

AUDIT SERVICES

BUSINESS TAX FIELD AUDIT GUIDE FOR TAXPAYERS



OKLAHOMA
Tax Commission

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INTRODUCTION

What is a field audit?

A field audit is a comparison of data to determine if the correct amount of tax has been reported on your tax return(s). The goals of a field audit are to promote voluntary compliance, identify errors, and assist you in understanding your rights and responsibilities under Oklahoma tax laws. An audit can identify problem areas early and prevent them from causing additional tax liabilities. The auditor may find that no changes are needed because the statutes and rules applicable to the issue under review were followed. We will attempt to complete the audit with minimal disruption to your daily business activities. You can assist in this by providing well-organized records to the auditor. Being prepared can save you time and money, and will help speed the completion of the audit. Your prompt response to the auditor, along with provision of records in the requested format, will ensure the process is conducted as smoothly as possible.

Why was I selected for a field audit?

Being selected for a review of your return(s) is not an indication that we believe you have done anything wrong. We select returns for review using a variety of methods and information, such as:

- Computer-based random selection;
- Analysis of Oklahoma tax return information, such as exemptions;
- Internal Revenue Service records;
- Information sharing programs with other states and agencies; and
- Other sources.

NAVIGATING THE AUDIT

Can someone else represent me?

You may have someone else represent you. Examples of a representative are your employees, accountant, CPA, attorney, or a relative. Before your representative contacts the Oklahoma Tax Commission (OTC), you must submit a completed Power of Attorney (POA) form. [Form BT-129](#) **Power of Attorney** can be downloaded from our website via tax.ok.gov, or you can visit OkTAP via oktap.tax.ok.gov and click the **Access Power of Attorney Portal** link.

How far back can a field audit go?

Any return filed timely within the last **three years** may be selected for a review. If the return is a monthly, quarterly, or semi-monthly tax return, the period selected for review can be no older than 36 months from the filing date of the return, if filed timely. If the return is an annually-filed return, we can review three years of returns prior to the date filed, or the return due date, whichever is later.

If you have agreed to an Assessment and Refund Statute of Limitation Waiver Agreement (SOL), the agreed upon periods will be the audit period(s). If you did not file a return, or filed a substantially incorrect return, the OTC may audit for periods longer than three years.

How long does an audit take?

The OTC will complete the audit in the shortest time possible while still reaching sound conclusions. The length of an audit depends on the size and type of business, type and completeness of accounting records, and type, quality, and timeliness of records provided. The auditor may recommend a sample audit of the records, depending on the type and quantity of records needing to be reviewed.

You may be asked to sign an SOL to allow time for providing and reviewing records in order to accurately determine if taxes have been correctly reported. You will not be penalized for not signing an SOL. However, not agreeing to sign an SOL may cause the auditor to:

1. Assess based on what information is available so older periods of the audit are not lost; or
2. Change the audit periods by adding current periods to the audit while dropping off the older, out-of-statute periods, which may cause more work for you.

What happens if I do not provide the requested records?

If you fail to provide the information or documents as requested, your tax liability will be estimated based on available information. Missing records or unexplained differences may result in the use of information readily-available to the OTC or area/industry averages to determine if taxes are due.

I just received my inquiry letter. What happens next?

We will send an inquiry or notification letter informing you of your selection for an audit and requesting that you complete a questionnaire, to be returned to the OTC along with any additional forms requested. Once the initial information is received and reviewed, the auditor will determine the information and records needed. You will be provided with a document detailing the additional items being requested and a date will be set to either return the documents or for the auditor to review the records in person. Information can be submitted on OkTAP via oktap.tax.ok.gov.

PAPER OR ELECTRONIC RECORDS

Audits can be completed using either paper records or electronic records; however, electronic records are preferred as it speeds up the audit and minimizes the burden of paper copies. Electronic auditing, or eAuditing, is computer-assisted auditing that uses electronic records to complete all or part of the audit. If you use a computer to record your business activity and maintain this data electronically, you will be asked to provide the data or records in an electronic format. The auditor will then use computer software programs to analyze the data. The OTC prefers to examine electronic records downloaded from your computer system whenever possible, because it is the most accurate and efficient method of conducting an audit.

What records will I need to provide?

The most common records requested are:

- General ledgers and journals
- Depreciation and asset schedules

- Bank statements
- Federal income tax returns
- Oklahoma income tax return
- Purchase and sales journals
- Records specific to some tax types (i.e., mixed beverage, gross production, etc.)
- Sales tax exemption support or documentation
- Supporting documentation

What is a full record audit vs. sample audit?

