ATRA SUPPORTS SB1171

Managed Audit Agreements

Background

The Department of Revenue (Department) has the right to audit any taxpayer to determine tax compliance. The volume of audits the department may conduct is mainly limited to the level of resources they have available to dedicate to this function.

Recognizing these limitations, some states have implemented managed audit programs in which the taxpayer and taxing agency work together, under a managed audit agreement, to audit the taxpayers' books. Not only does this free up government resources by allowing the taxpayer to use its own resources, but it also provides an opportunity for government and taxpayer to work together on a non-adversarial basis.

Basis for ATRA's support

At the request of a taxpayer, the department may enter into a managed audit agreement with a taxpayer to audit certain business activities and types of taxes for a specified time period. The types of taxes that may be included under the managed audit include the transaction privilege tax (TPT), local excise tax, use and luxury tax, with corporate income taxpayers becoming eligible for the program beginning January 2007. Once the managed audit is completed, the taxpayer is required to submit the findings to the Department, at which time the Department may review the audited records and accept or reject the taxpayer's findings and assess a deficiency or issue a refund. If a deficiency is assessed, the taxpayer is not required to pay penalties unless the managed audit discloses that the taxpayer committed fraud or willful tax evasion. Interest does not accrue on a deficiency or refund if paid within 45 days of the date of the assessment or refund determination. The taxpayer maintains the same appeal rights as if the department had conducted the audit. In addition, a limited managed audit does not preclude the Department from auditing issues not covered under the managed audit agreement, subject to the statute of limitations.

Other states that have implemented a managed audit or similar program include Alabama, California, Connecticut, Georgia, Idaho, Iowa, Kansas, Maine, Maryland, Michigan, Minnesota, Missouri (currently under development), Nebraska, New Jersey, New Mexico, North Carolina, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Virginia, Washington, and Wisconsin.

This is good public policy in that it frees up government resources and facilitates taxpayer compliance.

ATRA ASKS FOR LAWMAKERS SUPPORT ON SB1171

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