE
EX	EX-A	Exhibit A	Summarization of items extended in working paper schedules. It includes calculations of tax, penalty, and interest.
IC	ICSU	Interest Computation	Summarization of simple interest accrued by interest period. It is usually calculated out 63 days beyond the issue date.

PREFIX	IDENT	DESCRIPTION	PURPOSE
NODD	NODD	Notice of Deficiency Determination (Draft)	Draft copy of the determination amount, broken out by items subject to sales tax, items subject to use tax, penalty, and interest. It also provides mailing information (taxpayer, taxpayer representatives), directing where final audit findings will be sent.
S	S-1	Sales Tax	Provides information on sales tax issues, broken out by interest period.
U	U-1	Use Tax	Provides information on use tax issues, broken out by interest period.
CR	CR-1	Credit	Provides information on offsetting credits, broken out by interest period.
SR	SR	Sales and Use Tax Returns	Provides information on sales and use tax reported on returns, broken out by interest period.

When schedules are unique or out of the ordinary, auditors should discuss proper identification with their manager.

The bureau has no set standard on the placement of schedule names and page numbers. However, the use of Page X of Y is required to ensure completeness of schedules when providing in a paper or .pdf format.

Auditors may choose to align names and page number left, center or right in the footer area:

	LEFT	CENTER	RIGHT
1			SCHEDULE U-1, Page 1 of 3
2			U-1, Page 1 of 3
3	SCHEDULE U-1	Page 1 of 3	
4	U-1	Page 1 of 3	
5		U-1, Page 1 of 3	

Interest Periods, Amount Totals, and Cross Reference

Generally, working papers are broken up by interest period. All totals in columns should be double-underlined and cross-referenced to the proper projection work paper or tax deficiency schedule. The amount total will be rounded to the nearest whole dollar amount.

Example		AMOUNT	AMOUNT
LN	DATE	QUESTIONED	TAXABLE
1	JAN - DEC 2018 TRANSACTIONS (6% TAX RATE)		
2		17.99	18
3		14.25	14
4	TOTAL FOR PERIOD (01/01/2018 - 12/31/2018):		32
5			(EX-A, LN2)

The auditor's manager is provided some stylistic discretion, based on preference, which include:

- Describing interest breaks for beginning and ending totals (see above LN 1 and LN 4).
- Bolding of totals and cross references (See above LN 5).

- Displaying "0" or "(not extended)" for zero-dollar column totals:
 - Show a "0" as the total, with no decimals; or
 - Show "(not extended)" as the total, if not already carried forward for taxpayer clarification.
- Showing amounts in the Amount Taxable column as either a round number or an integer with two decimals. If the auditor chooses to display cents, all transactions must be displayed in cents.
 - Rounded numbers must actually be rounded, not just formatted to not display cents.

Note: Auditors should seek guidance from their managers regarding stylistic preferences.

Projection Working Papers

Projection working papers calculate the results of a sample, by interest period, over the entire audit period. These working papers should be created in the STA MACRO, for consistency and accuracy. The types of projection working papers most used are the flat rate, percentage of error, and the stratification ratio. Refer to [Section P1340 • Projection Procedures](#) for further guidance.

Note: Auditors must use the latest STA MACRO when creating projection schedules.

Tax and Interest Computations (EXA & IC)

(Referenced from [P1705](#))

The working papers for tax (EX-A) and interest computations (IC) are created within the most current STA MACRO. All formatting for main headers, column headers and row titles is completed automatically. The auditor is responsible for verifying information entered and all calculations performed are correct.

Exhibit A (EX-A) shows items subject to tax (sales and/or use), the tax rate used to calculate tax results, penalty (if any), and interest.

EX-A Example:

ABC Company						
COMPUTATION OF IDAHO SALES AND USE TAX DEFICIENCY						
AUDIT PERIOD: 01/01/14 - 12/31/16						
			EDITED: 02/10/2018			
	SRC: SEE BELOW		CREATED: 10/12/2017			
	SCP: ROUNDED TO NEAREST \$1		AUDITOR: dauditor			
			2014	2015	2016	
			4% INTEREST	4% INTEREST	4% INTEREST	
LN	DESCRIPTION	SOURCE	PERIOD	PERIOD	PERIOD	TOTALS
24	TOTAL AMOUNT SUBJECT TO TAX		472,724	423,753	428,764	1,325,241
25	TAX RATE		6.00%	6.00%	6.00%	
26	TAX DUE		28,363	25,425	25,726	79,514
27	PENALTY		0	0	0	0
28	INTEREST		4,712	3,207	2,230	10,149
29	TAX, PENALTY, AND INTEREST		33,075	28,632	27,956	89,663
30						
31	INTEREST WILL ACCRUE AT THE RATE OF \$10.89 PER DAY IN 2019					

- **Column Headers** include a description, the source (from the working paper), interest periods, and totals.

		2014	2015	2016	2017	
		4% Interest	4% Interest	4% Interest	3 % Interest	
Description	Source	Period	Period	Period	Period	Totals

- **Items Subject to Sales Tax** are broken out by description type and amounts.

1	ITEMS SUBJECT TO SALES TAX						
2	NonTaxed Sales	S-2, Lines 4, 18, 32, and 43	13,049	32,402	30,145	27,021	
3			13,049	32,402	30,145	27,021	102,617

- **Items Subject to Use Tax** are broken out by description and amounts.

6	ITEMS SUBJECT TO USE TAX						
7	Asset Purchases	U-1, Lines 12, 55, 84, and 100	229	750	520	79	
8	Ordinary Purchases	U-2P, Lines 6, 9, 12, and 15	1,282	6,327	6,504	4,803	
9			1,511	7,077	7,024	4,882	20,494

- **Total Amount Subject to Tax** is the sum of Items Subject to Sales Tax and Items Subject to Use Tax
- **Tax Rate** is the sales tax percentage rate
- **Tax, Penalty, and Interest** are totaled to show amount due
- **Interest Accrual** provides information about the amount of tax that will accrue each day

Note: If a prepared schedule has no liability, it should not be carried to the EX-A.

When a taxpayer pays a portion of the liability before a Notice of Deficiency Determination (NODD) is issued, it is considered a prepayment to the audit and can be shown on the EX-A:

17	TAX, PENALTY, AND INTEREST		968	2,565	2,334	1,944	7,811
18	PREPAYMENT APPLIED ON DECEMBER 31, 2017						(7,571)
19	TAX, PENALTY, AND INTEREST INCLUDING PREPAYMENT						240
20	INTEREST CALCULATED FROM JANUARY 1, 2017 TO APRIL 20, 2018						3
21	TAX, PENALTY, AND INTEREST DUE APRIL 20, 2018						243
22							
23	INTEREST WILL ACCRUE AT THE RATE OF \$0.03 PER DAY IN 2018						
24							

Interest Computation (IC) Schedule is used to show the amount of interest calculated for each interest period. All interest on sales or use tax deficiencies is simple interest. However, instead of calculating interest for each reporting period, interest is averaged over the interest rate period when the period of time includes several reporting periods.

Post Determination Working Papers:

(Referenced from [P2601](#))

After issuing a notice of determination, affected working papers may need to be amended. These updates, known as post determination adjustments, are used to document and explain post deficiency adjustments. Adjustments cannot be made directly on original working papers; however, a copy can be used in lieu of creating a new working paper. When creating a post determination working paper, the following applies:

- Same headings as the original working paper should be used. This allows numbers to better flow from working papers to the EX-A.
- Schedule name should reflect that the working paper is a post deficiency working paper. This may be done by adding a “PD” to the schedule name. **Example:** “EX-A-PD” would represent a post-deficiency Exhibit A. If multiple versions are needed, use “EX-A-PD1”, “EX-A-PD2”, etc.
- Only the items at issue need to be shown on the post determination working paper.
- Additional columns should be added to show
 - amount of adjustment requested;
 - amount of adjustment allowed; and
 - auditor response documenting reasons an adjustment was or was not allowed.

Once the amended working paper is completed, totals are carried forward to an amended EX-A and IC. Any amended working papers must be clearly identified as being a post deficiency working paper. Refer to **Section [P2600 • Post Deficiency Adjustments and Addenda](#)** for further guidance.

Note: The auditor must never create a new notice of determination (NODD, NORD, etc.).

P1410 • Working Paper Types

The types of working papers required for an audit depends on the audit program, records availability, and auditor judgment. Examples may include:

Items Subject to Sales Tax

Product Sales	By Product Sales	Employee Sales
<ul style="list-style-type: none"> • Whole Unit Sales • Part Sales • Service Sales • Rentals 	<ul style="list-style-type: none"> • Scrap/Silage • Waste Products 	<ul style="list-style-type: none"> • Product • Safety Supplies • Meals • Vending Machines
Sales Discounts	Asset Sales	Miscellaneous Income
<ul style="list-style-type: none"> • Retailer’s Coupons • Manufacturer’s Rebates • Gift Certificate Redemption • Cash Discounts 	<ul style="list-style-type: none"> • Asset Accounts • Depreciation Schedule • Income Tax – Form 4797 	<ul style="list-style-type: none"> • Promotional Sales • Scrap Sales • Material Sales

Sales Tax Reconciliation	Sales Reconciliation
<ul style="list-style-type: none"> • Unusual Debits to Accruals • Other Adjustments • Accruals Not Remitted • Identifying Source Entries • Tax Paid with Remittance • Bad Debt and Repossession Adjustments 	<ul style="list-style-type: none"> • General Ledger to Sales Tax Returns • Sales Tax Returns to Income Tax Returns • Bad Debt and Repossession Adjustments

Items Subject to Use Tax

Asset Additions	Purchases	Contracts
<ul style="list-style-type: none"> • Asset Accounts • Assets Brought into the Idaho • Income Tax – From 4562 • Construction-in-Progress • Deferred Capitalized Items 	<ul style="list-style-type: none"> • Extraordinary Purchases • Ordinary Purchases • Deferred Expenses • Prepaid Expenses • Inventory <ul style="list-style-type: none"> • Parts, Fuel, Material, Supplies 	<ul style="list-style-type: none"> • Materials <ul style="list-style-type: none"> • Purchased • Supplied by Owner • Equipment Rental • Contractor’s Refund

Other	Use Tax Reconciliation	Use Tax Analysis
<ul style="list-style-type: none"> • Inventory Withdrawals for Own Use • Inventory Withdrawals for Donation • Promotional Give-away • Advertising Inserts • Related Party Rentals 	<ul style="list-style-type: none"> • Accruals to Account • Account to General Ledger • General Ledger to Returns 	<ul style="list-style-type: none"> • Unusual Debits to Accruals • Other Adjustments • Accruals Not Remitted • Identifying Source Entries

P1500 • Audit Reports

(Referenced from [P635](#))

P1501 • General Information

An audit report summarizes the findings of the examination process. Its primary purpose is to document the records reviewed, the procedures used, and the results. This benefits the taxpayer by providing a guide on how Idaho sales and use tax laws and rules affect their business. It is also a historical record of the audit that may be used when conducting future examinations on the taxpayer or the taxpayer's industry.

The audit report is the official record of the work performed. As such, all information and observations must be presented objectively and factually. Auditors must not include personal feelings or opinions about the taxpayer.

P1505 • Audit Report Types

Audit reports are used to document and present audit findings. They contain a narrative discussion of the audit plan, audit scope, audit techniques, and audit results. However, reports may vary in content based on when, during the audit process, they are created.

Preliminary Audit Report: This report is prepared early in the audit process and contains information on preliminary audit findings. It is often presented to the taxpayer once fieldwork has been completed, explaining that the findings are preliminary and requesting further documentation to resolve any disputed or unresolved items.

Interim Audit Report: This report may be created when material changes to the audit process are noted after a Preliminary Audit Report had been issued. When used, it is provided to the taxpayer before a Final Audit Report is prepared.

Final Audit Report: This report is prepared when the audit process is complete. It documents the final audit findings based on all information that was presented during the examination process. Once reviewed, it is mailed along with the notice of determination (NODD, NORD, No Change) or billing letter. The report may also be provided electronically to the taxpayer after review by the auditor's manager.

Note: Before any final audit findings can be issued, the auditor must discuss with the taxpayer the contents of the Final Audit Report. Preferably, the taxpayer will agree that they have no more data or information to provide and are ready for the audit to be issued. All audit reports must be signed by the lead auditor.

P1510 • Audit Report Contents

The audit report should be tailored to the taxpayer. The depth of information presented can be minimal to more detailed as issues dictate. The auditor has some flexibility in presenting the audit findings. However, audit results and procedures used must be thoroughly explained.

A standard ordering for the audit report is as follows:

HEADING/SALUTATION

This section identifies the taxpayer, permit number(s), audit period, auditor, report date, and type of audit report (Preliminary, Final). It should be on official Tax Commission letterhead.

Examples:

IDAHO | Sales Tax Audit Bureau
State Tax Commission | PO Box 36 • Boise ID 83722-0410
800 Park Blvd., Plaza IV • Boise ID 83712-7742

Taxpayer: ABD CO
DBA: Alpha Bet
Permit: 123456789-08
Audit Period: January 1, 2013 – June 30, 2013

Final Audit Report
Auditors: D Auditor
Ima Auditor
Report Date: June 27, 2016

IDAHO | Sales Tax Audit Bureau
State Tax Commission | PO Box 36 • Boise ID 83722-0410
800 Park Blvd., Plaza IV • Boise ID 83712-7742

FINAL AUDIT REPORT

ABC CO
Permit Number: 123456789-08
Audit Period: 01/01/2015 – 12/31/2017
Report Date: July 4, 2018

Note: The audit report may also be created as a letter, addressed to the taxpayer.

OPENING PARAGRAPH

This section provides an overview of the report.

***Example:** An examination covering the above period has been conducted from the books and records of ABC Co., with respect to the sales and use tax laws and rules of the State of Idaho. The audit procedures used and the findings are summarized below. Copies of working papers are enclosed.*

GUIDANCE FOR READING WORKING PAPERS / TAX COMPUTATION

This section can be used to describe:

- how schedules are named and numbered;
- the Amount Questioned column;
- the Amount Taxable column; and
- how to read interpret information in the Items/Remarks and Notes columns.

In addition, this section may describe the summary of tax computations (Schedule EX-A).

Note: This section is optional in the PAR, **but should not be used in the FAR.**

GENERAL COMMENTS

This may include information regarding the entities reviewed, pertinent statutes/rules, or any other matters that provide clarification for understanding the examination.

INFORMATIONAL SCHEDULES

This section may be used to describe any schedules that were provided for informational purposes only.

Example: A summary schedule of sales and use tax returns filed for the audit period

AREAS EXAMINED – NO LIABILITY FOUND / RECONCILIATIONS

This section includes items that were reviewed, but no additional liability was noted.

AREAS EXAMINED - ITEMS SUBJECT TO SALES TAX

This section deals specifically with sales tax issues. It is used to identify a working paper schedule, describe what was reviewed, and provide the results. It generally includes the following:

- **Title of Working Paper**
Example: Questioned Exempt Sales (Schedule S-1)
- **Procedures / Records Examined and Scope / Work Performed**
Describes what was reviewed and to what depth
Example: Fixed asset deletions recorded in General Ledgers and reported on Income Tax Returns were examined in detail (\$100 & above) for the audit period
- **Results**
Example: Sales transactions, where sales tax was not collected and a valid exemption did not exist, were extended as taxable, as shown on Schedule S-2
- **Projection Procedures**
Describes the procedures for projecting the results when a sample was used

The following may be included with the results area or discussed separately when necessary:

- **Auditor Notes / Applicable Code and Rules**
Describes how applicable code and rules apply to the results
- **Items Extended as Taxable**
Describes the general areas found to be at issue

AREAS EXAMINED - ITEMS SUBJECT TO USE TAX

This section deals specifically with use tax issues. It is used to identify a working paper schedule, describe what was reviewed, and provide the results. It generally includes the following:

- **Title of Working Papers**
Example: Questioned Asset Purchases (Schedule U-1)
- **Procedures / Records Examined and Scope / Work Performed**
Describes the records reviewed and to what depth
Example: Fixed asset purchases recorded in General Ledgers were examined in detail (\$100 & above) for the audit period
- **Results**
Example: Purchases where sales tax was not paid, use tax was not accrued, and a valid exemption did not exist were extended as taxable, as shown on Schedule U-1
- **Projection Procedures**
Describes the procedures for projecting the results when a sample was used

The following may be included with the results area or discussed separately when necessary:

- **Auditor Notes / Applicable Code and Rules**
Identifies applicable Code and Rules and describes how they apply to the results
- **Items Extended as Taxable**
Describes the general areas found to be at issue

AREAS EXAMINED – OTHER

This area is used for other tax issues. It is used to identify a working paper schedule, describe what was reviewed, and provide the results. It follows the same guidelines as the **AREAS EXAMINED - ITEMS SUBJECT TO SALES TAX** and the **AREAS EXAMINED - ITEMS SUBJECT TO USE TAX**, shown above.

