

Sales & Use Tax Audit Process

The Colorado Department of Revenue (CDOR) administers the state sales and use taxes and the sales taxes of many cities, counties, and other local governments. The following chart outlines the general process for conducting sales and use tax audits and resolving any resulting disputes.

Selection

CDOR strives to achieve a balanced audit caseload covering a broad spectrum of industries, geographies, business sizes, and other attributes. Audits are selected from a variety of sources and methods generally falling into two categories:

- **Referral:** CDOR receives and reviews referrals from various sources including local governments, department staff, purchasers, and field observations by audit staff.
- **Account Analysis:** Tax return and other internal and external data sources are analyzed to identify potential compliance risks.

Audits are prioritized by selection staff and assigned to auditors based upon the experience and expertise best suited to the case.

Engagement

The assigned auditor contacts the taxpayer to discuss and schedule the audit. As part of this initial contact, the auditor will issue an Information Document Request (IDR). This details the records the auditor will review. The types of documents requested include:

- General ledgers;
- Chart of accounts;
- Sales journals and sales summaries; and
- Sales and income tax returns.

Field Work

A key part of an audit is a field visit from the auditor. This allows the auditor to gain an understanding of the organization and its business operations, including the nature of its sales. Auditors are sensitive to the needs of the taxpayer and will work with the business to ensure their visit is scheduled at a convenient time.

The auditor will review the business' books and records to ensure the proper amount of tax was collected and remitted. Steps in this process may include:

- Review of a sample or an entire database of the sales made by the business;
- Reconciliation of sales records to general ledger, tax returns and other business records; and
- Verification of any taxpayer deductions, credits, exemptions, returns, allowances, or other exceptions.

Throughout the audit, the auditor will engage with the taxpayer. The auditor will provide them with the preliminary work papers prior to the closing conference.



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Closing Conference

The audit will conclude with a closing conference. During this meeting, the auditor will review the workpapers, explain any potential assessment or refund, and outline the payment process. Finally, the auditor will detail the taxpayer's protest rights. Following the meeting, the auditor will make any agreed adjustments resulting from information and documentation reviewed during the conference.

The Field Audit Protest Resolution (FAPR) team will send the complete set of audit documentation, including any bill or refund, to the taxpayer upon the conclusion of the audit. If the taxpayer chooses not to protest the audit results, FAPR will work with them regarding payment options.

Disputes

Taxpayers have the right to protest all or part of a notice of deficiency or rejection of refund. FAPR will work with taxpayers regarding protest requirements and deadlines. FAPR can address basic taxpayer protests generally related to items like mistakes in calculations or missing documentation. If FAPR is unable to resolve the dispute, the protest is referred to the Tax Conferee Section.

The Tax Conferee resolves the majority of protests through informal conferences with taxpayers and/or their authorized representatives after reviewing documents, discussing the facts, and researching any legal issues. If the protest is not resolved informally, the taxpayer is entitled to an administrative hearing before the Hearings Division. The statute provides for further appeals of the administrative hearing decision through the courts.

