

Managed Audit Agreement



Arizona Department of Revenue
Transaction Privilege Tax Department

Taxation; Managed Audit Agreements. S.B. 1171; Chapter 95.

Senate Bill 1171 (Ariz. Sess, Laws 2005, Chapter 95 Taxpayer may audit themselves under Managed Audit Agreement with the Arizona Department of Revenue.

S.B. 1171 allows taxpayers to enter into managed audit agreements with ADOR under which the taxpayer or the taxpayer's representative audits the taxpayer's books and records rather than have ADOR auditor conduct the audit. Effective January 1, 2006 for managed audits involving state and local transaction privilege ("sales") tax, use tax and luxury tax. Effective January 1, 2007 for managed audits involving state income tax.

- **Procedures.** The ADOR has sole discretion over whether to allow taxpayer to conduct its own audit and may consider all relevant factors, including compliance history and pending disputes, when making its determination. Under a Managed Audit Agreement, the taxpayer must make and submit written findings to ADOR. ADOR reviews and accepts or rejects the taxpayer's findings and issues either a deficiency assessment, a no change report or a refund. The taxpayer's appeal rights under Managed Audit Agreement are the same as under a conventional ADOR audit. Managed Audit Agreements may include local excise tax audits at the taxpayer's request. Upon such request, the ADOR must notify the relevant cities and towns. If the local jurisdiction refuses to participate in the managed audit, it may not independently audit the taxpayer for 42 months following the end of the last tax period covered by the Managed Audit Agreement unless a limited exception applies.

- **No Penalties and No Interest.** No penalties will be assessed under a managed audit unless the taxpayer commits fraud or willful tax evasion. No interest will accrue on deficiency assessments or refunds if they are paid within 45 days of receipt of the notice of determination.

- **Limited Audits.** Managed Audit Agreements may be limited to certain periods, activities, transactions, geographic areas, or lines of business. When audits are completed under limited agreements, the ADOR remains free to audit issues not covered by the agreement within the appropriate statute of limitations.

Managed Audit Statutes

42-2301. Definitions

In this article, unless the context otherwise requires:

1. "Limited managed audit agreement" means a managed audit agreement that is limited in scope to certain periods, activities, lines of business, geographic areas or transactions, including tax on the receipts of certain sales, the value of certain assets, the value of certain items or services and other categories specified in the agreement.
2. "Managed audit" means a review and analysis by a taxpayer or the taxpayer's authorized representative of the invoices, checks, accounting records or other documents and information to determine a taxpayer's liability under chapters 3, 5 or 6 of this title or title 43, chapter 11.
3. "Managed audit agreement" means a written agreement between the director and taxpayer that consists of an audit plan that requires the taxpayer to review selected revenue, expense and fact records to determine the proper filing method and to calculate the taxpayer's liability under chapter 3, 5 or 6 of this title or title 43, chapter 11. Managed audit agreement includes a limited managed audit agreement.
4. "Taxpayer's authorized representative" means a representative who is selected by the taxpayer to conduct the managed audit and who is approved by the director.

42-2302. Managed audit agreements

A. On application by a taxpayer, the director, in the director's sole discretion, may agree to a managed audit with the taxpayer. The managed audit agreement shall:

1. Be signed by the taxpayer and the director.
2. Contain a declaration by the taxpayer that all statements of fact in the taxpayer's application and agreement are true and correct for every material matter.
3. Specify the types of taxes, the reporting periods, any limitations on the scope of the managed audit, the name of the taxpayer's authorized representative, if any, and the audit plan, including the procedures to perform the managed audit.

B. The managed audit agreement may be modified in writing if the agreement is signed by the taxpayer and director and the agreement complies with subsection A of this section.

C. The director may consider all relevant factors when determining whether to agree to a managed audit agreement, including:

1. The taxpayer's history of tax compliance.
2. The amount of the taxpayer's time and quality of resources that the taxpayer can dedicate to the audit.
3. The extent and availability of the taxpayer's records.
4. The nature and scope of any legal dispute with the department and its relevance to the managed audit proposal.

D. A managed audit agreement for taxes under chapter 5 of this title shall include county excise taxes. A taxpayer may request that the managed audit agreement include city and town excise taxes and the department shall notify the cities or towns in which the taxpayer conducts business. If a city or town does not agree to participate in the managed audit agreement, the city or town shall not conduct an audit of the taxpayer for forty-two months from the end of the last tax period that is covered by the managed audit agreement unless an exception applies pursuant to section 42-2059.