PENALTY AND INTEREST

This section should include a discussion of application or waiver of penalty, along with any deviation from the standard computation of interest. In an audit, interest is imposed or applied since the deficiency has not been assessed.

ADDITIONAL COMMENTS / TAXPAYER RIGHTS

This section may be used for any comments the auditor feels necessary for a full understanding of the audit. It may also include a reference of an enclosed notice of determination and the right to protest.

CODE AND RULES

This section references where a copy of the Idaho sales and use tax Code and Administrative Rules may be found.

SIGNATURE BLOCK

This section is where the lead auditor must sign the report.

P1515 • Audit Report Cover Letter

Auditors may also create an audit report cover letter, with the audit report enclosed. The letter serves as a notice of the results and provides further information or instructions. It is generally one page, consisting of an introduction (an audit report is enclosed), the body (referencing the audit process), and a closing (providing instructions or clarifications). Standard agency letterhead must be used.

Note: *[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]*

P1600 • Penalties

P1601 • General Information

A penalty is a monetary consequence, imposed by the Tax Commission, as a result of wrongdoing. The auditor and their manager are responsible for making proper penalty recommendations based upon factual findings. This requires good judgment, common sense, and a thorough understanding of the laws and rules governing the applications of penalty. When justified, penalties are added to a notice of determination as certain conditions are met. However, if there is any doubt as to whether factual conditions warrant a penalty, resolution should be made in favor of the taxpayer.

P1605 • Application of Penalties

Penalties should be applied based on the facts of the audit. It should not be assumed that an audit resulting in a large audit deficiency is indicative of negligence or a disregard of tax laws and rules. The auditor must utilize their training and best judgment to determine whether the proper amount of tax has been reported correctly. The same holds true when determining whether a penalty should or should not be recommended. The auditor's recommendation must be appropriately stated in the audit report.

Some penalties may not be applied concurrently. For example, a negligence penalty and a fraud penalty are mutually exclusive. Only one or the other would be applied, but not both. Whenever circumstances allow for the imposition of either a mandatory or a discretionary penalty, but not both, the mandatory penalty will apply. Refer to **Section 63-3046(f), Idaho Code**, and **IDAPA 35.02.01.400.05** for further guidance.

P1610 • Types of Civil Penalties

Penalties applied or imposed in the normal course of audit are generally civil in nature and follow the guidelines as set by the Idaho sales and use tax Code and Rules. General penalties related to sales and use tax include:

<i>General Sales and Use Tax</i>		
<i>Type</i>	<i>Penalty</i>	<i>Code / Rule</i>
Negligence or Disregard of Rules *No Fraud Intent	5% of total deficiency	63-3046(a)
Substantial Underpayment	10% of the amount of underpayment *Not to exceed 25% of tax due on return	63-3046(d)(1) 35.01.02.123.01
Non-filer	5% of tax due for each month until filed *Not to exceed 25% of tax due on return	63-3046(c)(1)
Filed, Not Paid	One-half percent (0.5%) of tax due until paid *Not to exceed 25% of tax due on return	63-3046(c)(2)

General Sales and Use Tax		
<i>Type</i>	<i>Penalty</i>	<i>Code / Rule</i>
Fraud - Intent to Evade	50% of total deficiency	63-3046(b)
Exemption - False Claim *Intentionally or Repeatedly	5% of sales price or \$200, whichever is greater	63-3624(i) 35.01.02.123.02 35.01.02.128.08
Failure to collect, account for and pay over any tax *Corporations, LLC's, and Partnerships *Willful act	The amount equal to the total amount of tax involved. This penalty is in addition to other penalties.	35.01.02.118.01

Penalties related to amusement devices include:

AMUSEMENT DEVICES		
<i>Type</i>	<i>Penalty</i>	<i>Code / Rule</i>
Amusement Device - General	\$50 per device	63-3623B(f)(1)
Amusement Device - Fraud	Up to \$25,000	63-3623B(f)(2)

Penalties related to seller's permits include:

SELLER'S PERMITS		
<i>Type</i>	<i>Penalty</i>	<i>Code / Rule</i>
Seller - Unpermitted *Still engaged in business after written notice	Up to \$100 for each day not permitted.	63-3620(g)
Promoter Sponsored Events *Non-compliance - Obtaining seller's permit information	Minimum penalty of fifty dollars (\$50.00) per event and twenty-five dollars (\$25.00) for each seller over two (2) sellers for whom such records required by subsection (1) of this section are not obtained, but not to exceed one thousand dollars (\$1,000) for each such event. Under no circumstances, shall an operator or a promoter be responsible for sales or use tax not remitted by a retailer at a promoter sponsored event.	63-3620C

Penalties related to income tax withholding include:

INCOME TAX WITHHOLDING		
<i>Type</i>	<i>Penalty</i>	<i>Code / Rule</i>
Withholding - Fail to file	Two dollars (\$2.00) for each month or part of a month each statement is not so filed, but not exceeding two thousand dollars (\$2,000).	63-3046(e)(1)
Withholding - Fail to Register *An employer required to register, who fails to register after receiving written notice from the Tax Commission of the requirement to register. *Willful neglect	One hundred dollars (\$100) for each month or part of a month after the date of the notice during which the failure occurs. Any	63-3046(e)(2)

Negligence Penalty (Civil): A 5% negligence penalty may be imposed if the deficiency results from either negligence or from disregard by the taxpayer or their agent of laws, rules, or regulations (**Section 63-3046(a), Idaho Code**):

63-3046. PENALTIES AND ADDITIONS TO THE TAX IN CASE OF DEFICIENCY.

(a) If any part of any deficiency is due to negligence or disregard of rules but without intent to defraud, five percent (5%) of the total amount of the deficiency (in addition to such deficiency) shall be assessed, collected and paid in the same manner as if it were a deficiency.

(g) Total penalties imposed...shall not exceed twenty-five (25%) of the tax due on the return.

Negligence is a failure to use reasonable care to meet their legal duty or obligation to conform to a certain standard of conduct. Examples of situations that justify the penalty, as shown in Administrative and Enforcement Rules (**IDAPA 35.02.01.410**), include:

- taxpayer continues to make errors in reporting income, sales or assets, or claims erroneous deductions, exemptions, or credits even though these mistakes have been called to their attention in previous audit reports;
- taxpayer fails to maintain proper records and files returns containing unsubstantiated claims or substantial errors;
- taxpayer makes unsubstantiated or exaggerated claims of deductions or exemptions;
- taxpayer fails to offer any explanation for understating taxes;
- unreported taxable income is a material amount as compared with the reported income;
- taxpayer exhibits a careless disregard of his tax obligations;
- taxpayer fails to keep valid files of resale and exemption certificates;
- taxpayer fails to respond to requests to produce records substantiating items shown on the return;
- the ratio of untaxed sales that should have been taxed to total taxable sales;
- the ratio of untaxed sales that should have been taxed to total sales;
- the ratio of untaxed purchases subject to use tax to total taxable purchases and to total purchases; and
- other computations bearing on negligence.

The negligence penalty is applied to the amount of tax liability at issue for the entire period reviewed. When an auditor recommends a negligence penalty, it must be fully substantiated in the audit report. Before the penalty can be imposed or applied, the auditor's manager must agree.

Fraud Penalty (Civil): A 50% fraud penalty may be imposed if the deficiency results from intent to evade tax (**Section 63-3046(b), Idaho Code; IDAPA 35.02.01.420**):

63-3046. PENALTIES AND ADDITIONS TO THE TAX IN CASE OF DEFICIENCY.

(b) If any part of any deficiency is due to fraud with intent to evade tax, then fifty percent (50%) of the total amount of the deficiency (in addition to such deficiency) shall be so assessed, collected and paid.

A negligence and a fraud penalty can never be applied concurrently with other penalties.

IDAPA 35.02.01.420.02 INTERACTION BETWEEN FRAUD AND NEGLIGENCE PENALTY. Assessment of the fraud penalty precludes assessment of the negligence penalty on the deficiency.

Fraud is a conduct, a step beyond negligence, intended to deprive the state of tax legally due through deception or misrepresentation of the facts. It is a willful disregard of laws or rules and regulations, which can be either criminal or civil. The standard of proof for criminal fraud is beyond a reasonable doubt. In civil fraud, the standard is clear and convincing. In both instances, a taxpayer's intent to evade tax is the key element to proving fraud. A taxpayer with a substantial tax liability does not in itself prove intent. The Tax Commission will review all facts and circumstances surrounding the preparation of the taxpayer's return to determine if fraud exists. Refer to [IDAPA 35.02.01.420.01](#) for further guidance.

Note: The application of fraud penalties can extend beyond the three or seven-year statute of limitations:

63-3633. Period Of Limitation Upon Assessment And Collection.

Except as otherwise provided in this section:

(b) In the case of a false or fraudulent return with the intent to evade tax, or a willful attempt in any manner to defeat or evade tax, the tax may be assessed, or a proceeding in court for collection of such tax may be begun without assessment, at any time.

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

Non-Filer (Civil): A 5% per month non-filer penalty, not to exceed 25% of tax due, may be imposed if the deficiency results from failure to file returns (**Section [63-3046\(c\)](#), Idaho Code**):

63-3046. PENALTIES AND ADDITIONS TO THE TAX IN CASE OF DEFICIENCY.

(c) (1) In the event the return required by this chapter is not filed on or before the due date (including extensions) of the return, there may be collected a penalty of five percent (5%) of the tax due on such returns for each month elapsing after the due date (including extensions) of such returns until the return is filed.

(g) Total penalties imposed under subsections (a), (c) and (d) shall not exceed twenty-five (25%) of the tax due on the return.

Before this penalty can be imposed, the auditor's manager must agree.

Filed, Not Paid (Civil): A one-half percent (0.5%) per month late filer penalty, not to exceed 25% of tax due, may be imposed if the deficiency is a result of a return being filed but not paid (**Section [63-3046\(c\)](#), Idaho Code**):

63-3046. PENALTIES AND ADDITIONS TO THE TAX IN CASE OF DEFICIENCY.

(c) (2) In the event the return required by this chapter is filed but the tax shown thereon to be due is not paid, there may be collected a penalty of one-half percent (0.5%) of the tax due on such return for each month elapsing after the later of the due date of such return or the date the return was filed until the tax is paid.

(g) Total penalties imposed under subsections (a), (c) and (d) shall not exceed twenty-five (25%) of the tax due on the return.

Before this penalty can be imposed, the auditor's manager must agree.

Substantial Underpayment (Civil): A 10% substantial underpayment penalty, not to exceed 25% of tax due, may be imposed if the deficiency is a result of an underpayment of either 10% of tax or \$5,000, whichever is greater, in a taxable year (**Section [63-3046\(d\)](#), Idaho Code**):

63-3046. PENALTIES AND ADDITIONS TO THE TAX IN CASE OF DEFICIENCY.

(d) (1) If there is a substantial understatement of tax for any taxable year, there shall be added to the tax an amount equal to ten percent (10%) of the amount of any underpayment attributable to such understatement.

(2) For purposes of this subsection, there is a substantial understatement of tax for any taxable year if the amount of the understatement for the taxable year exceeds the greater of:

(i) Ten percent (10%) of the tax required to be shown on the return for the taxable year, or

- (ii) Five thousand dollars (\$5,000).
- (5) The amount of the understatement under paragraph (4) shall be reduced by that portion of the understatement which is attributable to:
 - (i) The tax treatment of any item by the taxpayer if there is or was substantial authority for such treatment, or
 - (ii) Any item with respect to which the relevant facts affecting the item's tax treatment are adequately disclosed in the return or in a statement attached to the return.
- (g) Total penalties imposed under subsections (a), (c) and (d) shall not exceed twenty-five (25%) of the tax due on the return.

For sales tax audit purposes, a taxable year is a 12-month calendar period for which an annual reconciliation is required.

123. ADDITIONS AND PENALTIES (RULE 123).

All additions and penalties provided by Sections 63-3046, 63-3075, 63-3076 and 63-3077, Idaho Code, are incorporated in the Sales Tax Act. (7-1-93)

01. Substantial Underpayment. For purposes of enforcing the substantial underpayment penalty provided by Section 63-3046(d), Idaho Code, the term taxable year shall, for purposes of the Sales Tax Act, mean the twelve (12) month calendar period for which an annual reconciliation is required. The return, for purposes of such taxable year, shall be the returns required to be filed under Idaho Sales Tax Administrative Rule 105. The taxpayer's entire calendar year or fiscal tax year shall be any fraction of a twelve (12) month period occurring prior to filing a final report. (7-1-97)

When an auditor recommends a substantial underpayment penalty, it must be fully substantiated in the audit report. Before this penalty can be imposed, the auditor's manager must agree.

Repeated or Intentional Invalid Exemption Claims (Civil): A 5% of sales price penalty may be imposed if the deficiency is a result of repeated or intentional use of an invalid exemption claim when the taxpayer has not voluntarily reported and paid use tax on those non-taxed purchases. The penalty imposed is equal to 5% of the sales price (purchase price) or \$200, whichever is greater (**Section 63-3624(i), Idaho Code**):

63-3624. ADMINISTRATION.

(i) If the Tax Commission determines that the purchaser has repeatedly or intentionally made purchases claimed to be exempt that are not exempt, and the purchaser has failed to voluntarily report and pay use tax in regard to those purchases, or the commission determines that the purchaser has repeatedly or intentionally made purchases claimed to be exempt that are not exempt and has removed the goods from this state, the commission may assert a penalty equal to five percent (5%) of the sales price of the property or two hundred dollars (\$200), whichever is greater. The Tax Commission may abate the penalty when the purchaser establishes during a proceeding for redetermination that there were reasonable grounds for believing that the purchase was properly exempt from tax.

123. ADDITIONS AND PENALTIES (RULE 123).

All additions and penalties provided by Sections 63-3046, 63-3075, 63-3076 and 63-3077, Idaho Code, are incorporated in the Sales Tax Act. (7-1-93)

02. Repeated or Intentional Invalid Exemption Claims. A purchaser who repeatedly or intentionally claims exemption from tax on purchases that are not exempt and has not reported and paid use tax on the purchases, shall owe the tax plus the interest prescribed in Idaho Sales Tax Administrative Rule 122 and may also be assessed a penalty of five percent (5%) of the purchase price of the goods or services, or two hundred dollars (\$200), whichever is greater. (7-1-97)

128. CERTIFICATES FOR RESALE AND OTHER EXEMPTION CLAIMS (RULE 128).

Section 63-3622, Idaho Code

08. Purchaser's Responsibility. If the purchaser intentionally or repeatedly makes purchases, claiming they are exempt, when in fact they are not exempt, and the purchaser fails to remit use tax, a penalty can be imposed in addition to the use tax. The penalty amount that may be asserted against the purchaser is five percent (5%) of the sales price or two hundred dollars (\$200), whichever is greater. The penalty will be asserted by the Commission as a Notice of Deficiency but the purchaser may have the penalty abated when he can establish that there were reasonable grounds for believing that the purchase was properly exempt from tax. ***In addition, if the purchaser gives a resale or exemption certificate with the intention of evading payment of the tax, the purchaser may be charged with a criminal misdemeanor and could be punished by a fine not exceeding one thousand dollars (\$1,000) or imprisonment for not more than one (1) year, or by both a fine and imprisonment.*** (3-4-10)

When an auditor recommends a civil 5% of sales price penalty, it must be fully substantiated in the audit report. Each purchase must be documented with a copy of the vendor invoice and a copy of the invalid exemption claim.

Before this penalty can be imposed, the auditor’s manager must agree.

Note: This penalty may be either civil or criminal in nature. *[Redacted pursuant to Idaho Code § 74-107(1)(b)]*

Sales Without a Permit (Civil): A penalty of up to \$100 per day may be applied to a seller that conducts business without a permit (**Section [63-3620](#), Idaho Code**):

63-3620. Permits -- Issuance -- Revocation -- Penalties.

