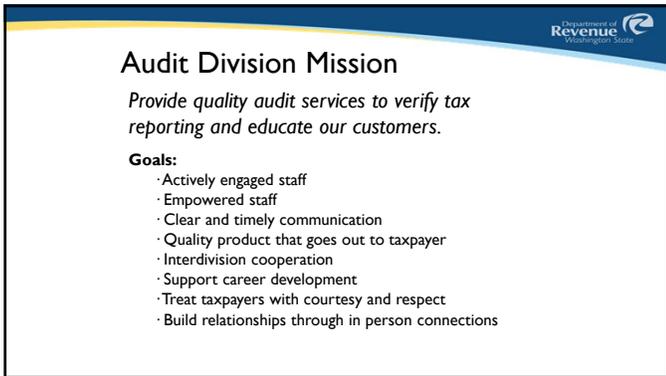


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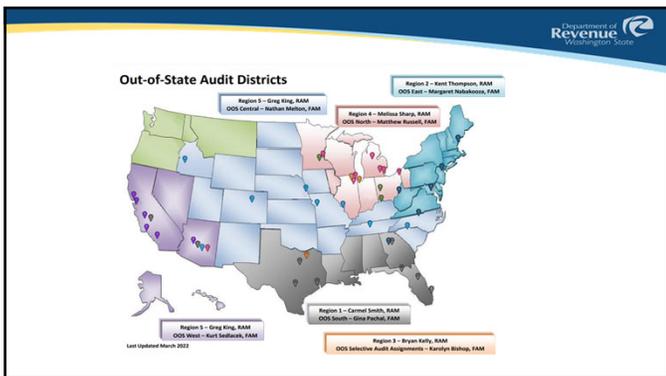
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Department of Revenue
Washington State

What We Do

Audits & Examinations	Taxpayer Education	Other Services
Field Audits	Business Outreach	Corporate Dissolutions
Public Works Contract Clearances	Speaking Engagements	Voluntary Disclosure Program
Desk Examinations	Consultation Visits	Lemon Law Refunds
Refund Request Verification		
REET Examinations		
Estate Tax Examinations		
Forest Tax Audits		
Leasehold Audits		

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Department of Revenue
Washington State

Revenue Auditor (RA1) Requirements

As a Revenue Auditor 2 In-training (In-training level is at Revenue Auditor 1):
Bachelor's degree with major study in accounting

OR

Bachelor's degree in business administration or closely allied field which includes 24 semester or 36 quarter hours of college-level accounting (may include credits from one (1) Business Law class)

OR

Bachelor's or Graduate degree and is CPA Exam eligible.

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Department of Revenue
Washington State

First Year Training Plan For Revenue Auditors & ARDE Examiners

***These classes may not apply to the following employees:**
 - Internal agency transfers do not take NEO.
 - HR e-Learning and Building a Culture of Respect.
 - ARDE Examiners do not take Random Sampling.

Required Training Deadlines
 HR e-Learning - 30 days after employee start date.
 DOL e-Learning - 30 days after employee start date.
 Building a Culture of Respect - 1 month after employee start date.

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Department of Revenue
Washington State

First 5 Years Training Plan

For Revenue Auditors & ARDE Examiners

FUNDAMENTALS	AUDIT TECHNIQUE & TAX LAW	ADVANCED TECHNIQUE & TAX LAW
<ul style="list-style-type: none"> Audit Library Audit Readiness Building a Culture of Respect (Agency) QuickBooks Auditing techniques Auditing in an Electronic Environment Random Sampling ATLAS Roundtables & Training 	<ul style="list-style-type: none"> Efficient Auditing Communicating with Challenging Taxpayers Agency Overview (Agency) Plain Language (Agency) Attribution: Galaga: Introduction Advanced Sampling Industry & Tax Law Training Legislative Updates (Agency) ATLAS Roundtables & Training 	<ul style="list-style-type: none"> Audit Results, referrals Building a Culture of Respect, Part 2 (Agency) Causal Conversations (Agency) Legislative Updates (Agency) Industry & Tax Law Training ATLAS Roundtables & Training

