

AUDIT SERVICES

INDIVIDUAL INCOME TAX DESK AUDIT GUIDE FOR TAXPAYERS



OKLAHOMA
Tax Commission

TABLE OF CONTENTS

- Introduction 2**
 - What is a desk audit?..... 2
 - Why was I selected for a desk audit?..... 2
- Navigating the Audit..... 2**
 - Can someone else represent me? 2
 - How far back can a desk audit go? 2
 - What happens if I do not provide the requested records?..... 3
- Audit Types 3**
 - CP200 (CPU)..... 3
 - EOAD (Examination Operational Automation Database) 4
 - FMN (Federal Match Non-Filer)..... 4
 - FMU (Federal Match Under Filer) 5
 - W-2G (Gambling) 5
 - 511-CR Aerospace..... 5
 - CSA (Federal Civil Service Retirement)..... 5
 - OOS (Out-of-State Income) 6
 - OHU-561 (Capital Gain)..... 6
- Navigating the Audit Outcome 7**
- Oklahoma Rules & Statute References..... 8**

INTRODUCTION

What is a desk audit?

A desk audit involves reviewing a person's filed income tax return, along with any unfiled returns or related information obtained from the Internal Revenue Service (IRS) or other sources. If more information is needed, you will receive a letter explaining the audit, the additional documents required, and the amount of time you have to respond.

The purpose of a desk audit is to compare the available information and ensure the correct amount of tax was reported. Desk audits promote voluntary compliance, help identify errors, and assist taxpayers with understanding their rights and responsibilities under Oklahoma tax laws.

Desk audits can also catch issues early and prevent larger tax problems. If errors are found, you can usually correct them going forward without a full three-year audit. In some cases, no changes are needed if everything was filed correctly. Responding promptly and providing the requested records helps the process go smoothly.

Why was I selected for a desk 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 (ex. Exemptions)
- IRS records
- Information sharing programs with other states and agencies
- Other sources

NAVIGATING THE AUDIT

Can someone else represent me?

You have the right to obtain representation at any time during the audit process. Your representative may be your accountant, CPA, attorney, or a relative. Anyone acting on your behalf must have proper written authorization from you. 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.

How far back can a desk audit go?

Any return filed timely within the last **three years** may be selected for a review. However, the statute of limitations does not apply for any period during which you failed to file an individual income tax return, failed to report changes made by the federal government, or filed a false or fraudulent return to avoid paying taxes. In some cases, the OTC may go back further than three years.

What happens if I do not provide the requested records?

If you do not provide the requested information, we will determine your tax liability using the information we have available. Items that cannot be verified may be disallowed, unexplained differences may be treated as taxable, and other methods may be used to calculate your taxable income.

AUDIT TYPES

The OTC conducts several types of audits. The type of audit determines the next steps and the documentation you will need to provide. Below is an overview of the federal and state audits we perform.

Federal Audits: Audits initiated by the IRS:

- CP2000 (CPU)
- EOAD
- FMN
- FMU

State Audits: Audits based on Oklahoma-only adjustments for these areas:

- W-2G
- 511-CR
- CSA
- OOS
- OHU-561

CP2000 (CPU)

A CP2000 notice is an automated IRS review that finds differences between the income or payment information reported to the IRS and what was reported on a federal tax return.

Since this type of audit comes from the IRS, anyone who disagrees with the OTC's assessment should contact the IRS to understand the reason for the adjustment. If the IRS later makes changes or resolves the issue, the OTC may ask you to provide an IRS account transcript to confirm the update.

To identify that the letter you received is a CPU, the letter will state:

"The Oklahoma Tax Commission (OTC) has been notified of an adjustment to your income by the IRS under the authority of Section 6103(d) of the Internal Revenue Code (Report No. CP2000, Dated: July XX, XXXX)."

EOAD (Examination Operational Automation Database)

An EOAD discovery is an IRS review tool used to find specific non-compliance issues by closely examining an individual tax return. Changes made through an EOAD audit can affect many parts of the federal return, including filing status, dependents, itemized deductions, income, credits, business expenses, and losses. This audit is initiated by the IRS.

If you disagree with the OTC's assessment, you should contact the IRS to understand the reason for the adjustment. If the IRS later updates or resolves the issue, the OTC may ask you to provide an IRS account transcript to confirm the update.

To identify that the letter you received is an EOAD, the letter will state:

"The Oklahoma Tax Commission (OTC) has been notified of an adjustment to your income by the IRS under the authority of Section 6103(d) of the Internal Revenue Code (Report No. XXXXXX, Dated: July XX, XXXX)."

FMN (Federal Match Non-Filer)

The FMN discovery compares a person's federal and state tax filings to find differences in their filing history. It focuses on taxpayers who list an Oklahoma address on their federal return but did not file an Oklahoma state return for that same year. This includes people with income reported on federal forms that is taxable by Oklahoma, as well as nonresidents who earned more than \$1,000 from Oklahoma sources.

