



Arizona Department of Revenue (ADOR) Managed Audit

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Managed Audit Program

MANAGED AUDIT PROGRAM

What is a managed audit?

- Managed audit – A full audit that reviews (but is not limited to): taxable income, invoices/contracts/ledgers that would incur a tax due, appropriate deductions, and other matters pertaining to both your business and its taxability.
- This is to serve as a benefit for both the taxpayer (to get tax reporting up to date with the state) and the state as it allows auditors to tailor our feedback directly to your line of business.



Requirements

- **Current and valid license**
- **Expected liability**
- **Records of transactions**
- **Schedule to determine expected liability**



Steps to request a Managed Audit

- **Contact DOR requesting a managed audit.**
 - First option: Email TPTAuditteam@azdor.gov
 - Second option: Follow steps at <https://azdor.gov/business/transaction-privilege-tax/tpt-audit>
- **Complete required documentation (available at link above)**
- **Meet with auditor conducting audit to go over expected timing to complete audit.**
- **Work with auditor regarding requested information.**



MANAGED AUDIT PROGRAM - Required Documentation

TRANSACTION PRIVILEGE AND USE TAX MANAGED AUDIT AGREEMENT

Pursuant to Arizona Revised Statutes (“A.R.S.”) § 42-2302, the ARIZONA DEPARTMENT OF REVENUE and New Managed Audit LIC: 99999999 enter into this Managed Audit Agreement (“Agreement”) for the purpose of determining Taxpayer’s Transaction Privilege and Use Tax (“Tax”) liability to the State of Arizona for the period covering April 1st 2017 – April 30th 2021. The parties hereby agree to the following:

1. DEFINITIONS

- 1.1. A.R.S. § 42-2301(2) defines “managed audit” to mean a review and analysis by a taxpayer or the taxpayer’s authorized representative of the invoices, checks, accounting records, or other documents or information to determine a taxpayer’s liability for tax.
- 1.2. The Director of the Department of Revenue or appointed designee (“Director”) may, as authorized by A.R.S. § 42-2302, permit a taxpayer to conduct a managed audit under A.R.S. § 42-2303.

2. FACTUAL BACKGROUND

- 2.1. **On April 30, 2021**, Taxpayer requested authorization to perform a managed audit for the Period, pursuant to A.R.S. § 42-2302.
- 2.2. Taxpayer asserts that it has Tax liabilities for the Period.
- 2.3. Taxpayer hereby declares that all statements of fact in its application for a managed audit and this Agreement are true and correct for every material matter.

3. MANAGED AUDIT PROCEDURES

- 3.1. Department and Taxpayer shall comply with all terms and conditions of this Agreement, including any exhibits, in the completion of the managed audit for the Period.
- 3.2. Authorized representatives of the Department and Taxpayer shall jointly develop a managed audit plan for the Period. A summary of that plan as jointly developed and approved by the Department and Taxpayer is referred to in this Agreement as “Audit Plan Summary.” Upon written approval by both the Department and Taxpayer, the Audit Plan Summary shall be attached to this Agreement as Exhibit A and shall be incorporated as part of this Agreement for all purposes. The Audit Plan Summary shall include the agreed upon audit procedures.

- 3.3. [IF APPLICABLE] Use of sampling procedures that both parties agree reflect, as closely as possible, the normal conditions of Taxpayer’s business as required under Arizona Revised Statutes, are available for use in the completion of the managed audit. If the Department determines, in its sole discretion, that sampling procedures are

appropriate for this managed audit, the Department shall make the sample selections and document them by a written document entitled Block Sample Agreement for each sample approved and authorized. The Block Sample Agreement, issued by the Department, shall be attached to this Agreement as Exhibit B and shall be incorporated as part of this Agreement for all purposes.

- 3.4. Taxpayer and Department shall each use their best efforts to complete the managed audit for the Period in accordance with A.R.S. § 42-2302 and other applicable laws. Taxpayer shall submit the managed audit final report to the Department for review no later than **October 31st 2021**.
- 3.5. If the managed audit cannot be completed by the date specified in this Agreement, Taxpayer shall provide written notification to the Department a minimum of thirty (30) days prior to such specified completion date. The written notification shall include detailed reasons the managed audit cannot be completed by the specified completion date, and suggest an alternative completion date. If applicable, a Statute of Limitations extension agreement based upon the alternative completion date shall accompany the notification. The Department reserves the right, in its sole discretion, to accept or reject an alternative completion date and the Statute of Limitation extension. Upon execution, a copy of the Statute of Limitation extension shall be attached to this Agreement as Exhibit C and shall be incorporated herein for all purposes. The Department reserves the right, in its sole discretion, to immediately terminate this Agreement if it determines that Taxpayer has not made a good faith effort to complete the managed audit by the specified completion date, or if any portion of the Period is jeopardized due to Taxpayer’s failure to execute a Statute of Limitation extension as specified in this Agreement.