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Department of Revenue
Washington State

Why We Audit

- Verify reporting accuracy for numerous tax types
- Correct improper reporting
- Identify unregistered businesses
- Deter tax evasion
- Promote voluntary compliance:
 - Audit Presence
 - Discuss reporting requirements
 - Review policy and new legislation with taxpayers

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Department of Revenue
Washington State

Who We Audit

- Account Analysis
- Random Selection (Research Division Compliance study)
- Fraud Referrals/Tax Discovery
 - Identify unregistered businesses
 - Detect taxpayers significantly underreporting tax liability
- New Businesses
- Training and Development (!)

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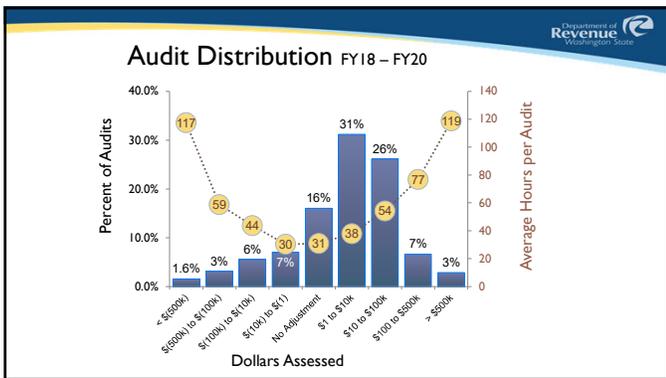
Department of Revenue
Washington State

Audit Geography

Instate Audit vs Out of State
FY20

Where are the:	Washington	Non-Washington
Active Accounts (approx. 708k)	84%	16%
Auditors (245+)	78%	22%
Dollars Assessed	40%	60%
Total Completed Audits (Includes PWC Audits)	91%	9%

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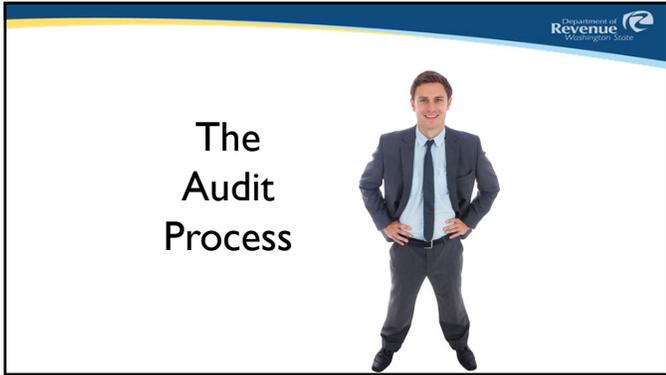
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Department of Revenue
Washington State

Covid Response

- Division approach and flexibility
- Travel limitations
- Industries impacted
- Focus on refunds, Expanded VDA, PWC and Corporate Dissolutions, consultation visits
- Additional Training
- Interest impact to TP
- Audit production trends since covid
- Current state – electronic records

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Planning the Audit

- Taxpayer Research – reporting history, industry
- Tax Law Research – pre-planning purposes
- Taxpayer is contacted and the audit is scheduled

(Screenshot of tax research tool interface showing various search options and results.)

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Department of Revenue
Washington State

What does Contact Look Like?

- Notification letter
- Letter viewable in MyDOR
- Requests general records
- Provides auditor's contact info



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Washington State

What does the business do?

- Washington Business Activities Questionnaire (4 pages)
- Identify activities
- Identify affiliates
- Document nexus



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Document Request

- More specific records may be requested as the audit unfolds.
- Could be through email (if Taxpayer authorizes email communications) or secure message (through MyDOR)
- May include status of issues



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Contact Timing

- Response times can vary (10-30 days)
- Taxpayers work with auditors to schedule most convenient time for appointment
- Time allowed to produce records, review drafts as part of due process
- Contacts are recorded in audit communication log
- What happens if Taxpayer's do not respond?