42-2303. Managed audit operations; appeal

A. The taxpayer or the taxpayer's representative shall furnish written findings of the managed audit to the director.

B. The director shall review the written findings and may examine records and perform other reviews that the director deems necessary to verify that the managed audit substantially conformed to the terms of the managed audit agreement. After performing the review under this subsection, the

- director shall accept or reject the findings of the managed audit and issue a notice of determination.
- C. If the director accepts the managed audit findings, the director shall assess any deficiency or issue any refund that results from the managed audit pursuant to section 42-2304 in the manner described by sections 42-1108 and 42-1118.
- D. If the managed audit results in a notice of determination that the taxpayer disputes or if the director rejects the findings of the managed audit, the taxpayer may appeal the notice of determination. The taxpayer has the same appeal rights under this section as if the department conducted the audit.
- E. The taxpayer and director may agree to a closing agreement under section 42-1113 to resolve any issues or amounts that are disputed.

42-2304. Interest and penalties; refunds

- A. Notwithstanding section 42-1125, the director shall not assess any penalties unless the managed audit discloses that the taxpayer committed fraud or willful tax evasion or that the taxpayer collected monies that were represented as tax but were not remitted to the state.
- B. Notwithstanding section 42-1123, the director shall not assess interest if the managed audit results in a deficiency, if the taxpayer pays the tax within forty-five days of receipt of the notice of determination and the taxpayer did not commit the activities described in subsection A of this section. If the entire assessment is paid after forty-five days of the taxpayer's date of receipt of the notice of determination, the taxpayer shall pay interest pursuant to section 42-1123.
- C. If the findings of a managed audit determine that a refund is due to the taxpayer, the department shall not pay interest to the taxpayer if the refund is issued within forty-five days of the taxpayer's date of receipt of the notice of determination. If the refund is paid after forty-five days of the taxpayer's date of receipt of the notice of determination, the department shall pay interest pursuant to section 42-1123.
- D. For the purposes of subsections B and C of this section, "notice of determination" means either:
1. The director's notice of determination, if not appealed.
 2. The final decision at the highest level of appeal to which the matter is taken, if a notice of determination or rejection is appealed.

See Managed Audit Statutes

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/02301.htm&Title=42&DocType=ARS>

Frequently Asked Questions

Why Should I do part of the audit myself?

If you complete a managed audit and owe additional tax, no penalties will be assessed unless the taxpayer commits fraud or willful tax evasion. No interest will accrue on deficiency assessments or refunds if they are paid within 45 days of receipt of the notice of determination.

There are other benefits, too. In a conventional audit, our auditor typically reviews your records at your place of business, during working hours. In a managed audit, you can review your records whenever and wherever you like, as long as you finish your work within the time specified in the timeline.

Also by participating in a managed audit you may gain a more thorough understanding of how tax applies to your business transactions, what kind of records you should keep, and how to improve your business procedures that relate to transaction privilege and use tax.

How will I know what to do?

Authorized representatives of the Department and Taxpayer shall jointly develop a managed audit plan for a specific audit period. The audit plan shall include the agreed audit procedures to be applied to each identifiable business segment, of Taxpayer, subject to taxation under the Arizona Revised Statutes.

How much of my time will it take?

The amount of time needed to conduct the audit will vary, depending on your business operations and records. Our auditors will give you an estimate of the time required based on his or her experience. If the managed audit cannot be completed by the date specified in the Managed Audit Agreement, Taxpayer shall provide written notification to the Department a minimum of thirty (30) days prior to such specified completion date.

Will the auditor review any of the transactions?

The taxpayer shall document in detail the results of the managed audit and provide the documentation to the Department in a format specified by the Department. The Department may, in its sole discretion, examine records and perform reviews that the Department determines are necessary, in order to verify the results of the audit.

Is my business eligible for the Managed Audit?

The Arizona Department of Revenue has sole discretion over whether to allow taxpayer to conduct its own audit and may consider all relevant factors, including compliance history and pending disputes, when making its determination.

How do I get the Managed Audit process started?

To begin the process, the taxpayer submits a written request outlining their desire to perform a managed audit. The request should be sent to the Department; once the request is received, the Department will contact the taxpayer for a preliminary meeting to discuss the managed audit process.

Can the Managed Audit Process be used for a taxpayer to fulfill their Transaction Privilege Tax obligations and become into compliance with their filing requirements?

NO-See Voluntary Disclosure

<http://www.azdor.gov/Audit/Disclosure.asp>

Contact Information

Managed Audit written requests may be sent to:

**Arizona Department of Revenue
Audit Division
Attention: Tom Johnson, Assistant Director
1600 W. Monroe St, Room 601
Phoenix, AZ 85007**

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