(g) A person who engages in business as a seller in this state without a permit or permits, or after a permit has been suspended, and any person who is a responsible person, as defined in section [63-3627](#), Idaho Code, of such a business shall, after receiving written notice from the Tax Commission, be subject to a civil penalty not in excess of one hundred dollars (\$100), and each day shall constitute a separate offense, which the Tax Commission may assess as a deficiency pursuant to section [63-3629](#), Idaho Code.

Before this penalty can be imposed, the auditor’s manager must agree.

P1615 • Types of Criminal Penalties

The auditor should be aware that criminal penalties exist, and include:

<i>Type</i>	<i>Action/Penalty</i>	<i>Code / Rule</i>
Exempt Sale – Heating Fuel	Signing exemption certificate with intent to evade tax / Misdemeanor	35.01.02.088.04
Exempt Sale – False Claim *Intent to Evade	Signing exemption certificate with intent to evade tax / Misdemeanor; Up to \$1,000 fine and/or up to 1 year in prison	63-3622(e) 35.01.02.128.08
Use Tax – Failure to Comply	Violation of any provision in this section / Misdemeanor, \$100 per violation	63-3621(g)
Absorption of Sales Tax - Retailer	Advertise or state, directly or indirectly, that the retailer assumes or absorbs the sales tax / Misdemeanor	63-3619(d)
Evade or Defeat Tax *Willful Act	Willfully fails to collect, truthfully account for and pay tax; and, willfully attempts to evade or defeat imposed tax / Felony; Up to \$10,000 and/or Up to 5 years in prison.	63-3075(b)
Tax Computation, Assessment, Collection - Failure to Pay Tax, File Return, Keep Records, or Supply Information *Willful Act	Willfully fails to pay required tax, make required returns, keep required records, or supply required information at the time or times required by law or regulations – for the purposes of computation, assessment or collection of tax / Misdemeanor; Up to \$300 fine and/or Up to 6 months in prison – In addition to other penalties.	63-3075(a)

<i>Type</i>	<i>Action/Penalty</i>	<i>Code / Rule</i>
False or Fraudulent Return – Aiding, Assisting, Advising, Procuring, Counseling *Willful Act	Willfully aids or assists in, or procures, counsels, or advises, the preparation or presentation under, or in connection with any matter arising under, this act, of a false or fraudulent return, affidavit, claim, or document (whether or not such falsity or fraud is with the knowledge or consent of the person authorized or required to present such return, affidavit, claim, or document) / Felony; Up to \$10,000 and/or Up to 5 years in prison.	63-3075(c)

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P1700 • Interest

P1701 • General Information

Interest is required to be applied or imposed on all deficiencies and refunds of tax, but it does not apply to any penalty or unpaid accrued interest. All interest on sales or use tax deficiencies is simple interest.

P1705 • Imposing Interest

By statute, imposing interest on a tax deficiency is not optional. The Idaho Supreme Court reviewed and upheld the provisions of **Section 63-3045, Idaho Code**, in *Union Pacific Railroad Company v. State Tax Commission*, 105 Idaho 471, 670 P.2d 878 (1983), wherein the court stated, “This section is not discretionary, but rather, it is mandatory.” For this reason, the Tax Commission does not have the ability to waive or abate interest.

In sales tax audits, administrative rules allow for calculating average interest for a period of time that includes several reporting periods instead of calculating simple interest for each reporting period. However, when large dollar errors or nonrecurring amounts are involved in an audit, simple interest may be used. Refer to **Section P1405 • Working Paper Format** for further guidance.

P1710 • Interest Rates

The annual rate of interest applicable to delinquent taxes accruing or unpaid during all or any part of a calendar year is determined in accordance with **Section 63-3045, Idaho Code**:

The rate of interest accruing during any calendar year, or portion thereof, upon any deficiency, or payable upon an overpayment or refund, shall be two percent (2%) plus the rate determined under section 1274(d), Internal Revenue Code, by the secretary of the treasury of the United States as the midterm federal rate as it applies on September 15 of the immediately preceding calendar year rounded to the nearest whole number.

Interest rates are set by November 1 of each year and are listed in the **[Tax Commission Administration and Enforcement Rules Subsection 310.02.](#)**

P1800 • Audit Prepayments

(Referenced from [P2615](#))

P1801 • General Information

A prepayment occurs when a taxpayer pays part or all of an expected liability resulting in an audit. Payments can be general in nature, meant to minimize interest on a potential liability. They can also be payments made on specific items. Even though allowed, they may create a challenge when applying to final audit results.

P1805 • Discussing Prepayments with Taxpayers

Auditors should discuss how payments made on items reviewed within the audit period will be treated. The taxpayer should be aware that:

- any payments received before the NODD is issued will be considered a prepayment to the audit;
- items will not be removed from the population, even if specifically identified in the payment; and
- any items reviewed, even if specifically identified in a payment, will still be extended.

Example: Taxpayer purchased a painting for \$10,000 and classifies it as a fixed asset. During the pre-audit conference, the taxpayer realizes that tax is due on the painting and remits payment with their monthly sales and use tax return. The auditor performs a detailed review of the fixed assets and schedules the purchase of the painting. Even though the taxpayer subsequently paid use tax, the auditor would still extend the original purchase amount of \$10,000 as taxable. The payment of the painting is considered an audit prepayment.

P1810 • Applying Prepayments to an Audit

When a payment is received, it will be applied to the total amount due (tax, penalty, and interest). If the amount of payment does not cover the amount due, it is considered a partial payment. Partial payments are applied in the following order: Bad Check Charges, Interest, Tax, and Penalty.

The following should be noted:

- prepayments must be designated as an audit payment;
- interest must be calculated to date prepayment was received;
- prepayments must be properly applied to the audit;
- prepayments may be shown on the draft NODD; and
- prepayments should be shown on the Exhibit A (EX-A)

**PARTIAL PAYMENT
-BITP-**

Bad Check Charges
Interest
Tax
Penalty

[\(IDAPA 35.02.01.140.01\)](#)

Example: Documenting a partial payment on the **EX-A**. The taxpayer has no outstanding bad check charges.

7	TOTAL AMOUNT SUBJECT TO TAX		1,352	245	11,951	13,548
8	TAX RATE		6.00%	6.00%	6.00%	
9	TAX DUE		81	15	717	813
10	PENALTY		0	0	0	0
11	INTEREST CALCULATED TO FEBRUARY 15, 2016		8	1	15	24
12	TAX, PENALTY, AND INTEREST		89	16	732	837
13	PREPAYMENT APPLIED ON FEBRUARY 15, 2016					(52)
14	TAX, PENALTY, AND INTEREST INCLUDING PREPAYMENT					785
15	INTEREST CALCULATED FROM FEBRUARY 16, 2016 TO AUGUST 19, 2016					16
16	TAX, PENALTY, AND INTEREST DUE AUGUST 19, 2016					801
17						

- interest is calculated to date payment was received (Line 11)
- payment is applied to interest first (Line 11)
- remaining payment is then applied to tax (Line 9)
- tax, penalty, and interest after prepayment is applied (Line 14)
 - since the amount paid covered the interest, the balance remaining is tax
- simple interest is calculated from payment date to 63-day date (Line 15)

P1815 • Undisclosed Prepayments

An audit prepayment could be made by the taxpayer, before final audit findings have been issued, without being disclosed to the auditor. In some cases, payment may have been included with a sales and use tax return or on an income tax return (sales/use tax due). These types of general payments may not have been appropriately applied to their audit liability. For this reason, auditors should discuss prepayment options with the taxpayer to ensure proper credit.

Instead of sending payment, some taxpayers may take adjustments on future sales and use tax returns to offset any liability. The auditor should periodically review sales and use tax returns, filed after the audit period, for any unusual activity or unexpected adjustments.

Note: When a taxpayer requests to make a prepayment, the auditor may create a payment voucher that will direct payment to the audit.

P1900 • Conclusion of Fieldwork

P1901 • General Information

Audits are about finding the correct answer. Once an initial review of records has been completed, it is important to discuss preliminary audit findings with the taxpayer. This provides an opportunity for the auditor to seek additional information or request documentation for items that may be at issue. It also allows the auditor to communicate to the taxpayer the expectations for timely completion of the audit.

P1905 • Exit Interview

The exit interview is conducted at the completion of the fieldwork and can be brief or extensive, depending upon the taxpayer and the situation. Time should allow for the taxpayer to ask questions or express concerns about the audit process. This may also create an opportunity to update any statute waivers or obtain an executed Power of Attorney form.

When appropriate, the auditor may provide the taxpayer with copies of working papers, noting items that need additional research. Otherwise, the auditor should advise an anticipated date of when the Preliminary Audit Report, with supporting working papers, will be available for the taxpayer to review. The auditor should explain to the taxpayer the next steps in the process.

Note: Any significant issues that may affect preliminary audit findings should be addressed before a preliminary audit report is given to the taxpayer.

P1910 • Discussing the Preliminary Audit Results

Auditors should meet with the taxpayer, or their representative, soon after fieldwork has been completed to present their initial findings. The taxpayer should be provided with a preliminary audit report along with copies of all pertinent working papers. The report and working papers must contain sufficient information for the taxpayer to understand what is at issue and is needed to potentially resolve areas at issue. All areas of significance should be discussed, and may include:

- general issues found;
- procedures used, including sampling methods;
- any further items necessary to conclude the audit;
- the fact that interest is required and will continue to accrue;
- major areas of taxpayer disagreement and potential resolution; and
- any policy guidance, Tax Commission decisions, legal opinions, court rulings available to the public which would provide further clarification for applications of laws and rules

Note: Timelines for reviews of records and anticipated completion of the audit should be agreed upon.

P2000 • Finalizing Audit

P2001 • General Information

When the audit is ready to finalize, the auditor will discuss the results with the taxpayer during a closing (post-audit) conference. Prior to the post-audit conference, the taxpayer should be provided with all reports and working papers necessary to understand the basis of the audit findings. The auditor must allow sufficient time for the taxpayer to review the report.

P2005 • Post-Audit Conference

The post-audit conference allows the auditor to discuss the final audit results and provide explanation of how any adjustments to the preliminary audit findings were made, based on the proper interpretations of applicable sales and use tax laws. The post-audit conference may be conducted in person or over the telephone with the taxpayer or the taxpayer's representative. Depending upon the results or complexity of the examination, more than one post-audit conference may be necessary to fully review all additional documentation.

P2010 • Discussing Final Audit Results

The auditor should be prepared to provide a detailed explanation of the basis for the audit findings. Discussions may include:

The mechanics of the audit: Audit methods used during the audit and reasons why methods were used.

The basis of the audit assessment: Specific laws and regulations used to support audit findings. Any decisions or opinions available to the public which would provide further clarification may also be provided.

How the findings will be reflected on the proposed notice of determination: This may include any calculations, projections or other information presented in audit working papers.

Possible changes in the taxpayer's record-keeping: Methods to minimize or avoid future issues.

Taxpayer concerns and potential protest items: Determine if items at issue were properly addressed.

Taxpayer's ability to discuss issues with the auditor's manager

Taxpayer Rights

At the end of the post-audit conference, the auditor should provide the taxpayer with an approximate time frame for receiving a notice of determination. The requirements of petitioning for redetermination (protest) should be explained as well.

P2015 • Discussing Future Compliance

Promoting future tax compliance is one of the main goals of the Tax Commission. During an audit, the auditor has an opportunity and responsibility to help educate the taxpayer. The auditor can make recommendations on proper tax reporting methods; however, the auditor must not attempt to design or redesign the taxpayer's

accounting system. The taxpayer should be aware that any tax law changes may impact business operations; it is the taxpayer's responsibility to keep up to date with these changes. The Tax Commission publishes informational tax guides, provides taxpayer assistance on the proper tax treatment of specific transactions, and maintains an updated decision library with current rulings, links to sales tax laws and rules, and technical informational releases and directives.

P2020 • Addressing Taxpayer Concerns

After all facts have been considered by the auditor, the taxpayer may disagree with the findings or the way the audit was conducted. If this occurs, the auditor should determine if the taxpayer has anything to provide that was not considered. Reasonable time should be allowed to provide and review additional documentation necessary to resolve any items still at issue. Consideration must be made for expiration of any current statute waivers that may be affected by the additional time allowed.

The auditor will always need to reaffirm the taxpayer's the right to discuss the results or address any concerns about the examination process with their manager.

P2025 • Documenting Potential Protest Issues

A taxpayer may disagree with the application of sales tax laws and rules as it applies to their business. When this occurs, the auditor should document the taxpayer's concerns and determine if the items at issue can be readdressed within the audit. When this is not possible, the auditor should explain the protest process with the taxpayer.

P2030 • Informing Taxpayer of Payment Options

If the taxpayer agrees with the final audit findings, the auditor will let the taxpayer know that they have the option to prepay all or a part of the deficiency to keep interest from continuing to accrue on the paid portion of the deficiency. The auditor will document in the Case Activity Record (CAR) that the taxpayer has no further documentation to provide and is ready for the final audit finding to be issued. Whenever possible, written confirmation should be obtained.

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P2100 • Submitting Audit for Review

P2101 • General Information

Once the audit has been finalized, it is submitted to a manager for review and subsequent issue. Auditors must prepare and submit the audit in the manner prescribed by the bureau and their manager, allowing sufficient time for review. In addition, auditors must allow no less than 30 days between the expected issue date and the statute waiver expiration date.

P2105 • Sufficient Time for Review

Auditors need to allow 30 days between finalization and issue date for managerial review. Normally, audits should be submitted long before a statute waiver is due to expire. However, it is the bureau's policy to have finalized audits to the manager no less than 60 days prior to a statute waiver expiring, allowing 30 days between the issue date and statute waiver expiration date for mailing. When there is no signed statute waiver or when a statute waiver which expires prior to the 30-day period noted above, it is the responsibility of the auditor to notify their manager of the situation as soon as practical. Refer to [Section P715 • Using a Statute of Limitations Waiver](#) for further guidance.

Audit files are reviewed in the order received unless there is a time limitation problem with respect to the statute. Auditors are expected to discuss with their manager when an audit is ready for review and seek an issue date. The manager should be allowed a minimum of 30 days to review the audit file and submit it for issue. There may be circumstances where the manager may allow less days for review. However, the auditor must document that they have discussed those options with their manager. The manager's workload/schedule, holidays/blackout dates, statute waiver expiration dates, and bureau policies must be considered before submitting the audit for review.

P2110 • Audit File Review Checklist

(Referenced from [P2205](#))

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P2115 • Audit File Index

An Audit File Index identifies all schedules and accompanying documentation in an audit, number of pages, and where they can be found. It is also used by the bureau's administrative support staff to ensure all identified schedules are presented in the proper order and included with the notice of determination mailed to the taxpayer. It establishes the order for how the file will be prepared for mailing. Although this is not considered a working paper, the template is found within the current STA MACRO, and includes the following:

Main Heading

- Taxpayer's name
- The title "Sales/Use Tax Audit" (insert relevant tax type as needed)
- Audit period (date range)

Column Headings

- Title (Document Name)
- *[Redacted pursuant to Idaho Code § 74-107(15)]*
- File Prefix / Reference (standardized abbreviation)
- Number of Pages
- Send to Taxpayer (used to show the schedules that will be mailed to the taxpayer)

Content (By Order)

- Case Activity Record
- Statute of limitations waiver(s)
- Email authorization(s)
- Power of Attorney form
- Audit Assignment/Approval
- Audit Notes
- Final Audit Report
- Preliminary Audit Report
- Audit Macro (NOD, EX-A, IC, reconciliations, sales, use, etc.)
 - Schedules grouped by tax type (Sales, Use, Withholding, etc.)
 - Projection schedules should be placed before the schedule they project. Any account totals or other projection basis should be after the exam schedule.
- *[Redacted pursuant to Idaho Code § 74-107(15)]*
- Taxpayer correspondence
 - Includes both paper and electronic formats
- Payment information (payment voucher, check copy)
- Other information

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P2200 • Final Audit Review

P2201 • General Information

The primary purpose of the final audit review is to ensure that a complete and accurate audit has been performed, with consistent application of appropriate statutes, rules, and established auditing procedures.