A full record audit is review of all records during the audit period for the tax types being audited. The taxpayer and auditor may also agree a sample audit will be just as accurate and more efficient for both parties. A sample audit looks at a smaller portion of your records and uses the results from those records to determine if additional tax is due. If a sample audit is performed, the auditor will discuss an Audit Methodology Agreement with the taxpayer during the audit.

NAVIGATING THE LIABILITY

What happens after the review?

If the auditor finds that tax is not due, you will be informed the audit is being closed. Otherwise, the auditor will notify you of the findings and legal basis for any adjustments and conduct an exit interview, if possible. The exit interview may be held in person or by phone with you, your representative, or both. The auditor should include an explanation of the working papers, tax assessment, your taxpayer rights, and deadlines for making payments or filing protests. During the exit interview, make sure you fully understand the reasons for any proposed changes and ask for an explanation of anything about which you are unclear.

After the audit is complete, you will receive a Notice of Proposed Assessment, which provides the official notice of any amount due. This document serves as a request for payment of any unpaid amounts, and provides instructions for filing a protest if you disagree with the proposed changes. If you do not agree with the findings, it is important you notify the Audit Services Division of any disagreement within the 60-day period specified on the Notice of Proposed Assessment.

If you agree with the audit findings and tax is due, make a payment as instructed. If the assessed amount of tax and interest are paid in full within the original 60-day notice of billing, penalty will automatically be waived. If you cannot pay the liability in full, contact **405.521.2212** to discuss available payment options.

What are my rights after audit completion?

You have the right to an automatic waiver of penalty if you remit payment of tax and interest within 60 days of the original notice of billing letter. It is important to note that interest will continue to accrue during any of the following options.

Within 60 days, you can:

- Request an extension of up to an additional 90 days to go over the findings and submit additional records for review.
- Request consideration for waiver of penalty and interest, which requires tax to be paid in full.
- Request a payment plan.
- Protest the review: Visit tax.ok.gov to download and complete [Form L-25 Application for Protest or Demand for Hearing](#) before the 60-day deadline. Submit the form and all supporting documentation electronically on OkTAP via oktap.tax.ok.gov or by mail to **Oklahoma Tax Commission, Oklahoma City, OK 73194**. Protests are assigned to the Legal Division, and if unresolved, may be heard by an OTC Administrative Law Judge (ALJ). If your case goes to hearing, you have the choice of representing yourself or having someone else represent you (i.e., your accountant, CPA, or attorney).
- Protest the review after the deadline: If you decide to protest the review but have missed the 60 day deadline, submit a 221(E) Request for Abatement within one year of the finalized review. You must be able to show, through a preponderance of evidence, that the review was incorrect in order for the protest to be accepted. A 221(E) Request for Abatement does not have the option of being heard before an OTC ALJ but may be reviewed by the OTC Legal Division.
- Settle your tax liability: A [Packet S Application for Settlement of Tax Liability](#) (S-I for individuals or S-T for trust tax) may be submitted for tax due once the balance has become final, due, and owing. This option can only be used in limited circumstances. Trust fund taxes cannot be settled for less than the tax collected (ex. sales, withholding, and mixed beverage tax).

If I owe tax, how do I pay?

Pay online or by mail:

- Online: Visit OkTAP via oktap.tax.ok.gov and select **Make a Payment**. If paying within 60 days of the due date, only pay the **combined total of tax and interest due**.
- Mail: Send your payment with a billing coupon to **Oklahoma Tax Commission Oklahoma City, OK 73194**.

Failure to pay all tax due will cause a tax warrant to be issued against the business for any assessment remaining unpaid after 60 days. If a protest or extension has not been received within 60 days of the date of the Notice of Proposed Assessment, the audit will automatically post within 75 days, at which point the tax warrant will also be issued against the business. If the tax is owed by a trust, such as sales or withholding tax, a tax warrant will also be issued against each officer, member, partner, or any individual directly responsible for the collection and remittance of tax.

OKLAHOMA RULES & STATUTE REFERENCES

You may find additional information regarding various issues discussed in this guide in the [Oklahoma Administrative Code Rules \(OAC\)](#) and [Oklahoma Statutes \(OS\)](#).

Audits

OAC Section 710:65-6-30, 710:65-3-31, 710:65-3-33, 710:65-5-1, 710:65-5-2, and 710:65-5-4.

Liabilities

OAC Sec. 710:65-3-1, 710:65-5-5, and 710:65-7-3.

68 OS Sec. 219.1 and 223

Protests

OAC Sec. 710:1-5-10, 710:1-5-20, and 710:1-5-71.

68 OS Sec. 221

Waivers

OAC Sec. 710:1-5-11, 710:1-5-12, and 710:1-5-116.

Other

OAC Sec. 710:1-3-6