In these cases, the taxpayer must either file an Oklahoma individual income tax return or provide at least three of the following documents to prove residency in another state:

- Copy of another state's return (filed as a resident)
- Military leave and earnings statement showing home of record
- Personal property tax receipts
- Motor vehicle registration
- Voter ID or statement from state election board confirming voter registration
- Mortgage statement
- Rental/lease agreement
- Children's school records
- Paid utility bills on company letterhead showing service dates
- Employer letter confirming employment and residency

To identify that the letter you received is an FMN, the letter will state:

"Information made available to the Oklahoma Tax Commission (OTC) indicates during XXXX you had income sufficient to require the filing of an Oklahoma Income Tax Return. Our records do not indicate that you filed an Oklahoma Income Tax Return for the referenced year."

FMU (Federal Match Under Filer)

The FMU discovery compares a taxpayer's original Oklahoma return with their original federal return to find any differences. Using information from the IRS, the OTC reviews items such as filing status, exemptions, federal adjusted gross income (AGI), and whether itemized or standard deductions were used.

If you disagree with the OTC's assessment, you should contact the IRS and request an account transcript to verify the information. In most cases, no further action is needed.

To identify that the letter you received is an FMU, the letter will state:

"The Oklahoma Tax Commission (OTC) has compared your XXXX income tax return with information submitted by the Internal Revenue Service under the authority of Section 6103(d) of the Internal Revenue Code."

W-2G (Gambling)

A W-2G discovery indicates gambling winnings earned in Oklahoma from an Oklahoma casino that were not reported by either residents or nonresidents. These individuals are required to file an Oklahoma resident or nonresident income tax return.

511-CR Aerospace

The 511-CR Aerospace discovery is used to confirm that a taxpayer qualifies for the aerospace credit as claimed. This credit can reduce a taxpayer's Oklahoma income tax to zero. Eligible aerospace employees may receive a \$5,000 credit each year for up to five years, and any unused credit can be carried forward for up to five additional years.

To qualify for the credit, a taxpayer must:

- Be newly employed full-time in the aerospace sector on or after January 1, 2009.
- Provide a copy of their qualifying degree or transcript, Form 564 Credit for Employees in the Aerospace Sector, and proof of employment (such as W-2s) with their return.
- Have a bachelor's degree awarded by a college/university accredited by the Accreditation Board for Engineering and Technology (ABET).

If moving from one qualified employer to another without a break in service, the taxpayer no longer qualifies for the credit.

CSA (Federal Civil Service Retirement)

A CSA discovery involves retirement, disability, and survivor benefits for civilian employees of the U.S. federal government. To verify eligibility for the claimed subtraction, the taxpayer must provide the OTC with an Annuity Statement or a Summary of Payments issued by the Office of Personnel Management (OPM).

OOS (Out-of-State Income)

An OOS discovery involves income from property or business activities in another state that shows up on a taxpayer's federal return. Oklahoma residents are taxed on all federal income except income from property or business outside Oklahoma, or gains and losses from selling real property in another state.

Additional supporting documents that may be necessary to verify the out of state income claimed include:

- Form 1099-S
- Form 1099-Misc
- Schedule K-1
- Another state's tax return
- Bill of sale or settlement statement

OHU-561 (Capital Gain)

An OHU-561 discovery allows taxpayers to exclude certain capital gains from Oklahoma taxable income, even if they are taxed federally. This includes gains from the sale of Oklahoma property, stock, or ownership interests.

To qualify, the gain must come from one of the following:

1. Sale of Oklahoma real or tangible personal property owned for at least five uninterrupted years.
2. Sale of stock or ownership in an Oklahoma-based business, LLC, or partnership owned for at least two uninterrupted years.
3. Sale of Oklahoma property as part of selling all or most assets of an Oklahoma business, where the property was owned by the business or its owners for at least two uninterrupted years.

Some federally taxed capital gains can be deducted on the Oklahoma return if they meet the ownership and location rules above.

Additional supporting documents that may be necessary to verify the capital gains claimed include:

- Form 1099-Misc
- Schedule K-1 (showing federal distribution and state distribution)
- Broker statement
- Another state's tax return
- Bill of sale or settlement statement

NAVIGATING THE AUDIT OUTCOME

What happens after the OTC reviews documents provided by the taxpayer in response to the audit?

If the auditor finds no tax is owed, you will receive a letter closing the audit. If more information is needed, the auditor will send a letter requesting it. After you provide the information, if errors are found or the documentation is incomplete, a follow-up letter will be sent. You may then respond with additional documentation, pay any tax due, and correct errors on future returns.

When you receive the audit results, review them carefully. If you disagree, notify the Audit Services Division within 60 days and provide any supporting documentation. If the auditor revises the findings after reviewing your documentation, a new letter will be sent. If you agree and owe tax, payment should be made within 60 days to avoid penalties. If you cannot pay in full, contact **405.521.2212** to discuss payment options.

What are my rights after audit completion?

You have the right to request a waiver of penalties if you pay the tax and interest within 60 days of the original Notice of Assessment. Interest will continue to accrue while any of the following options are being processed. Within 60 days, you can:

- Request a waiver of penalty and interest (tax must 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 provide evidence showing the review was incorrect. Late protests do not go before an OTC ALJ but may be reviewed by the OTC Legal Division.

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**. For account information, enter **individual income tax** as the account type, **audit payment** as the payment type, and your **Account ID** or **Social Security Number**. Choose the tax year to which the payment should be applied and enter the payment amount. 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 individual.

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 \(OS\)](#).

Protests

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

OS Sec. 221

Waivers

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