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P2205 • Final Audit Review by a Tax Audit Manager

The tax audit manager (manager) reviews the audit file to determine if the audit can be issued as submitted. If not, the audit may be returned to the auditor if items need to be addressed, readdressed, changed, or clarified.

After the audit file has been completed and submitted by the auditor, the auditor's manager will perform a final review the audit file and prepare it for issue. The file is then forwarded to the bureau's administrative support staff to prepare a notice of determination.

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

Audit File Review Checklist

(Referenced from [P2110](#))

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

Audit Completion Form

The audit completion form is used to track the audit from when it was issued to when it is posted and closed. Initially prepared by the manager after the audit is reviewed, it is submitted along with the audit file to the bureau's administrative support staff. If a perfected protest is received, the protest process is also tracked on the form.

Note: The manager should indicate if an audit survey should be sent to the taxpayer, their representative, or both. Surveys should be limited to those that had direct contact with the auditor for a substantial portion of the audit process.

Evaluation of Audit (ACPMS)

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P2210 • Review by Administrative Support

Completed audit files must be forwarded to the bureau's administrative support staff, no less than 30 days prior to the expiration of the statute waiver. A notice of determination (NODD, NORD, etc.) is prepared, based on the final audit results, for the manager to sign.

[Redacted pursuant to Idaho Code § 74-107(15)]

P2300 • Billing Letter

P2301 • General Information

A billing letter gives the taxpayer notice of their potential tax liability. This may be an option for taxpayers that agree with the final audit findings or audits having issues that are limited in nature. For limited-issue audits, the billing letter may serve as an abbreviated audit report, explaining what is at issue and providing an opportunity for the taxpayer to provide additional documentation or accept and pay the calculated liability. For comprehensive audits, it is provided at the conclusion of the audit, summarizing the total amount due.

Both require an Audit Resolution Agreement to be signed and returned, along with payment in full, by a pre-determined date. Consequently, a notice of determination may be issued when conditions are not met by the taxpayer. Refer to **Section [P2320 • Audit Resolution Agreement \(Consent to Assessment\)](#)** for further guidance.

P2305 • Billing Letter vs Notice of Deficiency Determination

A billing letter establishes a liability, but it does not extend redetermination rights to the taxpayer as a Notice of Deficiency Determination (NODD) would. An NODD immediately establishes protest rights, allowing the taxpayer a period of 63 days to seek a redetermination before the tax is assessed.

In addition, a billing letter does not hold periods available for review as an NODD would. This requires auditors to be aware of time limitations for review of items at issue. For this reason, an NODD may still be required if the taxpayer has not paid the amount at issue and signed an audit resolution agreement at least 60 days before a statute waiver expires.

P2310 • Procedures – Comprehensive Audit

When the taxpayer has nothing further to provide and is ready for the final audit findings to be issued, the auditor should discuss finalizing the audit. If the taxpayer has confirmed that they agree with the final audit findings, a billing letter could be an option. However, the auditor will discuss with their manager whether a billing letter is appropriate. Generally, audits with complex or multiple issues are not the best candidates for a billing letter. In addition, the taxpayer must agree with the final audit findings. If there is any disputed liability or discussion of protest, an NODD would be a better alternative.

Auditors need to discuss any possible penalties with their manager. Imposing penalties may discourage a taxpayer from agreeing to final audit findings. In addition, some penalties may not be appropriate for a billing letter. If the manager approves the use of a billing letter, the auditor should contact the taxpayer before sending a billing letter and explain the process, expectations, and any potential consequences. It is important that the taxpayer is aware they will be asked to waive their opportunity to protest.

The auditor will submit the finalized audit for review as normal. Once the audit has been reviewed, the manager will return the file to the auditor, who will then contact the taxpayer before sending a billing letter. If the taxpayer is still in agreement, the taxpayer should be allowed at least 30 days to send payment and return the signed Audit Resolution Agreement.

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P2315 • Procedures – Single Issue or Limited Scope Audit

[Redacted pursuant to Idaho Code § 74-109(4)]

Pre-audit research: *[Redacted pursuant to Idaho Code § 74-109(4)]*

Audit Period: Since the auditor is not conducting a comprehensive audit, the audit period should only cover the period where errors were noted (period examined). It begins in the period where the error was first noted and ends in the period where the error last occurred.

Initial Contact: It may be beneficial to contact the taxpayer before sending a billing letter. This allows the taxpayer to be informed of the items currently at issue, giving the taxpayer a chance to provide any information or explanation. If the audit proceeds, the auditor can then verify a mailing address and have reasonable assurance the taxpayer will receive the billing letter.

Creating the Billing Letter: *[Redacted pursuant to Idaho Code § 74-107(15)]* It must be on Tax Commission letterhead. For most single-issue audits, addressing items purchased exempt (Form ST-101), the letter may act as the audit report with the items scheduled within the body of the letter. When appropriate, the letter may be on a single page and contain the following elements:

- Date
- Taxpayer name and address
- Subject Line
- Schedule of items at issue
 - A separate schedule may be used when multiple items are at issue
- Exemption claimed and reason why the purchase does not qualify
- How to qualify for exemption claimed
- The amount due (tax, penalty, interest)
- How to proceed
- Salutation and signature block
- Enclosures
 - Schedules (EX-A, IC, and any supporting working papers)
 - Supporting documentation (invoices, ST-101), if available
 - Audit Resolution Agreement
 - Payment voucher
 - Preaddressed envelope

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P2320 • Audit Resolution Agreement (Consent to Assessment)

(Referenced from [P2301](#))

A signed Audit Resolution Agreement represents the taxpayer's desire to accept the final audit findings and waive their opportunity to request a redetermination. The Audit Resolution Agreement form may be used in both comprehensive and single issue/limited scope audits. The form allows the auditor to identify the taxpayer, their permit number, the audit period, the amount at issue (tax, penalty, interest), the amount due, and the due date for payment in full. Only the approved form, addressing taxpayer rights for sales and use tax, may be used.

The signed agreement, along with full payment of the amount at issue, must be received by the established due date. The taxpayer is generally allowed a period of up to 30 days to complete the process. Once received, a properly executed agreement signals the completion of the audit, which can be subsequently closed.

Note: A cover letter may also be used. It summarizes the amount due and provides for potential consequences if the taxpayer fails to return the signed agreement and pay the full amount at issue by the due date. If a cover letter is used, the audit resolution agreement and any applicable supporting documentation (audit report, schedules, etc.) would be provided to the taxpayer as an enclosure.

P2325 • Payment Received Without Signed Audit Resolution Agreement

(Referenced from [P2310](#); [P2315](#))

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P2330 • Issuing a Notice of Deficiency Determination

A Notice of Deficiency Determination (NODD) may be issued when:

- full payment has not been received by the due date;
- full payment has been received without a signed audit resolution agreement;
- taxpayer is no longer in agreement with the final audit findings; or
- taxpayer requests additional time to address item(s) at issue, but the allowable time to review the item is in jeopardy of expiring.

If conditions appear to necessitate issuing an NODD, auditors should seek guidance from their manager on how to proceed.

P2335 • Payment Receipt and Closing Letter

When payment is received from the taxpayer, as a payment of liability resulting from an audit, an acknowledgment letter should be sent. This notifies the taxpayer that the audit has been paid in full and is now closed. A copy of the executed Audit Resolution Agreement should also be enclosed, for the taxpayer's records.

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

Note: A billing letter does not allow for an indefinite review of a transaction. For this reason, the auditor must be diligent when waiting for payment, being careful that no periods go out of statute. If payment is not received by the due date, the auditor should contact the taxpayer to determine if payment has been sent. The auditor will notify their manager, who will decide if an NODD should be issued.

P2340 • Audit Division Survey

An Audit Division Survey should be sent on audits closed using a billing letter. When the audit is forwarded to the bureau's administrative support staff for closing, the manager will indicate on the Audit Completion Form that a survey will need to be sent to the taxpayer, their representative, or both.

P2345 • Taxpayer Response to Billing Letter –Disagreement vs Protest

When a taxpayer expresses written disagreement to a billing letter they received, it is necessary to determine if the taxpayer is stating their desire to provide additional information or is clearly seeking to exercise their rights to a redetermination. For this reason, the auditor should contact the taxpayer by phone or by person to inquire about their intent.

If the taxpayer is stating their desire to provide additional information, the written disagreement would not be considered a protest. The auditor should allow the taxpayer sufficient time to provide any appropriate information or documentation. However, if the taxpayer has made it clear that their intent is to seek a redetermination, the written disagreement should be considered a protest. Any conversations with the taxpayer about their disagreement must be fully documented in the Case Activity Record (CAR). Auditors should inform their manager of the original disagreement and seek guidance from their manager on how to proceed. Refer to **Section [P2500 • Protested Audit](#)** for further guidance.

Note: A perfected protest filed before an official Notice of Deficiency Determination (NODD) has been issued, should be honored. To ensure all procedural requirements have been satisfied, an official NODD should be issued, and may be included with the 14-Day Letter sent by the auditor's manager. Refer to **Section [P2510 • Response to Protest: 14-Day Letter](#)** for further guidance.

P2400 • Notice of Determination

P2401 • General Information

A notice of determination (NOD) is the legal document notifying the taxpayer that tax, penalty, and interest are due to the taxpayer (refund), due from the taxpayer (deficiency), or when tax is neither due to or due from the taxpayer (no change). In some cases, it may be used to keep a period open for review before it falls out of statute.

The NOD establishes protest rights for a taxpayer to seek an official redetermination within 63 days of when it was mailed. A determination becomes final when the taxpayer fails to timely petition for redetermination of the deficiency or to timely appeal the decision of the Tax Commission, and the amount is assessed. If the taxpayer timely appeals the decision of the Tax Commission, the deficiency determination becomes final when the decision of the Board of Tax Appeals, or the judgment of the court, and can no longer be appealed.

P2405 • Notice of Deficiency Determination

Once the audit has been reviewed by the manager, and it is determined that a deficiency exists with respect to the tax liability of any taxpayer, a Notice of Deficiency Determination (NODD) is given to the taxpayer as soon as practical. The NODD is addressed to the taxpayer's last known address, signed by the auditor's manager and mailed by the bureau's administrative support staff in accordance to administrative rules and bureau policies.

Note: Generally, interest shown on the NODD is calculated out 63 days from the issue date, the date protest rights have ended. However, the taxpayer may pay early to mitigate any remaining interest.

P2410 • Notice of Refund Determination

Once the audit has been reviewed by the manager, and it is determined that a refund exists with respect to the tax liability of any taxpayer, a Notice of Refund Determination (NORD) is given to the taxpayer as soon as practical. The NORD is addressed to the taxpayer's last known address, signed by the auditor's manager and mailed by the bureau's administrative support staff in accordance to administrative rules and bureau policies.

Note: Generally, interest shown on the NORD is not calculated out 63 days from the issue date, the date protest rights have ended. Instead, interest is calculated out to the date the state will pay the refund amount. For this reason, the auditor will need to talk to their manager to determine how many days interest should be calculated.

P2415 • Notice of a No Change Determination

(Referenced from [P155](#); [P2805](#))

Once the audit has been reviewed by the manager, and it is determined that no additional liability exists or that the liability is less than \$100 with respect to the tax liability of any taxpayer, a Notice of No Change Determination (Zero-Dollar NOD) or a Letter of No Change may be given to the taxpayer as soon as practical.

Zero Dollar NOD: If the taxpayer has indicated they will or may protest items that were reviewed, a Zero Dollar NOD, or an NOD in the amount of \$0, may be issued to provide the taxpayer with protest rights. This may occur when the taxpayer has paid tax on an item, but believes the item is not taxable even though the auditor concluded that it was properly taxed.

The Zero-Dollar NOD is addressed to the taxpayer's last known address, signed by the auditor's manager and mailed by the bureau's administrative support staff in accordance to administrative rules and bureau policies.

Letter of No Change: If the auditor's manager has determined that a Zero-Dollar NOD is not necessary, the auditor will notify the taxpayer in writing that the audit was conducted, and no liability was determined. The auditor will need to complete an Audit Disposition Form and submit it to their manager.

Refer to **Section [P2800 • No Change Audit](#)** for further guidance.

P2420 • Draft NOD Information

Auditors create the draft NOD for the audit file, which is subsequently used by the bureau's administrative support staff to prepare and issue the official NOD. The draft NOD must be accurate, and includes:

- type of determination (deficiency, refund, no change);
- type of tax (sales and use, withholding, etc.);
- permit number / EIN;
- taxpayer information (mailing address);
- POA information, when applicable (mailing address);
- audit period;
- taxable sales, items subject to use tax, total taxable;
- total due, penalty due, interest due;
- total due;
- report date;
- NODD issue date;
- 63-day date;
- auditor name, title, phone, and signature; and
- manager (reviewer), title, phone number.

Note: Once the NOD has been prepared (issued) by the bureau's administrative support staff, the manager must review and sign the official determination before it is sent to the taxpayer.

P2425 • Adjusting a Redetermination

The Tax Commission has delegated authority to certain Audit Division staff to issue or adjust (increase, decrease) a notice of determination based on the circumstances and their level of authority. For sales and use tax, the statute allows the Tax Commission to increase or decrease the amount of determination without issuing a new determination when certain conditions are met.

63-3631. Redetermination. (2) The Tax Commission may decrease or increase the amount of the determination before it becomes final, but the amount may be increased only if a claim for the increase is asserted by the Tax Commission at or before the hearing.

During the protest process, the auditor may be relied upon to review additional documentation and recommend any adjustments to their manager.

Refer to **Section P2500 • Protested Audit** for further guidance.

P2430 • Formatting Draft NODs for Different Ownerships

The following are examples of formats for different types of ownership that should be used when preparing a draft NOD:

Individual ownership:	Robert W. Jones Dba: Jones' Snack Shack Box 916 Boise, ID 83701
Partnership:	Smith & Doe Sports, a Partnership, and Larry Doe, Individually and as a partner Bill Smith, Individually and as a partner 345 East 27th Street Boise, Idaho 83701
Corporation:	Designers, Inc. 1234 May Street Boise, Idaho 83701

Note: For mailing purposes, USPS formatting should be followed, such as using all capital letters and no punctuation.

An auditor may need to identify all responsible parties (dependent on tax type and business structure) of a business for the NOD. This may occur when the business has changed ownership during the audit period or is may be going out of business after the NOD is issued. The following example shows an NOD addressed to a business along with the individual responsible parties:

**John F. Doe, individually as a corporate officer, and
Jane L. Doe, individually as a corporate officer of Designers, Inc., and
Designers, Inc., a corporation
1234 Main Street
Boise, Idaho 83701**

Limited Liability Companies (LLC's) may be single owner or multiple owner entities. A single owner LLC may opt to file income tax returns as either a sole proprietor or as a corporation. Formatting for an LLC should be as shown above, for the type of income tax return the LLC opts to file.

Note: As a matter of practice, auditor should identify all the responsible individuals in the Audit Notes.

P2500 • Protested Audit

(Referenced from [P2345](#); [P2425](#))

P2501 • General Information

Idaho law allows the right to protest a notice of determination (NOD) received from the Tax Commission. Taxpayers have 63 days from the date the NOD is mailed to file a written protest to request a redetermination. When an audit is protested within the 63-day period, the file is reviewed to determine if the items protested are of a factual or legal nature. The postmark date, faxed date, or the email send date is the date considered for date of protest. Refer to [Section 63-3045, Idaho Code](#), for further guidance.

Wherever possible, the audit issues protested should be resolved within the bureau, unless the issues are of a legal nature. If attempts to resolve the protested issues within the bureau are unsuccessful, a Protest Summary is prepared, and the file forwarded to the Tax Commission's Tax Appeals section. Refer to [Section P2530 • Protest Summary](#) for further guidance.

P2505 • Perfected Protest

A "perfected" protest is one that is valid and can proceed to the next stage. To be valid, the written protest must contain the following information:

- taxpayer's name, address, and tax identification number (Social Security number, Federal Employer Identification Number, Idaho tax permit number, or Individual Taxpayer Identification number);
- tax period(s) the deficiency relates to;
- specific item(s) disagreed with; and
- factual or legal basis for the objections made.

If the protest does not include all the required information, the auditor's manager will send a letter telling the taxpayer what is needed to "perfect" their protest. The Tax Commission must receive the required information within 28 days from the date on the Tax Commission's letter notifying the taxpayer that the protest wasn't complete; otherwise, the NOD becomes final on the 29th day, and the taxpayer loses their right to appeal. When appropriate, the Tax Commission may reduce the amount of deficiency during the 28-day period.

