

- STEPS OF A - NEW YORK STATE TAX AUDIT

1

Your business is selected for a sales and use tax audit by the New York State Tax Department usually because the Tax Department has obtained information regarding your business that makes it question whether the business is correctly handling its state and use tax obligations.

2

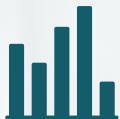
The Tax Department receives this pre-audit information from numerous sources, such as:



Audits of your business's customers or vendors



Informational returns from various entities including financial institutions such as banks and credit card companies, insurance companies, franchisers, and liquor distributors.



Statistical analyses of the returns of similar business in your industry and geographic area



Cross-reference of information provided by your business (e.g., income tax returns compared to sales tax returns)

3

You receive a packet of materials in the mail from the Tax Department Containing:

Form DO-1631

A letter introducing the auditor and supervisor, a review of the audit process, and the date of your audit

IDR

An initial information and document request

Form DO-1632

Sales Examination Questionnaire

Publication 900

Important information for Business Owners

Publication 130-F

The New York State Tax Audit - Your Rights and Responsibilities

4

Consider hiring an experienced tax attorney, like the lawyers at Hodgson Russ LLP to help guide you through the audit process.

5

You or your representative should plan to reach out to the auditor after receiving the initial audit materials packet to:



Determine a *mutually agreed upon date* for an initial meeting



Discuss what is needed at the initial meeting



Go through the *list of requested documentation*

6

Your auditor will review the following key areas of your business:



Tax Reconciliation



Sales



Recurring Expense Purchases



Capital Purchases

7

Auditors typically have three years from the date your tax return is filed to issue an assessment for the period covered by that return.

Auditors may request that you *execute a waiver to allow additional time* for the auditors to complete their review

If your business did not file sales and use tax returns, *no statute of limitations applies* and an assessment can be made at any time

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Keep in mind that this may be a slow process.



Be prepared, *sales tax audits can take several months* if not longer

Sales tax can be extremely confusing and counterintuitive. If your business is facing a sales tax liability:

Your attorney may be able to *negotiate a resolution* for you where you *owe less than 100% of the tax*

Statutory interest will be added to *any tax liability determined* from the audit

Your attorney may be able to help the business *avoid the imposition of penalties*

Prepare for a follow-up audit.



If your audit resulted in any *appreciable liability*, you can *expect a follow up audit*

If you're being subjected to a New York State sales and use tax audit, contact the professionals at Hodgson Russ today!

