

Virginia Notice of Field Audit Selection

The Code of Virginia § 58.1-219 authorizes Virginia Tax to routinely audit accounts, records, books, and other documentation of a business to validate compliance with Virginia tax laws.

Virginia Tax routinely carries out audits as a part of normal agency functions. We use unbiased selection criteria to identify audit candidates across all industries. Our auditors will conduct an impartial examination of all necessary records, consistently applying the Tax Code to your business operation. Throughout this process, the auditor will answer any questions you may have. When the audit is completed, you'll receive a copy of the [Virginia Taxpayer Bill of Rights](#) which provides guidance to our appeal processes and procedures.

Audits take place for the following reasons:

- To ensure all trust taxes are collected at the proper rate and remitted in a timely manner;
- To ensure sales exemptions are applied appropriately with valid documentation;
- To ensure the Consumer Use Tax is remitted on non-taxed items as required;
- To ensure taxpayers are registered for all appropriate taxes; and
- To educate the taxpayer on rules, regulations and proper filing procedures.

If you are notified of an impending audit, you may use this resource as a guide for understanding your role and your auditor's responsibilities before, during and after the audit process.

What to Expect During an Audit

If you are selected for an audit, here's what you can expect:

- Virginia Tax creates a case and assigns an auditor to conduct the audit. The process consists of a pre-audit meeting to determine the audit scope and method, and answer your questions regarding the audit process;
- At your direction, we can meet with your authorized representative. However, we need a completed Power of Attorney and Declaration of Representative ([Form PAR 101](#)) on file before we can discuss your audit case with an outside party; and
- Prior to finalizing the audit, we will schedule a post-audit meeting to review our findings. We recommend the same individuals attend both the pre and post-audit meetings.

Throughout the audit, your auditor will strive to conduct the audit within a reasonable timeframe with a minimal disruption to your business.

Pre-Audit Interview

The auditor will first schedule a pre-audit interview that will take place either by phone or face-to-face to review the audit process. During the interview, your auditor will discuss the audit period, audit methods and the schedule for performing the audit. You can expect the auditor to provide a questionnaire and possibly request a tour to gain a better understanding of the scope of your Virginia business operations.

We will initially contact you by letter to let you know you have been selected for an audit and will be receiving a call from the assigned auditor to schedule an initial meeting. You will receive a letter to confirm the audit appointment with a preliminary list of records to be reviewed. Additionally, this letter will contain the Virginia [Taxpayer Bill of Rights](#) that explains your appeal rights and procedures.

Audit Period

When determining the audit period, the statute of limitations specifies how far back audits can go. Sales and Use Tax returns can be reviewed for a maximum of six years, while other taxes may have longer periods.

Routine audits generally go back three years. However, during the course of an audit the beginning period may be extended for reasons such as:

- The failure to file a required return for any period within the three-year statute;
- The filing of a false or fraudulent return with the intent to evade payment of the tax; and
- The routine inclusion in the audit of filing periods within the statute of limitations that are past their tax return filing date.

You'll be asked to sign an *Extension of Time Limitation document* either prior to or during the interview. The extension identifies the tax type and the start date of the audit.

Auditing Methods

During the interview, your auditor will discuss the following audit methods:

- **Detail Audits** – review all documentation for the entire audit period. Auditors typically use this method with small businesses that don't have large volumes of records to review;
- **Sample Audits** – review a representative period(s) of records within the audit period. The auditor discusses various sampling methods with you and determines a representative sample period. Sampling options include looking at all records – preferably electronic records -- for a specified period, or using software application to import selected records to review. This method routinely reduces the amount of audit time; and
- **Estimated Audits** - When records are inadequate, incomplete, or are not provided as the auditor requested we might make an estimated assessment based on the best information available.

Records Examination

Your auditor will spend the majority of the time examining your business records for the audit period and will keep you or your designated representative informed of any progress made throughout the audit.

The complexity and size of a business determine what records must be examined to complete the audit.

Business records your auditor may request include, but are not limited to, the following:

- A chart of accounts to better understand the taxpayer's business operations, develop the audit plan, and help determine the scope of the audit and the documents to be reviewed;
- Accounting records, general ledgers, other ledgers, and subsidiary journals to verify the amounts filed on Virginia tax returns;
- Federal income tax returns to compare revenues on this return to the amounts reported on Virginia tax returns, as applicable;

- Payroll Information to verify the amounts reported on Virginia withholding returns;
- Bank statements to compare deposits to Gross Sales reported on Sales and Use Tax returns;
- Credit Card statements and related invoices to ensure the appropriate application of sales tax or consumer use tax to these transactions;
- Contracts to determine the nature of the transaction based on the True Object test;
- Job Folders, when applicable, to ensure the inclusion of these transactions in the audit review process;
- Sales invoices to determine if the vendor charged Virginia sales tax on all or part of the transaction appropriately;
- Certificates of Exemptions to confirm the validity of the certificate(s) and the appropriate application to the non-taxed sales transactions;
- Purchase invoices to determine if the vendor charged Virginia sales tax on all or part of the transaction, if applicable;
- Capital asset invoices, journals, and Depreciation Schedules to verify the proper taxation of capital transactions, if applicable;
- Working papers and accounting data used to prepare tax returns traced back to the appropriate journal, ledgers, and other source documents to verify the integrity and accuracy of the taxpayer's filing process;
- Documentation supporting unaudited refunds to confirm the refund of the appropriate amount; and
- Documentation supporting credits or deductions taken on returns to confirm the validity of the credits or deductions.

If you fail to provide the necessary records to complete the audit, the auditor will submit a written request for you to provide the records, typically within 30 days. If you need additional time, you should contact the auditor and request an extension.

If you do not comply with the request, the auditor generates assessments based on the best information available at that time.

When the auditor completes the examination of your records, he or she will provide and review with you a list of all findings. If additional information or documentation is required to resolve any outstanding issues, you'll have a grace period of approximately 30 days to research and produce the needed items. If you need additional time, you should contact the auditor and request an extension.

Post-Audit Meeting

Prior to finalizing the audit findings, a post-audit meeting provides a final opportunity for you to discuss any remaining issues with the auditor and provide any additional documentation.

When the audit is completed, you'll receive an *Audit Report* in the mail. The report contains a listing of all items held as taxable in the audit, and the computation of the audit assessment, if applicable. Included with the audit report is a *Closure Letter* with additional guidance and an additional copy of the [Taxpayer Bill of Rights](#), which addresses your appeal options.

Online Audit Resources

Virginia Tax strives to make the audit process as transparent as possible. The following resources are available online for additional information related to Virginia Tax's administration and enforcement of the state's tax laws.

- [Code of Virginia - § 58.1](#) – legislation passed by the legislature and signed by the governor
- [Administrative Code](#) – interpretation and guidance of the Tax Code published by the Tax Commissioner
- [Virginia Tax Laws, Rules and Decisions](#) – Tax Bulletins, Rulings of the Commissioner and tax policy guidance documents
- [Virginia Taxpayer Bill of Rights](#) – guidance to the appeal process and procedures
- [Top 5 Common Audit Issues](#)