If the protest includes all the required information, the auditor's manager will send an acknowledgement letter to the taxpayer. Refer to [Section P2510 • Response to Protest: 14-Day Letter](#) for further guidance.

Note: The inability to pay is not a valid protest issue, but rather grounds for settlement.

P2510 • Response to Protest: 14-Day Letter

(Referenced from [P2345](#); [P2505](#))

When a perfected protest has been filed, the Tax Commission is required to provide the taxpayer with a written acknowledgment of the protest within fourteen (14) days. When a protest is timely and perfected, the audit file is returned to the manager, who will immediately prepare a 14-Day Letter response to the taxpayer's protest for issues that involve factual matters, require legal interpretation of the laws and rules applied in an audit, or both. Refer to **Section [63-3045B\(3\)](#), Idaho Code**, for further guidance.

P2515 • Response to Protest: Factual Matters

A protest that involves factual matters is one that requires the review of additional documentation, math or sampling errors, or any other type of error that does not require further interpretation of laws or rules. When this occurs, the audit file will be returned to the auditor for further review. The auditor will work with the taxpayer to resolve the outstanding issues. If all issues can be resolved, the auditor will adjust affected working papers (post deficiency adjustments) and forward the file to their manager for review.

Note: The auditor should complete the review within 90 days. Managers should follow up on audits that have been in protest for more than 90 days.

P2520 • Response to Protest: Legal Interpretation

A protest may require further legal interpretation of laws and rules that were applied in the audit. When this occurs, the auditor will be requested to complete a protest summary discussing the areas at issue and the auditor's stance. The manager will forward the protest summary, along with the audit file, to the bureau chief for review. Once the bureau chief has reviewed the protest summary and agrees with the findings, the file will be forwarded to the Tax Commission's Tax Appeals Section through the bureau's administrative support staff.

Note: During this process, the auditor should refer any taxpayer questions to the Tax Commission's Tax Appeals Section. In addition, the auditor should keep their manager informed of any post-audit activity discussions.

P2525 • Request to Withdraw a Protest

When the taxpayer is satisfied with the post-audit adjustments or desires not to continue the protest, they may request to withdraw their protest. If this occurs, the taxpayer will need to provide a written request to withdraw their protest. Once the request is received, the audit will be forwarded to the auditor's manager for final review.

P2530 • Protest Summary

(Referenced from [P2501](#))

A protest summary allows the auditor to respond to items at issue raised by the taxpayer in their perfected protest. This response, completed by the auditor using the approved Protest Summary template, should be limited to addressing items within the protest. The auditor may use applicable laws and rules to validate their stance.

Once completed, the protest summary is initially reviewed by the auditor's manager and subsequently by the bureau chief. *[Redacted pursuant to Idaho Code § 74-107(15)]* The administrative support staff then forwards the protest summary to the Tax Commission's Tax Appeals section.

Note: The completed Protest Summary becomes part of the audit file and may be reviewed by the taxpayer. It is necessary that the information contained in the summary be accurate, objective, and professional.

P2535 • Informal Conference

An informal conference allows the taxpayer to discuss the NOD and their protest with the Tax Commission. It is generally attended by the taxpayer and/or their representative and a Tax Appeals Specialist. A Tax Commissioner or representatives from the Idaho Office of the Attorney General may attend as well. No one is under oath, and the "rules of evidence" (as in a legal proceeding) do not apply.

The audit staff is not generally present during an informal conference. However, if the auditor and their manager are invited to attend, it should be noted that:

- a thorough review of the audit file prior to the conference is expected to provide answers to any questions asked;
- audit staff are guests and should not speak unless given permission by the Tax Commissioner or their designate;
- audit staff may be called upon to provide additional information or recommendations for items at issue;
- any comments made by audit staff must be made in a professional, objective manner; and
- proper business dress is required.

P2540 • Decision or Resolution

The Tax Commission must issue a final decision within 180 days of either:

- the conclusion of the informal hearing (unless the taxpayer was allowed extra time to provide new evidence or testimony); or
- the date of a written request from the taxpayer for a final decision on the issue. a request for a final decision must be the sole subject of their letter. If a final decision was requested, the Tax Commission may deny any further request to provide more evidence or documents or to appear at any proceeding

during the 180-day period. Refer to [Tax Commission Administration and Enforcement Rule 325.04](#) for further guidance.

Note: The Tax Commission can delay a final decision if the taxpayer agrees in writing to waive the 180-day requirement. The waiver may be for a fixed period or open-ended.

The taxpayer can make an offer to settle their appeal. The written request must explain why the Tax Commission should accept an offer based on any of the following reasons:

- **disputed liability** - The taxpayer and the Tax Commission have a reasonable disagreement on the existence or amount of the tax liability under the law. The settlement amount is based on disputed liability and may take into account evaluated risks of litigation.
- **doubt as to collectability** - The taxpayer's assets and income may not be enough to pay the full amount of the liability. The settlement amount is based on the facts and circumstances of the case.
- **economic hardship** - The taxpayer could pay the liability in full, but by doing so would limit their ability to pay basic living expenses. The settlement amount is based on the facts and circumstances of the case.
- **promotion of effective tax administration** - This takes into account fairness and compelling public policy reasons that the taxpayer identifies. The settlement amount is based on the facts and circumstances of the case.

A Tax Appeals Specialist evaluates an offer, sometimes in consultation with other staff, and makes a recommendation to the Tax Commissioners. An offer is not final until the taxpayer receives a written settlement agreement signed by a Tax Commissioner or authorized delegate.

Note: When the Tax Commission makes a decision, an additional 91 days must elapse before any collection action may be taken. This allows the taxpayer time to appeal the case to the Board of Tax Appeals or District Court.

P2600 • Post-Deficiency Adjustments

(Referenced from [P1405](#))

P2601 • Post-Deficiency Adjustments

Post-deficiency adjustments are made after a deficiency has been issued and protested. These adjustments can arise when errors are noted in the audit or when a timely filed petition for redetermination results in:

- submission of factual documentation that supports claims of exemption;
- Tax Commission decisions arising from an informal conference;
- Board of Tax Appeals decisions; or
- decisions rendered by state and federal courts.

Refer to [Section P1405 • Working Paper Format](#) for further guidance.

P2605 • Making Post-Deficiency Adjustments

The original working papers used to create a determination cannot be altered, since they are legal documents. Any schedules that require adjustments, if used, should reflect source of reference, item reviewed, any changes made, and reason for findings result. Final calculations for adjustments should be carried forward to an Exhibit of Amended Computation of Deficiency (e.g., EX-A-PD, EX-A-PD1, etc.) schedule.

An amended Notice of Deficiency Determination (NODD) is not prepared, since this would reopen the period for filing a petition for redetermination, allowing the taxpayer an additional 63 days to protest the adjustment. Instead, only post-deficiency working papers will be prepared to support any adjustments.

The auditor may choose to create schedules addressing only the items at issue or use copies of original schedules to make adjustments. The amended schedules need to be clearly labeled as such and fully document reasons an item was or was not adjusted. The size of the schedule (e.g., lines, columns, etc.) and/or number of schedules needing to be adjusted should be taken into consideration when determining how post deficiency adjustments are made.

P2610 • Post-Deficiency Index

Auditors should arrange post-deficiency work in the order shown in the original index and placed in the front of the audit file. If the post-deficiency work is voluminous, it may be necessary to create a post-deficiency index. If a post-deficiency index is used, it should reference post deficiency working papers, correspondence, and the original audit index.

P2615 • Post-Deficiency Audit File

All post-deficiency working papers and documents are placed in front of the original audit index. Two copies should be made of all schedules; one for the taxpayer, and one for the audit file. An amended calculation of tax due should be prepared showing each separate deletion schedule as a separate deduction from the original audit results or the results of the amended schedules. Any applicable penalty and interest must also be recalculated.

If a payment had been received, it will be applied to the total amount due (tax, penalty, and interest). When payment does not cover the amount due, it is considered a partial payment. Partial payments are applied in the following order: Bad Check Charges, Interest, Tax, and Penalty. Refer to **Section [P1800 • Audit Prepayments](#)** for further guidance.

Comments related to specific adjustments made after the determination has been issued, items at issue that are unresolved, and appropriate Code and Rules should then be entered as an addendum to the Audit Report, or as a separate Post-Deficiency Summary, which should be signed and dated. The auditor will then submit audit file to their manager for review.

P2620 • Taxpayer Requests for Post Deficiency Extension

Most post-deficiency work should be completed within 90 days. However, the taxpayer may request additional time to provide the requested information or documentation. When the request is reasonable, the auditor should set a new time and date for the taxpayer to respond. The auditor should discuss with their manager any requests for extensions that are not reasonable or when extensions exceed 180 days. All activity must be documented in the Case Activity Record (CAR).

Note: The auditor must not allow more than 45 days to lapse without communicating with the taxpayer, unless an agreement for delaying communication past 45 days has been confirmed in writing.

P2700 • Audit Reversal

P2701 • General Information

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

P2705 • Procedures

[Redacted pursuant to Idaho Code § 74-107(1)(b); Idaho Code § 74-107(15); and Idaho Code § 74-109(4)]

P2800 • No Change Audit

(Referenced from [P2415](#))

P2801 • General Information

When an audit results in a liability of \$100 or less, the auditor will discuss with their manager on how to proceed.

Note: When appropriate, the manager will direct the bureau's administrative support staff to send an Audit Division Survey once the audit has been closed.

P2805 • No Change Audit with NOD

When it has been determined that an NOD in the amount of \$0 will be issued, the auditor will need to prepare an audit file to submit for review.

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P2810 • No Change Audit without NOD

When it has been determined that a Zero-Dollar NOD is not necessary, the auditor will need to notify the taxpayer in writing that the audit will be closed. When appropriate, permitted taxpayers may be asked to remit the additional liability on their next sales and use tax return or their next Individual Idaho Income Tax Return if they are a non-permitted sole proprietorship.

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P2900 • Refund Audit

(Referenced from [P205](#); [P1220](#))

P2901 • In General

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

P2905 • Reviewing Taxpayer-Initiated Refund Requests

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

P2910 • Reviewing Sales Tax Return Adjustments

[Redacted pursuant to Idaho Code § 74-107(1)(b); Idaho Code § 74-107(15); and Idaho Code § 74-109(4)]

P2915 • Routine Examination Resulting in a Refund

(Referenced from [P1235](#))

Some comprehensive refunds may result in an overpayment of tax, requiring a Notice of Refund Determination. Auditors should use standard comprehensive audit procedures when creating audit files and conducting the review. Any deviations must be discussed with the auditor's manager. Refer to **Section [P1235 • Handling Refunds in an Audit](#)** for further guidance.

P2920 • Assignment of Refund Review

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

P2925 • Special Procedures

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

P2930 • Interest on Refund Audits

When issuing a Notice of Refund Determination (NORD), interest is required; it is computed consistent with the procedures used in the issuance of deficiencies. However, since refunds are processed shortly after the NORD is issued, interest is not calculated out 63 days. Although taxpayers still have protest rights of 63 days, interest will typically be computed to the NORD issue date. Auditors should discuss with their manager regarding final interest computations.

P2935 • Reduction of Refund

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P2940 • Higher Dollar Amount Refunds

Refunds of higher dollar amounts are routinely verified by the Tax Commission before they are released to the taxpayer. *[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]*

P3000 • Miscellaneous Taxes – Motor Fuels and Fleet Registration

P3001 • General Information

Auditors should be aware of certain transactions involving motor fuels and fleet registration that may need to be addressed within an audit.

P3005 • Motor Fuels Tax

Fuels subject to the Idaho Motor Fuels Tax, where motor fuels tax has been paid, are not subject to sales and use taxes. This includes gasoline, diesel, and gaseous fuels. However, fuel purchased for off-highway use may be subject to sales and use tax. Auditors may need to review motor fuels records when credit has been taken on Idaho Form 75 or when state motor fuel tax has not been paid to determine proper tax treatment within the audit.

P3010 • International Registration Plan

There is an exemption for motor vehicles over 26,000 pounds that are registered under the international registration plan (IRP), as long as out-of-state fleet miles are greater 10% during the registration year. On-highway trailers that immediately become part of an IRP fleet may also qualify. However, repair parts and supplies are taxable. Auditors may need to review IRP-related transactions to ensure proper treatment of tax.

Note: A fleet is one or more vehicles registered under the IRP or similar plan. Use tax is due on the fair market value at the time the vehicle or trailer no longer qualifies. **Example:** An on-the-road refrigeration trailer removed from a qualifying fleet and used for cold storage at the taxpayer's location would be taxable. Refer to [IDAPA 35.01.02.010.05](#) for further guidance.

P3015 • Full Fee Registration

An owner of an IRP fleet, which may qualify for an exemption, may convert one or more fleet vehicles to a Full Fee Idaho registration, which does not qualify for an exemption. If tax was not paid on a vehicle when it was registered IRP, use tax becomes due on the fair market value at the time it was changed to Full Fee Idaho registration. Auditors may need to review IRP-related transactions to ensure the proper treatment of tax.

P3100 • Use of Summons

(Referenced from [P725](#))

P3101 • General Information

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P3105 • Authority to Issue Summons

The Tax Commission has statutory authority to issue a summons for the purposes of:

- ascertaining the correctness of any return;
- making a return where none has been filed;
- determining the liability of any person for any tax; or
- collecting any such liability.

However, a summons may not be issued for:

- general research not related to a specific taxpayer;
- encouraging settlement; or
- harassment.

Note: The auditor must be able to set factual groundwork to justify the issuance of a summons. A summons is issued under authority of Sections [63-3042](#), [63-3043](#), and [63-3635](#), Idaho Code; and [IDAPA 35.02.01.200 - 204](#).

P3110 • Criteria for a Summons

A summons is a formal request to obtain records necessary for determining correct liability. If the summons is unsuccessful, the next course of action may be to:

- request information through judicial enforcement; or
- issue an audit report based on the information available.

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

The summons should clearly identify specific records, books and papers necessary to complete the examination.

Note: The taxpayer should be aware that a summons may be issued if information requested is not received in a timely manner. If no response is received after several requests for information, the

auditor will need to discuss with their manager the need for issuing an audit report or the use of a summons. Refer to [Appendix: Summons](#) for further guidance.

P3115 • Service of a Summons - Taxpayer Requested

(Referenced from [P3101](#))

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P3120 • Service of a Summons - Taxpayer Noncompliance

(Referenced from [P3101](#))

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P3125 • Addressing a Summons

A summons is required to properly identify the business or individual being served. When necessary, auditors should seek guidance from their manager when addressing a summons.

Summons Addressed to a Business Organization: When a business organization is comprised of several companies, a summons should be addressed to the correct entity having possession and control over the requested records.

Summons Addressed to a Business Entity: A summons may be addressed to a corporation, corporate officer, managing agent, or registered agent of the corporation. If an individual is named in the summons, the summons must refer to the individual's official capacity. When a business entity is a sole proprietorship, partnership, or other unincorporated association, a summons should name the proprietor, general partner, managing partner, etc. As with a corporation, if an individual is named in the summons, the summons must refer to the individual's official capacity.

Summons Addressed to an Out-Of-State Company: When the business is an out-of-state company, not authorized to do business in Idaho, it will not have a registered agent in Idaho. In this case, a summons is served in the state where the business is headquartered or at its principal place of business. The Tax Commission will need to use an authorized process server in that state.

P3130 • Service of a Summons - Time Requirement

A minimum of twenty (20) days is required between the date of the summons and the date the taxpayer is required to appear. Depending on the nature of the request, the taxpayer should be provided sufficient time to properly respond to the request. Refer to **Section [63-3042\(c\)](#), Idaho Code**, for further guidance.

A taxpayer may be excused from a summons if the requested records are provided prior to the date of appearance. If the taxpayer is excused from the summons, a letter needs to be sent to the taxpayer

excusing them. The summons should contain language notifying the taxpayer that they may be excused in writing if they provide the requested information prior to the scheduled appearance.

Note: A summons does not hold the period reviewed in place. For this reason, a statute waiver or extension should be obtained. If not possible, an estimated determination may need to be issued before the statute of limitations expires. Refer to **Section [P725 Estimated Determinations](#)** for further guidance.