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DOR or Scam

- Contact through MyDOR account
- DOR auditors do not accept payments – all payments through DOR website
- Due process: assessment review prior to issuance, 30 day due date, Taxpayer's are informed of right to request supervisor's conference and rule 100 review petition option in case of disagreement

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Preparing for an Audit

- Prepare records for the audit period listed in your initial audit letter, example 1/1/18 through 12/31/21
- Audits can be done at the taxpayer's place of business or a representative's office. The auditor will work with the taxpayer to establish the best location.

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Records to Provide

- Supporting documents used to file Excise Tax Returns
- Federal Income Tax Returns
- Chart of Account
- Summary accounting records
- Bank Statements
- Sales Detail Reports
- Sales Invoices
- Expense Detail Report
- Purchase Invoices or Paid Bills
- Depreciation Schedules and supporting asset invoices
- Reseller Permits for wholesale sales
- Supporting documents for all deductions and exemptions

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Performing the Audit

The auditor obtains an understanding of the business by:

- Meeting with taxpayer
- Touring the business
- Interviewing taxpayer and accounting staff
- Evaluating the accounting system and internal controls
- Length of audits vary depending on size and complexity of the business.

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Performing the Audit (cont.)

The auditor performs the audit procedures, including:

- Income verification
 - Was all income reported and was it reported under the correct classification?
- Deductions / Exemptions
- Sales tax
 - Was sales tax collected at the correct rate and reported to the appropriate location?
- Purchases
 - Was the correct amount of sales tax paid?
 - Or was use tax paid and reported to the appropriate location?

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Sampling

- Sampling can be an option during an audit if adequate records are available
- Electronic data often lets the auditor use actual figures as opposed to a sample. Actual records are preferred if possible
- The auditor will discuss sampling options and details during the audit.
- Sampling is not used in place of records that are not available

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Considerations for having a representative during an audit

- Taxpayer feels they do not have adequate time to prepare records
- An auditor at the taxpayer's business for an extended period may disrupt the business activities
- Taxpayer feels a representative may be able to communicate more timely with an auditor
- Representative has industry specific expertise

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Audit Findings & Education

The Auditor meets with taxpayer to:

- Explain the tax law and how it applies to the taxpayer's business
- Explain reporting errors that resulted in the assessment
- Discuss any disagreements
- Explain the options for administrative review



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Conclusion

Taxpayer Agreement

- The audit is reviewed and the assessment issued
- Taxpayer receives the audit results and a written explanation of the findings

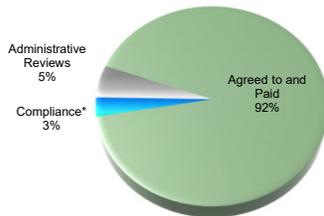
Taxpayer Disagreement

- A meeting with the Field Audit Manager (FAM) is offered to discuss the audit issues before the audit is submitted
- Administrative review options are again provided

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Audit Outcomes

FY11 – FY17



* Referred to Compliance in whole or in part

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Challenges

- Lack of records or not having access to records
- No response or slow response from taxpayer or representative
- FAMs do not settle audits during a supervisors' conference
- Records not provided until review of findings

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Additional Audit Division Programs

- Real Estate Excise Tax
- Estate Tax
- Forest Tax Field Operations and Audit
- Cigarette Tax Auditor
- Leasehold Excise Tax Auditor

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Real Estate Excise Tax

- \$1.29 Billion FY 2019 on 279k Affidavits
- Audit, refunds, distributions
- \$5.4 million audit recovery FY 2018



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Estate Tax and Leasehold Excise Tax

- Estate Tax –
 - \$11.3 million FY 2020
 - Audit, refunds, valuations, litigation



Leasehold Excise Tax Audits –
\$277,675 (gross) FY2020
paid in place of property tax by businesses leasing
real estate from government entities

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Forest Tax



- Verification of Timber Harvests
 - Comparing against Species, Numbers and Harvest conditions
 - Correction of Reporting Errors
 - Setting Stumpage Values by zones
 - Verification of Log Export Program

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Questions?



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