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Texas Sales & Use Tax: Understanding the Audit Process

The Texas Comptroller's Office conducts routine audits of businesses to determine if sales and use tax has been properly collected, reported, and remitted to the state. The Comptroller uses audits to ensure that state tax laws are applied uniformly, deter tax evasion, promote voluntary compliance, and hopefully better educate taxpayers for future reporting and remittance. Although methods vary for selecting a taxpayer to audit, most are generated by computer-based random selection.

The Comptroller's Office has twelve steps in the audit process:

1. Notice of Audit – The taxpayer is notified by mail of their selection for audit and is requested to complete an Audit Questionnaire.
2. Pre-audit Research and Review – The auditor reviews the taxpayer's reporting history and any prior audits to gain familiarity.
3. Taxpayer Contact – The auditor contacts the business to schedule an appointment and discuss needed documentation for the audit.
4. Entrance Conference – The auditor conducts a formal interview with the taxpayer to discuss the audit plan.
5. Examination of Taxpayer Records – The auditor examines the requested documentation and compiles schedules to determine any tax liability or credits. This usually takes place at the office of the taxpayer unless representation has been utilized.
6. Exit Conference – The auditor meets with the taxpayer to discuss the results of the examination.
7. Reconciliation Conference – The auditor meets with their manager and/or supervisor to discuss the findings.
8. Independent Audit Review (IAR) Conference – A third party may be utilized to meet with the taxpayer and auditor to resolve any disputes or outstanding issues.
9. Finalization – The auditor produces the audit schedules for the taxpayer.
10. Review – The audit is reviewed by a supervisor and the regional processing center, after which the results are mailed to the taxpayer.
11. Redetermination – The taxpayer may contest the results by one of several methods to contest the findings of the audit.
12. Amendment – If the redetermination process results in any changes, an amendment is generated. If these findings are disputed by the taxpayer, then there is a formal audit hearing process.

As you can see above, the audit process can take some time to complete. Many taxpayers choose representation for their audits, so that their normal business activities are not disrupted. Audit representation significantly reduces the amount of time spent by the taxpayer while the audit is conducted.

Gollob Morgan Peddy has successfully represented many clients under audit. In most cases, the taxpayer's liability was significantly reduced and the taxpayer was not burdened with most of the previously mentioned steps. Gollob Morgan Peddy has a vast wealth of sales and use tax experience to assist its clients with the audit process.

If you have any questions regarding the sales tax audit process, please feel free to contact Jason Creel – jasonc@gmpcpa.com.