P3200 • Extraordinary Situations

P3201 • General Information

An auditor may find themselves in a unique situation that is difficult to determine the best course of action to pursue. Although it is not possible to address every extraordinary situation, this section establishes guidelines for situations that are more prevalent. For anything not covered in this section, the auditor should contact their manager for further guidance.

P3205 • Taxpayer Declaring Bankruptcy

(Referenced from [P205](#))

There are different types of bankruptcy outlined by the [United States Bankruptcy Code](#). Each type of bankruptcy is identified by the chapter of Code that discusses it: individuals may file **Chapter 7** or **Chapter 13** bankruptcy, depending on the specifics of their situation; businesses may file bankruptcy under **Chapter 7** to liquidate or **Chapter 11** to reorganize; **Chapter 12** provides debt relief to family farmers and fisherman; municipalities may reorganize under **Chapter 9**; and **Chapter 15** provides relief for filing involving parties from more than one country.

Chapter 7 Bankruptcy – Liquidation: The debtor seeks to be relieved from personal liability for certain dischargeable debts. A trustee collects the debtor's nonexempt assets, which are then reduced to cash, and distributions are made to the creditors in accordance with bankruptcy law. Businesses that wish to liquidate their assets and discontinue business may also file under Chapter 7 Bankruptcy.

Chapter 9 Bankruptcy – Adjustment of Debts of Municipality: This only applies to a municipality, such as cities, towns, villages, counties, taxing districts, municipal utilities, and school districts. Once filed, the municipality is expected to reorganize and propose a plan of repayment.

Chapter 11 Bankruptcy – Reorganization: The debtor seeks to continue business operations while repaying creditors through a court-approved reorganization plan. The plan may include reducing debts by repaying a portion of them while discharging others, discharging burdensome contracts and leases, and rescaling operations of the business.

Chapter 12 Bankruptcy – Adjustment of Debts of a Family Farmer with Regular Income: The debtor seeks to continue their farming operation by repaying creditors over a period of time, using their regular annual income.

Chapter 13 Bankruptcy – Adjustment of Debts of an Individual with Regular Income: The debtor seeks to pay their debts over a planned period of time, using their regular income. If the Court approves the plan, the debtor keeps their assets and will make payments to the creditors through a trustee. The debtor is then protected from actions by creditors including lawsuits, wage garnishments,

and actual contact with the debtor for the life of the plan. Upon completion of the plan, any remaining debts are discharged.

Chapter 15 Bankruptcy – Ancillary and Other Cross Border Cases: This applies to bankruptcy filings that involve parties from more than one country. Generally, a chapter 15 case is ancillary to a primary proceeding brought in another country, typically the debtor's home country. As an alternative, the debtor or a creditor may commence a full chapter 7 or chapter 11 case in the United States if the assets in the United States are sufficiently complex to merit a full-blown domestic bankruptcy case. In addition, a U.S. court may authorize a trustee or other entity (including an examiner) to act in a foreign country on behalf of a U.S. bankruptcy estate.

Discovering a Bankruptcy: If a taxpayer under audit is planning to or has filed for bankruptcy, the auditor will need to discuss with their manager on how to proceed. In many cases, the audit will need to be completed and a notice of determination issued as soon as possible. This will establish a liability, allowing the state to potentially collect taxes due before the bankruptcy process has ended.

Note: The auditor will also need to contact the Tax Commission's bankruptcy unit (Collection Division) to advise of the audit and NOD issue date.

P3210 • Bribery

A **bribe** occurs when something of value (money, goods, benefit, or services) is given to the auditor with the **intent** the auditor will violate their duties as a Tax Commission employee. Bribery is a felony for both the individual making the bribe and the employee accepting the bribe.

Bribery - Sections [18-1351](#) & [18-1352](#), Idaho Code

A person is guilty of bribery, a felony, if a person offers, confers or agrees to confer upon another, or solicits, accepts or agrees to accept from another:

- (1) Any pecuniary benefit as consideration for the recipient's decision, opinion, recommendation, vote or other exercise of discretion as a public servant, party official or voter; or
- (2) Any benefit as consideration for a violation of a known legal duty as public servant or party official.

It is no defense to prosecution under this section that a person whom the actor sought to influence was not qualified to act in the desired way whether because he had not yet assumed office, or lacked jurisdiction, or for any other reason.

An auditor may accept **trivial benefits (de minimis gifts)** when the value does not to exceed a value of fifty dollars (\$50.00). However, to be considered trivial, the benefit or gift must be incidental to the auditor's work and involve no substantial risk of undermining their judgment or objectivity. Examples include snacks, lunches, or product samples. An auditor receiving a gift of any value from a taxpayer should report it to their manager. Refer to **Section [18-1359](#), Idaho Code**, for further guidance.

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P3215 • Handling Tax Fraud

(Referenced from [P1610](#); [P1615](#))

Tax fraud occurs when a taxpayer willfully falsifies, misrepresents, or fails to report their tax obligations to a taxing authority. It also includes those who willfully assist or provide guidance to the taxpayer to commit fraud.

The Tax Commission must be able to clearly document a course of action demonstrating the taxpayer's intent to commit fraud. The mere existence of an understatement of tax liability is not indicative of a willful intent to evade taxes. However, willful intent can be shown by a pattern of present or past understatements, deceit, concealment, misleading acts, misrepresentation, and other acts evident of willfulness.

Examples of Fraud include:

- failure to file returns;
- failure or refusal to collect tax;
- failure to report tax collected as shown on invoices;
- consistently collecting tax and not remitting, in whole or in part, all of the tax collected;
- reporting less tax than shown on the accrual accounts;
- consistently understating taxable sales or overstating exempt sales;
- misappropriation of tax monies;
- paying employees in cash (no withholding);
- failing to keep proper books and records;
- failure to keep any records, keeping poor or incomplete records, maintaining multiple sets of records, attempts to falsify or alter records;
- destroying books and records without a reasonable explanation or refusal to make certain records available;
- knowingly making false, misleading, and inconsistent statements; and
- bribery with money or other items or services of value.

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P3220 • Threat of Harm

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P3300 • Auditor Accountability and Time Reporting

P3301 • General Information

Auditors are required to demonstrate an efficient and cost-effective use of their time to meet the productivity goals of the bureau. This requires planning and tracking their time dedicated to those activities.

P3305 • Audit Planning

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P3310 • Work Hours

Work should be scheduled within the established core work hours, which are from 6:00 am to 7:00 pm local time. Exceptions can be made for audit travel or other unforeseen events. If a taxpayer is unable to accommodate an audit during the bureau's core working hours, the auditor is expected to discuss alternate work schedules with their manager. Occasional variances may be allowed, but only when pre-approved by the auditor's manager.

Note: When working over six consecutive hours in a day, auditors are required to take a minimum half-hour (30 minute) lunch break.

P3315 • Alternate Work Schedule

An alternative work schedule is one that is outside of the agency's standard 8:00 am to 5:00 pm, Monday through Friday, 40-hour work week. It allows the auditor to begin and end their schedule at specified time, through an agreement with their manager. **Example:** An auditor may choose to work four, 10-hour days. Another option could be working four, 9-hour days and one, 4-hour day. If approved, the auditor must adhere to the agreed upon schedule.

Note: The auditor must always adjust their schedule to accommodate the taxpayer when conducting fieldwork. If working an approved alternate work schedule, a normal five-day, eight-hour workday should be considered if fieldwork is planned to last the week. The auditor may not use a shortened workday to leave the audit early or to accumulate overtime.

P3320 • Attendance, Leave, Overtime

Attendance: Auditors are expected to adhere to their approved work schedule. As a professional, the auditor is trusted to be prompt and ready to work. Whether working at the office or out in the field, auditors must be accountable for their time.

Although breaks are allowed, they are considered a privilege. Breaks may not be taken within the first and last hour of a scheduled workday, in conjunction with a lunch break, or simultaneously (back-to-back). Whenever possible, breaks should be taken at a consistent time.

Note: Activities considered as break time include, but not limited to, the following: preparing snacks, purchasing meals (such as breakfast, even if brought back to the auditor's cubicle), getting hot or cold drinks, making personal calls or visits, and similar activities.

Leave: Auditors are required to seek approval for all leave. Depending on preference, the auditor's manager may allow notification by telephone, email, or text. Regardless of method, the auditor must be sure that proper notification has been received. All leave must also be noted on the bureau's checkout calendar.

Overtime: Auditors must seek approval for working overtime. In most cases, overtime is expected on travel. However, it should still be preapproved before travel occurs. Any compensatory time earned cannot be taken until it has been made available.

P3325 • Audit Time Reporting

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-107(15)]

P3330 • Telephone: Answering and Voicemail Standards

Answering phone calls: Auditors should answer the phone in a professional manner using their name and the agency name in the greeting.

Example: Idaho State Tax Commission, this is FIRST NAME, LAST NAME. How can I help you?

Voicemail standards: Auditors should have a voicemail greeting for their office phone. This greeting must be a personal greeting; not an automated version provided by the phone system. The greeting should follow agency and bureau guidelines regarding content, which typically includes the auditor's name, name of the agency, and whom to contact if the auditor is away from their desk **with** a zero-out option.

Example: Hello. You've reached the voicemail of FIRST NAME, LAST NAME at the Idaho State Tax Commission. Please leave a message and I'll return your call. If you need help right away, press zero. Thank you.

Note: Alternative greetings should be used when the auditor is out of the office. Refer to **Section [P3335 • Out-of-Office Notifications](#)** for further guidance.

P3335 • Out-of-Office Notifications

Auditors should let others know when they are not scheduled to be in the office. This includes both email and voicemail notifications.

Email Notifications

Auditors should use automatic email replies to inform others when they are scheduled to be out of the office and their planned date of return. Auditors should follow agency and bureau guidelines regarding content, which typically includes an alternate contact name, email address, and phone number of the person to contact when immediate assistance is required.

Automatic replies may be tailored to both internal (ISTC employees) and external recipients.

Example (external): I am currently out of the office and will return on DAY, MONTH, DAY, YEAR. For immediate assistance please contact FIRST NAME, LAST NAME, at PHONE NUMBER or at first.lastname@tax.idaho.gov. Otherwise, I will respond to your email when I return to the office. Thank you.

Example (internal): I will be back in the office on DAY, MONTH, DAY, YEAR. If you need immediate assistance, please call our bureau's administrative support at PHONE NUMBER.

Voicemail Notifications

(Referenced from [P3330](#))

Auditors should update their voicemail greeting for their phone when they are scheduled to be out of the office, including when out sick (if possible). This greeting must be a personal greeting; not an automated version provided by the phone system. Auditors should follow agency and bureau guidelines regarding content, which typically includes:

- auditor's name and the name of the agency; and
- whom to contact if the auditor is away from their desk **with** a zero-out option.

Example: Hello. You've reached the voicemail of <FIRST NAME, LAST NAME> at the Idaho Tax Commission. I'm out of the office until DATE. Please leave a message and I'll return your call when I get back. If you need help right away, please press ZERO. Thank you.

Note: When appropriate, calls may be forwarded to another location, such as a cubicle or conference room.

P3400 • Audit Travel

(Referenced from [P520](#); [P1015](#))

P3401 • General Information

Traveling to the taxpayer's place of business or to their representative's office may be required to complete an audit. Although necessary, auditors are expected to use the most cost-effective and efficient methods to conduct travel. All travel must be pre-approved by their manager, with overnight stays requiring preapproval by the bureau chief.

Note: The agency's travel policy is controlling in any conflicts between it and this manual in sections regarding travel and travel reimbursements.

P3405 • Budgeting

Before an audit is started, the auditor will need to estimate potential costs associated with travel. This is important since the bureau chief will need to ensure sufficient travel funds will be available for any anticipated travel. When costs make travel prohibitive, the auditor may need to postpone starting the audit.

For proper budgeting, auditors must consider the most direct and/or efficient route of travel that considers actual costs and travel times. Larger audits may require additional auditors. The following should be considered in the auditor's analysis:

- Estimating a potential window for fieldwork. Peak travel times should be avoided.
- Determining the most probable place where fieldwork would be performed.
- Estimating the amount of time necessary for fieldwork. Some managers may require a two-week stay, which may require additional audits to be conducted in the same area.
- Estimating cost of meals using federal CONUS rates.
- Estimating cost of lodging using federal CONUS rates as a guide. Lodging within Idaho should be directly billed to the Tax Commission, if possible.
- Researching costs of airfare (coach or similar class), if used.
- Researching ground transportation costs, such as a rental car, motor pool vehicle or other public transportation.

Once total costs have been estimated, the auditor will seek approval from their manager to move forward with the audit.

Note: This is not a travel request, but rather an informal encumbrance of future travel funds. A travel request should not be made until fieldwork dates have been confirmed with the taxpayer.

P3410 • Travel Requests

Once the auditor and taxpayer have agreed to a time for conducting fieldwork, the auditor will need to seek approval for actual travel. Travel should not be requested more than 90 days from expected travel date. Approval for any overnight travel must be sought with the bureau chief. Requests will be completed in the manner prescribed by the agency's Travel Policy.

Note: Depending on anticipated costs, the auditor's manager or the bureau chief may suggest alternate travel dates. Non-audit travel may require additional approvals, usually by two tax commissioners.

P3415 • Drive vs Fly Analysis

When the destination is within 400 miles (an 8-hour drive) of the auditor's assigned office location, driving may be a more economical than flying. For this reason, auditors must conduct a drive vs fly analysis to compare costs between both methods of travel in the manner prescribe by the bureau. Comparisons take into consideration all traveling expenses, including payroll costs (time). This comparison must be completed and provided to the auditor's manager before completing an official request for travel.

When costs are the same, the manager will recommend the preferred method of travel based on the specific circumstances.

Note: A completed copy of the Drive vs Fly Analysis form will need to be attached to the auditor's official travel request. The taxpayer must not be identified. Refer to [Appendix: Drive vs Fly Analysis](#) for further guidance.

P3420 • State Car Usage

Whenever possible, auditors should utilize a state motor pool vehicle to conduct local fieldwork or fieldwork that is reasonably close. This will allow the bureau to reduce excessive costs from mileage reimbursement claims for use of personal vehicles to conduct audits. When a motor pool car is not available, the auditor may seek authorization to obtain a rental vehicle or use a personally owned vehicle. Refer to [Section P3430 • Personally Owned Vehicle Usage](#) for further guidance.

P3425 • Rental Vehicle Usage

A rental vehicle may be utilized when it is determined and documented to be the most effective and cost-efficient means of transportation for performing official business. The size and style of the rental vehicle must be consistent with the travel needs. Auditors may only rent from state-contracted car rental companies. These companies are set up to directly bill the state and have insurance coverage included in the contract.

Note: Additional insurance must not be purchased when using a vendor enrolled in statewide contracts.

P3430 • Personally Owned Vehicle Usage

(Referenced from [P3420](#))

An auditor may use a personal vehicle for local auditing activities when mileage is minimal. A personal vehicle may also be used if the auditor resides close to the audit and would be traveling from their home to the audit to conduct fieldwork. However, if the auditor is traveling daily from their home or home office to an audit and mileage becomes consequential, the use of a motor pool car would be required.

Example: An auditor from the Boise Office plans to conduct an audit in Fruitland. Fieldwork is expected to take a week, requiring daily roundtrip travel. In this case, the cost of mileage reimbursement would be consequential, and a motor pool vehicle should be used. If one is not available, a rental car should be considered.

Exceptions to this requirement may be allowed when unusual or unforeseen circumstances are properly pre-approved and documented. Auditors should consult their manager before using a personally owned vehicle. If overnight travel is necessary, auditors should also consider the use of a rental car.

Computing mileage for reimbursement: *[Redacted pursuant to Idaho Code § 74-107(1)(b)]*

Note: The agency's travel policy is controlling in any conflicts between it sections regarding travel and travel reimbursements.

P3435 • Safeguarding Information and Equipment

(Referenced from [S130](#))

Auditors must maintain absolute control of taxpayer information and equipment to avoid any unauthorized disclosure. When outside the Tax Commission office, auditors must ensure any confidential information cannot be viewed by unauthorized individuals.

