

THE AUDIT JOURNEY:

Your Guide
to Texas State
Tax Audits



TEXAS TAX GROUP

OUR TEAM OF FORMER TEXAS COMPTROLLER
STATE TAX AUDITORS IS YOUR BEST DEFENSE



You've just received notice from the Texas State Comptroller: You're under audit. For many businesses operating in Texas, getting audited by the Texas Comptroller can be an overwhelming and financially devastating experience. But, there is no need to panic! If you know what to expect and follow a few best practices, your audit will be much less painful.



In this guide, we'll navigate the audit process so you know what to expect as you embark on your journey.

RECEIVE AUDIT NOTIFICATION LETTER

THE AUDIT NOTIFICATION

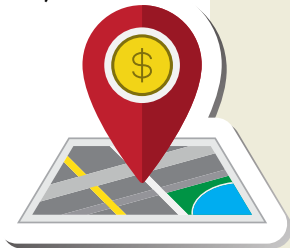
Letter informs you that you are under audit, what type of tax audit you are subject to (sales tax, franchise tax, mixed beverage tax, hotel tax, etc.), and that your audit may generate additional audits for other types of taxes.



ENCLOSED IN YOUR NOTIFICATION LETTER is the Audit Questionnaire also known as the AQ. The purpose of the questionnaire is to identify your designated representatives, business activities and accounting system. The questionnaire should be signed by someone at your organization with the authority to enter into contracts (typically a corporate officer/director, partner, or business owner).

RETURN AUDIT QUESTIONNAIRE (AQ)

YOU HAVE 30 DAYS after receiving your AQ to complete and return this document to the Comptroller. If not returned within 30 days, the auditor may issue a 30-day and then 14-day Record Demand Letter. If you fail to respond, the auditor may either: (1) issue an Estimated Audit Assessment or (2) issue a Subpoena for Records (both are serious matters).

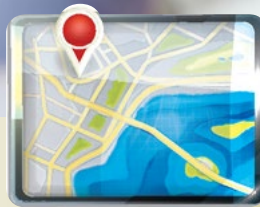


YOU MAY BE TEMPTED TO IGNORE these notices, DON'T! If the auditor is unable to make contact, your liability may be determined by the best available method, including estimation.

PREPARE RECORDS FOR EXAMINATION

BEFORE MEETING YOUR AUDITOR, preparation is a must! Detailed, organized documents work in your favor and make the process smoother. You may be asked to turn in documents such as:

- Bank Statements
- Financial Statements
- Material Purchase Invoices
- Purchase Invoices (assets & expenses)
- Purchase Journals
- Federal Income Tax Returns & work papers
- Sales & Use tax returns & work papers
- Sales Journals
- Sales Summaries
- Sales Invoices
- Asset listings
- Chart of accounts
- Customer lists
- Contracts



BEWARE: In cases of missing records, your auditor can estimate tax due and even add penalties. Be sure to find any missing documents and organize your records before your entrance conference!



ATTEND ENTRANCE CONFERENCE

AFTER THE COMPLETED AQ is received by the auditor, you should be contacted within two weeks to schedule your Entrance Conference. The Entrance Conference is the first face-to-face meeting between you and/or your representative and the auditor.

Typically, the auditor will discuss your accounting system, available records and the taxability of your sales and/or purchases.



BE FULLY PREPARED to provide all documents, taxability research & evidence on hand. This is the date of 'good faith acceptance' if you accepted resale or exemption certificates during your 4-year audit period.



EXAMINATION OF COMPANY RECORDS

(ALSO KNOWN AS THE FIELD AUDIT)

ONCE THE FIELDWORK COMMENCES, the auditor will begin a comprehensive review of your business operations and records for the standard 4-year audit period. The auditor may:

- Analyze your tax reporting methods and perform a gross sales and tax accrual reconciliation
- Examine your sales and purchase documents for completeness and proper taxability
- Determine the method to be utilized in the examination (detailed or [sampled](#))
- Review any resale, exemption or direct pay certificates for completeness
- Calculate any additional tax due



THE TIME IT TAKES to complete an audit varies based on the size and complexity of your business. Although one third of all audits take more than a year, most state tax audits last between 4-8 months from the date of the entrance conference to the date of the final notification of exam results.

ATTEND EXIT CONFERENCE

UPON CONCLUSION of the fieldwork, the auditor should provide you with a complete set of Adjustment Exams, Estimation Notifications (if applicable) and all related taxability research. You should take time to review the audit results PRIOR to the Exit Conference.

An Exit Conference will be scheduled for you or your representative to meet with your auditor. Your auditor will use this meeting to discuss their findings. You may use this meeting to request a Reconciliation Conference, Independent Audit Review Conference or Tax Policy Guidance Letter.



IF YOU DISAGREE with the auditor's findings, DO NOT let the auditor submit your audit for 'Processing and Billing'. You have three options to stop the audit from being billed. These options are outlined on the following page.

PROTEST DISAGREED AUDIT BEFORE BILLING

IF YOU BELIEVE your results are inaccurate or that your auditor has made an error, you can protest your audit. In order to STOP your disputed audit from being billed, your options include:



- 1. RECONCILIATION CONFERENCE:** This is an informal meeting with your auditor's supervisor or manager to reevaluate the audit findings.
- 2. INDEPENDENT AUDIT REVIEW CONFERENCE (IARC):** Your case can be reviewed by a Dispute Officer. In an informal hearing, both you and your auditor will present your case in written and oral arguments. To learn how to request an IARC, view our infographic.



- 3. TAX POLICY GUIDANCE LETTER:** Your case can be reviewed by the Texas Comptroller's Tax Policy section. To request a Tax Policy Guidance Letter, the business owner (or representative) and the auditor must prepare a document that outlines all the FACTS and supporting tax research (i.e., letter rulings, administrative hearing decisions, tax statute, tax rules, etc.). These documents are then submitted to the Tax Policy section for review. This option was offered as of April 2016.

PROTEST OPTION AFTER AUDIT IS BILLED AND TAX BILL ISSUED

IF YOU HAVE RECEIVED a tax bill and disagree with the assessment, then your next step is to request an Administrative Hearing. You must submit the Hearing Request within 30 days of the statement (tax bill) date on your final bill or within 20 days if your audit was classified as a FRAUD audit.

If you miss this Hearings Request deadline, then your only other option is to pay your entire tax bill along with any penalties and interest and then request a Refund Hearing. The request for a Refund Hearing must be submitted within six months of the Statement date on your tax bill.



FOR MOST BUSINESSES, an Administrative Hearing is your last resort! Businesses lose Administrative Hearings the majority of the time. In addition, the hearings process can take six months to a year to complete. For more information on Administrative Hearings, please [click here](#).

DON'T GO IT ALONE...

FORMER AUDITORS ARE HERE TO HELP!

STATE TAX AUDITS ARE COMPLEX, time consuming and stressful! In addition, without proper representation they can end up costing you more money than you need to pay. Get the peace of mind that comes from having the best representation available to help you navigate the audit process.

Texas Tax Group is a team of 15+ former Texas Comptroller State Tax Auditors and Tax Analysts with offices located in Houston, Dallas, San Antonio and Austin. Since 2007, we have represented more than 2,000 clients resulting in millions of dollars in reduced audit assessments and thousands of administrative hours saved.



If you'd like to get in touch, call us at **855-TX-AUDIT (1-855-892-8348)** for a free 20-minute consultation today or visit texastaxgroup.com to learn more.

For more information on the audit process check out these **12 Answers to Commonly Asked Questions** from former Texas Comptroller auditors.