- Auditors will not leave equipment or files unattended, unless properly secured.
- Auditors should not review audit files, either electronic or paper, in public areas (e.g., on airplanes, at restaurants, etc.). Auditors should not expect privacy at a taxpayer's office where emails and other taxpayer documents could be viewed by others.
- Auditors may not transport files or their laptops in checked luggage. When necessary, files may be mailed to the appropriate Tax Commission office.
- Auditors may store laptops or other storage media in the locked trunk of a vehicle, for short periods of time. Items should not be stored overnight, nor when exterior temperatures are excessive.
- Auditors authorized to work at home or temporarily transporting taxpayer information to their home must always keep information away from public view. All data must remain properly secured.

Laptops/Computers: All laptops/computers are required to be encrypted. When an auditor needs to take equipment into the field, caution must be used to keep data safe. Auditors should clear their internal hard drive of any information not related to the taxpayer they will be dealing with in the field.

Electronic storage media: All sensitive information taken outside the Tax Commission on electronic storage media, such as on a portable flash drive, must be encrypted. Information stored on portable electronic storage media should be limited to the taxpayer they will be dealing with in the field. Sensitive information can only be stored on media provided by the Tax Commission.

Paper: As a rule, sensitive information should not leave the Tax Commission when it cannot be encrypted. This is necessary since the Tax Commission is required to notify the taxpayers when any documents lost or stolen. However, documents may be removed when there is a legitimate business reason and have been properly inventoried. A proper inventory can quickly help identify missing information.

Reimbursement claims: When claiming reimbursement for travel, the taxpayer name may not be included on travel claims. If it is necessary to claim mileage, auditors may use mileage charts, vicinity miles, miles to nearest intersection, or similar calculation to determine correct mileage.

Note: Any violations of confidentiality may result in civil and criminal penalties, in addition to any Tax Commission disciplinary action.

P3500 • Safety and Security

P3501 • General Information

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P3505 • *[Redacted pursuant to Idaho Code § 74-107(1)(b)]*

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P3510 • *[Redacted pursuant to Idaho Code § 74-107(1)(b)]*

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

P3515 • *[Redacted pursuant to Idaho Code § 74-107(1)(b)]*

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

Glossary of Terms •

Act -

See Statute, Sales Tax Act.

Ad Valorem -

Latin for "according to value". The term is used exclusively regarding Idaho's property tax. It should not be used when referring to the sales tax even though the measure of the tax is the purchase price (or in the case of the use tax, "value.")

ADF -

[Redacted pursuant to Idaho Code § 74-107(1)(b) and Idaho Code § 74-109(4)]

ADT -

Acronym for Amusement Device Tax (ADT). In lieu of collecting sales tax from the user of an amusement device, the one having right to impose a charge for use of the amusement device must pay an annual permit fee for each device. Amusement devices include coin- or token-operated video games, pool tables, jukeboxes, or other devices.

Agent -

A person authorized to act for another person. A power of attorney is one method to establishing an agent. An agent may bind his principal only within the scope of his authority as an agent. One dealing with an agent does so at his own peril. If the agent does not have authority from his principal to perform a certain act, then the agent's acts are not binding on the principal. For this reason, an executed power of attorney form (POA) or other written statement is recommended.

Analyze -

Process of identifying and classifying for further study all the debit and credit entries contained in a ledger account. Accounts are analyzed to ascertain the nature of all the transactions that have given rise to the balance. **Example:** An account such as Miscellaneous Expense requires analysis before any real understanding of its contents is possible.

Assessment -

The act of officially establishing the dollar amount of taxes to be paid by a specific taxpayer. Taxes are "assessed" against specific taxpayers but are "levied" on all taxpayers subject to the tax. In the case of excise taxes (including the Idaho Sales Tax), the levy is by law.

Attorney-in-Fact -

See Power of Attorney.

Audit Manager -

[Redacted pursuant to Idaho Code § 74-107(15)]

Audit Sampling Plan -

The audit sampling plan defines the way records will be reviewed to determine final audit results. It provides the framework for tasks to be performed, and it also serves as a historical record of audit procedures used. The auditor must evaluate, address, and document any concerns the taxpayer may have in the Case Activity Record (CAR).

Barter -

For sales tax purposes, it is a sale in which the payment received by the seller is something other than money, such as property. Also known as a trade or swap.

Board of Tax Appeals (BTA) -

A statutorily created body that hears appeals of rulings of the Tax Commission and County Boards of Equalization (property tax). Although not a court, it functions as a quasi-judicial body. Its three (3) members serve part time and are appointed by the Governor. The BTA is part of the Department of Revenue and Taxation but is entirely independent of the Tax Commission.

BIT -

Acronym for Business Income Tax

BTA -

Acronym for Board of Tax Appeals. The BTA, along with the ISTC, comprise the “Department of Revenue and Taxation”.

CAR -

Acronym for the Case Activity Record

Case Activity Record –

It is used to chronologically track audit contacts, steps, and events that occurred during the examination. This includes discussions with the taxpayer about important audit decisions such as audit plans, audit documents, audit sampling plans, audit fieldwork, and audit findings. It should also be used to note when supplemental information, such as when a statute of limitations waiver, was sent or when an executed Power of Attorney form (POA) was received. Any changes in address, phone number, ownership, point-of-contact, or anything that may affect the audit need to be recorded here as well.

Case Law –

Law that is promulgated by decisions of the courts, rather than by the Legislature or Congress. Generally, supplements and explains statutes, but in some instances, may create new law or replace a statute (such as when a statute is declared unconstitutional).

Compare -

Generally used to mean the process of observing the similarity or variations of particular items in financial statements from one period to the next. If the comparison of a given type of revenue or expense account for two successive years shows substantial change, further investigation to ascertain the cause of the change is necessary. The term "compare" may also be used by the auditor to mean ascertaining the agreement or lack of agreement between a journal entry and the corresponding entry in a ledger account or between related documents such as a purchase order and an invoice.

Conditional Sales Contract -

A sale under the terms of which the seller imposes some condition-most often the right to repossess the property sold if the buyer fails to pay for it. This may include an installment sales contract. The sale is taxable when made without regard to the condition. See "Security Interest."

Confirm -

The process of proving the authenticity and accuracy of an account balance or entry by direct written communication with the debtor, creditor, or other party to the transaction. Obtaining proof from a source outside the client's records is thus a basic element of confirmation. It is standard practice to confirm bank balances by direct correspondence with customers. The letters or forms sent to outsiders for this purpose are called "confirmation requests".

Consideration -

Something of value-usually money or an enforceable promise to pay money-given in exchange for something of value received. Most retail sales subject to sales tax are for an amount of money. Other common retail sales are for other property (barter) or may include an assumption of the seller's outstanding debt. Both are considerations and the consideration measured in money is the purchase price.

Corporation -

An artificial person or legal entity created by or under authority of state or federal law. State law creates almost all commercial corporations. All must be registered with the Idaho Secretary of State to do business in Idaho. A corporation is distinct from its officers, directors and shareholders and has its own legal standing and its own rights and obligations. Only in certain specified circumstances can the state tax debts of a corporation be enforced against individuals.

Count -

Has the same meaning in audit terminology as in everyday usage. As part verification, the auditor may count cash on hand, inventory, securities, and other assets. Counting is a specific step toward determination of quantities. The counting process may be in terms of dollars, pounds, physical units, or other denominations, and may vary from occasional test counts of small samples to complete counts of some types of property.

Deficiency Notice -

See Notice of Deficiency Determination.

Delivery -

For sales tax purposes, delivery is the physical passage or possession of tangible personal property from the seller, or the seller's agent or representative, to the buyer, or the buyer's agent or representative. Physical passage of goods to a common carrier is delivery.

Down Footing -

See Footing.

Department of Revenue & Taxation -

A department of the Executive Branch of Idaho State Government. A Constitutional amendment mandated a reorganization of the Executive Branch of state government. As a result, the Tax Commission and Board of Tax Appeals were brought under the umbrella of the new Department of Revenue and Taxation. This department has no director or staff of its own; it consists of its two component agencies, which operate independently and are funded by separate appropriations.

Distrain -

For tax purposes, the act of seizing property of a taxpayer for nonpayment of taxes. See also levy ([Section 63-3057, Idaho Code](#)).

Employee -

Generally, employees are any individuals who perform services for another (employer), when the employer has the right to control what they will do and how they will do it. This is true even when the employer chooses not to exercise their control over the employee and allow the employee freedom of action. It is also true regardless of how payments are measured or paid or whether the employee works full time or part time.

Employer -

An employer is any person, business or organization that an individual performs any service for as an employee. This includes religious, educational, charitable, and social organizations or societies, even if the organizations are exempt from paying income taxes.

Excise Tax -

As used for state tax purposes in Idaho, an excise tax is any tax other than an ad valorem property tax or user fee. The sales tax is an excise tax by ruling of the Idaho Supreme Court.

Excel -

A Microsoft computer software program used by Commission employees to produce electronic spreadsheets.

Exclusion -

A sale or use of tangible personal property that is not within the scope of the sales or use act. **Example:** A sale of services may be excluded from the tax, while a sale of a tractor to a farmer for use on a farm may be exempt from tax. (See exemption)

Examine -

Process of reviewing critically or to investigate. An "examination of the financial statements" has the same meaning as an "audit of the financial statements".

Exemption -

A provision of the law that allows a sale or use of tangible personal property to be exempt from tax.

Example: A sale of a tractor to a farmer for use on a farm may be exempt from the tax, but a sale of services may be excluded from the tax. (See exclusion)

Extend -

Computing by multiplication. To "extend" a physical inventory listing is to multiply the quantity in units by the cost per unit. The resultant product is the "extension". It is also used to identify the taxable amount of an item reviewed in an audit schedule.

FAR -

Acronym for Final Audit Report. See also PAR.

Footing (or Down Footing) -

Process of proving the totals of vertical columns of figures; "cross footing" means the proving of totals of figures appearing in horizontal rows. By footing and cross footing schedules and records the auditor derives positive assurance of their arithmetical accuracy.

Form 2 -

The application form for an Amusement Device Tax permit

FS -

Acronym for the Field Services Bureau, commonly called Compliance. FS is part of the Collections Division. The Audit and Collections Division separated into two Divisions in May 2013.

FTRF -

Acronym for the Fuels Tax and Registration Fees Audit Bureau. STA and FTRF are both under the same bureau chief

GenTax -

The agency mainframe computer database that contains all taxpayer records.

Harden -

The point in time when a Deficiency Notice becomes a tax assessment that becomes collectible by the Tax Commission. A slang expression, but one which has been used by the Idaho Supreme Court in a decision on a sales tax case. **Example:** If a deficiency notice is not protested in 63 days it "hardens" into an assessment.

IBR -

The application form used to apply for Idaho Permit Based Tax permits. The system allows businesses to register with the Idaho Department of Labor, the Idaho State Tax Commission, and the Idaho Industrial Commission.

IIT-

Acronym for Individual Income Tax.

Idaho Administrative Rules -

The Idaho State Tax Commission creates administrative tax rules to clarify how statutes should be interpreted. [Statutes](#) are laws passed by the Idaho State Legislature. Administrative rules have the force and effect of law and are subject to a [comprehensive process](#). **Example:** Idaho Sales and Use Tax Administrative Rules or IDAPA 35.01.02. **Note:** In 1996, the Idaho Legislature enacted **Idaho Code Section 63-105(2)**, which states that "all rules adopted by the state tax commission prior to the effective date of this 1996 amendatory act shall remain in full force and effect until such time as they may be rescinded or revised by the commission." **Section 63-105, Idaho Code**, a product of the Idaho Legislature passing HB 783 and the Governor approving the bill with a signature, took effect on January 1, 1997. In short, the declaration "in full force and effect" was a matter of duly enacted legislation. (Idaho Supreme Court; Opinion; Docket No. 44211; July 11, 2017; Chandler's-Boise LLC v. Idaho State Tax Commission)

Idaho Code -

The official publication containing the statutory laws of the State of Idaho that are of general and continuing interest. The Idaho Sales Tax Act is Chapter 36, Title 63 of the Idaho Code. A few statutes (such as appropriation acts) are not part of the Idaho Code.

IDAPA -

Acronym for the Idaho Administrative Procedures Act. See Idaho Administrative Code and Rules.

Indian -

For State tax purposes, an Indian is a person who is enrolled by a recognized Indian Tribe as a member of that tribe-regardless of whether they reside on or off an Indian reservation.

Inspect -

Implies a careful reading or point-by-point review of a document or record. In other words, to "scrutinize" and "examine" a document or record.

Installment Sale -

A sale under the terms of which the buyer defers immediate payment of the full purchase price but instead makes two or more payments at some future time. The sale is subject to sales tax at the time it is made but any additional charges occasioned by the deferment of some or all of the purchase price-such as interest-is not taxable.

Interest -

The compensation allowed by law for the use, forbearance or detention of money. The interest rate set by the Sales Tax Act both for deficient taxes and for refunds is simple interest set **by Section [63-3045\(5\)\(b\)](#), Idaho Code**. Interest accrues on tax but not on penalties.

Interstate Commerce -

Business activity that occurs in more than one state of the United States.

Intrastate Commerce -

One or more business transactions or business activity that occurs entirely within a single state of the United States.

IRC -

Acronym for Internal Revenue Code.

ITA -

Acronym for Income Tax Audit Bureau.

ISTC -

Acronym for Idaho Tax Commission. Also used is "STC" for Tax Commission.

ITC -

Acronym for Investment Tax Credit claimed on Form 49. The list of assets on Form 49 are often used in an examination of Questioned Asset Additions.

Levy -

As used in tax law it has two meanings:

1. To impose a tax upon a class of taxpayers or property. **Example:** The Legislature has levied a sales tax upon all persons making retail sales of tangible personal property in Idaho.
2. To seize property of a taxpayer for nonpayment of taxes. See also distraint.

Manager -

See Tax Audit Manager

MSS -

[Redacted pursuant to Idaho Code § 74-107(15)]

MTC -

Acronym for Multistate Tax Commission.

Multistate Tax Commission (MTC) -

An intergovernmental state tax agency, created by the Multistate Tax Compact, whose mission is to achieve fairness by promoting compliance and consistent tax policy and practice, and to preserve the sovereignty of state and local governments over their tax systems. Idaho is a member. The two major purposes of the MTC are promotion of uniform state tax laws and joint auditing. The MTC employs a full-time audit staff that conducts sales and/or income tax audits of multistate and multinational corporations when assigned to do so by the member states.

Negative Matcher Utility -

[Redacted pursuant to Idaho Code § 74-107(15)]

Nexus -

A connection or link commonly used to describe whether a business has an economic presence in this state to require compliance with requirements for collecting and remitting Sales/Use Tax. See also Situs.

NODD -

Acronym for Notice of Deficiency Determination.

NORD -

Acronym for Notice of Refund Determination.

Notice of Deficiency Determination (NODD or Deficiency Notice) -

A formal written notice given by the Tax Commission to a taxpayer advising him that the Commission's staff believes additional taxes may be due. It is not an "assessment" since the taxpayer has an opportunity to appeal and seek a redetermination. It is the necessary first step toward making a tax assessment.

Notice of Refund Determination (NORD) -

Similar to a Notice of Deficiency Determination, the NORD formally states the amount of monies to be refunded to a taxpayer. In cases where the amount may be disputed, the NORD gives the same rights and timeframes to protest and appeal the Refund.

Notice of Refund Denial -

Since the acronym for this is NORD, it is sometimes confused with a Notice of Refund Determination. The term Refund Denial is referred to in the Protest Summary.

Outlook -

A personal information manager from Microsoft, available as a part of the Microsoft Office suite, used primarily as an email application. It also includes a calendar, task manager, contact manager, note taking, journal, and web browsing capabilities.

PAR -

Acronym for Preliminary Audit Report. See also FAR.

Partnership -

A business entity where two or more people pool labor and/or capital with a proportional sharing of profits. Unlike a corporation, the debts of the partnership are the debts of the partners.

Penalty -

An amount of money which the Tax Commission may charge a taxpayer if the Commission finds that the taxpayer has committed certain acts justifying penalties, such as negligence, fraud or failure to file without justifiable cause. The amounts are set by statute, but the decision of whether to impose or abate penalty is one within the sound discretion of the Commission. Penalties are civil in nature and are not criminal fines or penalties that can only be imposed by a court.

Petition for Redetermination -

A written statement by which a taxpayer objects to the amount of tax, penalty or interest asserted in a Notice of Deficiency Determination and requests a review of the asserted deficiency. It can also be used to seek review of a denial of all or part of a claimed refund of taxes.

Phantomware -

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

Power of Attorney -

A formal written document that empowers one person (or corporation) to act on behalf of or to bind another person (or corporation). A limited power of attorney allows the person appointed to act only on those matters listed in the document. A general power is unlimited. The person appointed is called "Attorney-in-Fact".

POA -

Acronym for Power of Attorney.

Principal -

One for whom an agent or attorney-in-fact acts. The principal is the source of the agent's authority.

Protest Summary -

A document used to document a basic overview of disputed issues when an NODD or an NORD is protested and will be handled by the Tax Policy / Legal department.

Purchase Price -

The amount of consideration given in exchange for tangible personal property received as a result of a retail sale. If the consideration is not money, the purchase price is the value of the consideration measured in money. Refer to **Section 63-3612, Idaho Code**.

Real Property -

Land and the permanent improvements and fixtures attached to it. For more detailed definition for sales tax purposes see Rule 067.

Reconcile -

To establish agreement between two sets of independently maintained but related records. Thus, the ledger account for Cash in Bank is reconciled with the bank statement, and the home office record of shipments to a branch office is reconciled with the record of receipts maintained by the branch.

Redetermination -

The written decision of the Tax Commission upon a protest or petition for redetermination in which the Commission states its ruling in the matter.

Regulations -

Prior to July 1, 1993, these were the official statements by the Tax Commission of its interpretation of the tax statutes. Regulations, now called Rules, once adopted, were binding upon the taxpayer as law unless found by a court to be contrary to the statutes. Regulations are promulgated by the Tax Commission but must be approved by the germane committees of the Idaho Senate and House of Representatives.

Remit-

By definition, sales tax is collected by retailers and remitted to the Tax Commission. "Collect and Remit" is a phrase used to avoid confusion with taxpayers who incorrectly state that they are paying sales tax to the State.

Retail Sales Tax -

The kind of sales tax imposed in Idaho. It is a tax imposed directly on the purchaser for any purpose other than resale or by specific exemption or any persons making transactions listed as sales (admission, rentals, etc.) in **Section 63-3612, Idaho Code**. To be a retailer a seller must make more than two sales in a twelve-month period or hold himself out as engaging in the business of selling tangible personal property at retail or who sells motor vehicles. Refer to **Section 63-3610, Idaho Code**.

Retailer -

Generally, any person selling tangible personal property to a purchaser for any purpose other than resale or any person making transactions listed as sales (admission, rentals, etcetera) in **Section [63-3612, Idaho Code](#)**. To be a retailer, a seller must make more than two sales in a twelve-month period or hold himself out as engaging in the business of selling tangible personal property at retail or who sells motor vehicles. Refer to **Section [63-3610, Idaho Code](#)**.

Return –

The written document by which a taxpayer reports the amount of tax that he owes together with such other information as may be required by the taxing authority. By completing and signing a tax return the taxpayer performs the act of self-assessing his tax liability even though he submits no payment with the return.

RO -

Acronym for the Revenue Operations Division.

Rule -

The official statements by the Tax Commission of its interpretation of the tax statutes. Rules, once adopted, are binding upon the taxpayer as law unless found by a court to be contrary to the statutes. Rules are promulgated by the Tax Commission but are required to be approved by the germane committees of the Idaho Senate and House of Representatives.

Sale -

Any transfer of title or possession of tangible personal property regardless of whether conditioned upon a security interest or right of repossession, if the transfer is for a valuable consideration whether paid in money or by some other medium. A sale includes rentals, leases, admissions, hotel/motel charges, charges for recreational facilities and others. Specific transactions included as a sale, but not clearly involving transfers of tangible personal property, are listed in **Section [63-3612, Idaho Code](#)**.

Sale for Resale -

A sales transaction in which a purchaser buys the property for the purpose and with the intention of reselling it in the regular course of his trade or business. The sales transaction is not a retail sale but is a wholesale sale. It includes a lease or rental for sub-lease or sub-rental.

Sales Tax -

One of several taxes measured by the amount of sales or purchases of property or services subject to the tax. Includes but is not limited to a retail sales tax such as that imposed in Idaho. The Idaho retail sales tax is generally referred to as simply a "Sales Tax".

Sales Tax Act -

The statute promulgated by the Idaho Legislature in 1965 as subsequently amended. It is Chapter 36, Title 63, of Idaho Code. The official title is "The Idaho Sales Tax Act".

Security Interest -

When a retailer has the right to obtain possession of his debtor's property for failure to pay the debt, the creditor has a "security interest" in the property. It is a lien on personal property. Formerly the phrase "chattel mortgage" was used to describe a security interest. For sales tax purposes, the fact that a seller retains a security interest in property does not mean that a retail sale has not been made.

Self-Employed Person -

One that is not considered an employee (independent contractor). The Internal Revenue Service (IRS) uses three characteristics to determine the relationship between a business and a worker: Behavioral control, Financial control, and Relationship of the parties.

The General Accounting Office of the federal government has recommended that an independent contractor would always be considered self-employed if (1) a separate set of business books is used to determine profit and loss; (2) a main place of business is maintained away from space provided where work is being performed; (3) there is a real possibility of business loss; and (4) a Federal Employers Identification Number is needed.

Seller's Permit -

The physical document issued by the Tax Commission to retailers who are properly registered under the Sales Tax Act. It must be displayed in a conspicuous place in the seller's place of business and is evidence that he is registered. It is property of the State of Idaho and if cancelled or revoked must be returned to the Commission.

Situs -

Latin for situation or location. As used in state tax law the word describes the condition in which a taxpayer's activities or presence within a state are sufficient to subject that taxpayer to the taxing authority of the state. Often used interchangeably with "Nexus".

STA -

Acronym for Sales Tax Audit Bureau.

STA MACRO -

A bureau-created template that helps keep working papers uniform and consistent.

State -

Generally used to mean Idaho or any of the other 49 States of the United States of America, depending upon context. Includes the District of Columbia and territories of the United States.

Statute -

A promulgation of the legislature or of the U.S. Congress that has the force and effect of law. The Sales Tax Act is comprised of statutes, but the Constitution and rules are not. "Act" may be used interchangeably in most instances. Most, but not all, Idaho statutes are found in the Idaho Administrative Code.

Statute of Limitations Waiver -

A common term used for a statute of limitations waiver. It is a written agreement, between the Tax Commission and the taxpayer, to keep activity that occurred during a period of time from expiring.

STC -

Acronym for Tax Commission. Also "ISTC"- Idaho Tax Commission.

Storage -

Any keeping or retention of tangible personal property in Idaho purchased from a retailer for any purpose other than resale or for use solely outside the state. Use tax includes storage as an incident of the tax.

SUT –

Sales and Use Tax. Pronounced by some as "suit". This should not be used in place of STA for the department name of Sales Tax Audit Bureau. SUT designates a type of tax whereas STA designates an audit bureau.

Tangible Personal Property –

Any personal property that can be seen, weighted, measured, felt or touched, or which is in any other manner perceptible to the senses. Documents that evidence ownership in intangibles such as stocks or bonds are not tangible personal property. Land or improvements or fixtures on land are not tangible personal property. For definition of improvements to real property see Sales Tax Rule 079.06 and Rule 067.

Tax –

Any contribution imposed upon an individual, corporation, partnership, trust, estate, association, or other entity to support the cost of government. In order to be subject to a tax, the taxpayer must receive some benefit from the government imposing the tax. As a verb-to impose, declare, or levy a tax.

Tax Audit Manager –

Also referred to as managers, this is the personnel title of the supervisory position for auditors within the Sales Tax Audit Bureau. Tax Auditor Managers were formerly known as Managing Tax Auditors (MTA's). *[Redacted pursuant to Idaho Code § 74-107(15)]*

Tax Commission -

A constitutionally established body of the State of Idaho. In its most technical sense, it is only the four Tax Commissioners, but also refers to both the Commissioners and their staff. Although it is part of the Idaho Department of Revenue and Taxation, there is no director of the Department-the Tax Commission is an independent body within that Department.

Taxpayer -

A person upon whom a tax is directly levied. Idaho's retail sales tax is imposed directly upon the purchaser and not on the seller. Nevertheless, a seller who fails to collect sales tax and remit it to the Tax Commission is himself, liable for the tax. In this situation, the retailer is also commonly referred to as "the taxpayer".

Tax Return -

See Return.

TDB -

Acronym for the Tax Discovery Bureau.

Testing or Test Checking -

Process of selecting and examining a representative sample from a population of similar items. If the sample is properly chosen, the results of this limited test should reveal the same characteristics as would be disclosed by an examination of the entire lot of items.

Title -

Legal title is the ownership of property. A "title holder" is one who holds the ultimate ownership in property.

Trace -

Describes the process of following a transaction from one accounting record to another. **Example:** The purchase of machinery might be verified by tracing the transaction from the voucher register to the check register.

Trade -

See Barter.

Use -

Defined for Idaho sales and use tax purposes as the exercise of right or power over tangible personal property pursuant to (1) ownership of the property; or (2) the exercise of a contract regardless of ownership. Refer to **Section [63-3615](#), Idaho Code**.

Use Tax -

A tax upon the privilege of using tangible personal property within the boundaries of the taxing authority. It is considered to be complimentary to the sales tax and is for the purpose of taxing tangible personal property that at the time of purchase was not subjected to sales tax. Storage is also subject to the tax. Refer to **Sections [63-3621](#) and [63-3615](#), Idaho Code** .

Verify -

Verify has two meanings-the first as used by accountants; the second, by lawyers. Confusion can result if the differences are not kept in mind:

1. Accountants use the word to mean to prove the validity and accuracy of records or to establish the existence and ownership of assets. **Example:** Verification of plant and equipment might include analysis of ledger accounts, proof of footings, and tracing of postings from journals, examination of documents authorizing acquisitions and retirements, and physical inspection of the assets.
2. Lawyers use the word to mean a statement made under oath-such as on an affidavit.

Note: The phrase "verified tax return" may mean very different things to an auditor or a lawyer.

Voucher -

This is a term used to describe any documents supporting a transaction. Examples are petty cash receipts, receiving memoranda, and paid checks.

Vouching -

Establishing the accuracy and authenticity of entries in ledger accounts or other records by examining such supporting evidence of the transactions as invoices, paid checks, and other original papers.

Wages -

Wages include all remuneration, other than fees paid to a public official, for services performed by an employee for his employer, including cash value of all remuneration paid in any medium other than cash. Thus salaries, fees, bonuses, commissions on sales or on insurance premiums, pensions, and retired pay are wages within the meaning of the law if paid as compensation for services performed by the employee for the employer. These include production incentives, percentage of profits, and other bonuses.

Waiver -

See Statute Waiver

Zapper - (see also Negative Matcher Utility)

[Redacted pursuant to Idaho Code § 74-107(1)(b)]

Appendix •

(Referenced from [S105](#); [S150](#); [P105](#); [P125](#); [P140](#); [P145](#); [P155](#); [P501](#); [P610](#); [P615](#); [P625](#); [P815](#); [P1030](#); [P1235](#); [P1301](#); [P1335](#); [P1515](#); [P2110](#); [P2115](#); [P3110](#); [P3325](#); [P3415](#))

Auditing Guidelines: Miscellaneous Tax Types, Fees

AG	Amusement Device Fee	STA WG
AG	Auditorium District Tax	STA WG
AG	E911 Fee	STA WG
AG	Income Tax Withholding	STA WG
AG	Travel and Convention Tax	STA WG

Supplemental Manuals, Procedures

SM	[Redacted pursuant to Idaho Code § 74-107(15)]	STA WG
SP	[Redacted pursuant to Idaho Code § 74-107(15)]	AD WG
SP	[Redacted pursuant to Idaho Code § 74-107(15)]	AD WG
SP	[Redacted pursuant to Idaho Code § 74-107(15)]	STA WG
SP	[Redacted pursuant to Idaho Code § 74-107(15)]	STA WG

Auditing Tools, Job Aids

AT	[Redacted pursuant to Idaho Code § 74-107(15)]	STA WG
AT	STA MACRO (Working Papers)	STA WG
AT	STA MACRO (EX-A; IC; Draft NODD)	STA WG
JA	[Redacted pursuant to Idaho Code § 74-107(1)(b)]	STA WG
JA	[Redacted pursuant to Idaho Code § 74-107(15)]	STA WG

Forms, Letters, Templates

F	[Redacted pursuant to Idaho Code § 74-109(4)]	STA WG
F	[Redacted pursuant to Idaho Code § 74-109(4)]	STA WG
F	[Redacted pursuant to Idaho Code § 74-107(1)(b)]	STA WG
F	Audit Plan Checklist	STA WG
F	Declaration to not Seek Additional Refunds	STA WG
F	Power of Attorney (POA): Form and Instructions	ISTC Website
F	Statute of Limitations Waiver	STA WG
F	[Redacted pursuant to Idaho Code § 74-107(1)(b)]	STA WG
L	Audit Confirmation and Appointment Letter	STA WG
L	Sampling Plan Letter	STA WG
L	Sampling Proposal Agreement	STA WG
T	Bad Debt Worksheet	STA WG
T	Case Activity Record (STA MACRO)	STA WG
T	Drive vs Fly Analysis	STA WG
T	Protest Summary	STA WG
T	Quick Parts for Outlook	STA WG
T	Travel Authorization Request	STA WG

Code, Rules

C	Interstate Compact (Title 63; Ch 37)	ID Legislature
C	Income Tax (Title 63; Ch 30)	ID Legislature
C	Sales Tax (Title 63; Ch 36)	ID Legislature
C	Sales Tax: Auditorium Districts (Title 67; Ch 49)	ID Legislature
C	Sales Tax: Hotel/Motel/Campground (Title 67; Ch 47)	ID Legislature
C	Sales Tax: Prepaid Wireless E911 Fee (Title 31; Ch 48)	ID Legislature
C	Sales Tax: Short-Term or Vacation Rental Marketplaces (Title 63; Ch 18)	ID Legislature
R	Administrative Rules: Hotel/Motel Room and Campground (35.01.06)	ID Office of Admin Rules
R	Administrative Rules: Idaho Sales and Use Tax (35.01.02)	ID Office of Admin Rules
R	Administrative Rules: Prepaid Wireless E911 Fee (35.01.14)	ID Office of Admin Rules
R	Tax Commission Administration and Enforcement Rules (35.02.01)	ID Office of Admin Rules

Decisions, Opinions, Judicial Rulings

D	ISTC Decisions - Public	ISTC Website
D	ISTC Decisions - Unredacted	Legal Resources WG
D	Idaho Board of Tax Appeals - ISTC Appeals	Legal Resources WG
O	Idaho Attorney General Opinions, Guidelines	Idaho AG Website
JR	Idaho District Court	Legal Resources WG
JR	Idaho Supreme Court	Legal Resources WG
JR	US District Court	Legal Resources WG
JR	US Court of Appeals	Legal Resources WG
JR	US Supreme Court	Legal Resources WG

Publications - Taxpayer Rights

P	Understanding a Sales and Use Tax Audit (Pub 150)	ISTC Website
P	Idaho Taxpayer Rights (Pub 647)	ISTC Website
P	Audit - Your Rights & Responsibilities (Pub 230)	ISTC Website
P	Your Right to Appeal a Notice of Deficiency (webpage)	ISTC Website

Other Miscellaneous

OM	<i>[Redacted pursuant to Idaho Code § 74-107(1)(b)]</i>	ISTC Tax Insider
OM	Resort Cities and Local Option Taxes	ISTC Website
OM	Understanding the Appeals Process	STA WG

Websites

Idaho State Legislature	Idaho Statutes
Idaho Office of the Administrative Rules Coordinator	Idaho Administrative Code
Idaho Secretary of State	Idaho business entity filings
Idaho Bureau of Occupational Licenses	Public Record Information (query professional licenses)
Idaho Associate General Contractors (idahoagc.org)	Business Membership Directory (query contractors)
Idaho Trucking (trucking.idaho.gov)	Commercial Vehicle Registration (query registrations)
Federal Aviation Administration (registry.faa.gov)	FAA registry (query aircraft registration)
US Department of Transportation – Motor Carrier	SAFER (query USDOT numbers – company snapshot)
US Securities and Exchange Commission	EDGAR (query filings and forms of companies)
Wayback Machine (archive.org/web)	Historic and archived web pages