MANAGED AUDIT PROGRAM - Required Documentation (Cont.2)

- 3.6. Taxpayer shall document in detail the results of the managed audit and provide that 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 or comply with other applicable law, before the managed audit is finalized.
- 3.7. Unless the managed audit or information reviewed by the Department discloses fraud or willful evasion of the tax, the Department may not assess penalties and may waive all or part of the interest that would otherwise accrue on any amount identified to be due based on the results of the managed audit. This subsection does not apply to any amount collected by Taxpayer that was a tax, or represented to be a tax, but that was not remitted to the Department. In addition, the Department agrees to waive its right to re-audit Taxpayer for any period and for any reporting categories within this Agreement after the managed audit or the deficiency determination resulting from the managed audit becomes final, except as follows: The Department may re-audit if the Department reasonably believes Taxpayer may have committed fraud or taken action to evade taxes, and if appropriate, assess tax, including penalty and interest, within the applicable limitations period.
- 3.8. Except as provided by A.R.S. § 42-2303, Taxpayer is entitled to a refund of any tax overpayment disclosed by completion of the managed audit. Taxpayer's failure to identify and claim a refund of an overpayment of tax for any period within this Agreement before the managed audit or the deficiency determination resulting from the managed audit becomes final, is a waiver of any demand against the Department for an alleged overpayment of tax, except as follows: Taxpayer may file a refund claim for tax, subject to the applicable limitations period, if a court invalidates a statutory provision, rule or agency policy, or if the Department invalidates or modifies a rule or agency policy.
- 3.9. Taxpayer represents and warrants that it has not given, offered to give, and does not intend to give at any time hereafter, any economic opportunity, future employment, gift, loan, gratuity, special discount, trip, favor or service to any public servant or state employee in connection with this Agreement.

4. TERMINATION AND MODIFICATION

- 4.1. No provision of this Agreement shall be waived or modified except in writing signed by the Director and Taxpayer. This Agreement shall not be modified or construed so that it conflicts with the laws of the State of Arizona or rules adopted by the Department under those laws.
- 4.2. If the Taxpayer fails to meet the terms of this Agreement, this Agreement will be voidable at the Department's option.
- 4.3. If fraud, malfeasance or misrepresentation of a material fact by the Taxpayer, as it relates to the Agreement, is shown, this Agreement will be voidable at the Department's option.

5. GENERAL TERMS

- 5.1. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Arizona. The venue of any suit brought for any breach of this Agreement is fixed in any court of competent jurisdiction.
- 5.2. Time is of the essence in the performance of this Agreement. Taxpayer shall strictly comply with all of the deadlines of this Agreement.
- 5.3. Any correspondence related to this Agreement directed to the Department should be addressed to the Director, or appointed designee. Any correspondence related to this Agreement intended for the Taxpayer should be directed to:

Taxpayer's Name: New Managed Audit

Address:



MANAGED AUDIT PROGRAM - Required Documentation (Cont. 3)

- 5.4. The Department and the State of Arizona shall not be liable for any damages or any other amounts to Taxpayer or any other entity or person resulting from any termination or cancellation of this Agreement for any reason.
- 5.5. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, their successors, and assigns.
- 5.6. This Agreement represents the entire understanding of the parties and there are no other agreements or representations other than those contained herein.

By signing, the Department and Taxpayer certify that they have read and agreed to the terms of the Agreement. Additionally, the signatories certify that they have the authority to sign this Agreement and thereby bind their respective party.

Arizona Department of Revenue

Taxpayer

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____



Important take away from Managed Audit document

What do you need to know from the agreement?

While the managed audit agreement covers the taxpayers right when entering into an agreement there are some other important pieces that taxpayers should be aware of.

- Possible sampling. Section 3.3
- Expected outline of timeframe for when certain items can expect to be received (for both auditors and taxpayers). Section 3.2 (Example to follow)
- Anticipated end date. Section 3.4
- Can be voided and turned into a regular audit if not cooperating. Section 4.2



MANAGED AUDIT PROGRAM - Required Documentation



New Managed Audit Timeline

Estimated Completion Date	Action	Performed By	Purpose	Actual Completion Date
4/30/2023	1 Complete managed audit agreement	both parties	Need to have official agreement for managed audit	
5/15/2023	2 Draft an audit plan summary	taxpayer	To prepare data for examination	
5/15/2023	3 Finalize audit plan summary	state		
5/15/2023	4 Obtain & download data	taxpayer		
5/15/2023	Confirm data for audit periods are applicable to audit	taxpayer	Verify that the data is available for every period within the scope of the audit period	
5/15/2023	Identify accounts of interest (common deductions, gross amounts, non taxable invoices)	both parties	Search for "extraordinary" accounts that may need to be separately examined	
			Identify accounts that should be deleted based on immateriality or other criteria	
			Identify vendors needing to be separately examined or to determine materiality of particular vendors	
			Verify that no period had unusual level of activity that may warrant a separate examination.	
			Identify accounts that have a tax consequence	
5/15/2023	5 Split remaining data into groups	both parties	To ensure the population of each group is representative	
6/30/2023	6 State runs total report & issue to taxpayer for reconciliation. Test transactions issued to taxpayer to determine if items can be traced to invoice if needed	state		
6/30/2023	sales	state		
6/30/2023	State provides reports for taxpayer to perform overview of preliminary findings	state		
	IF SAMPLING			
6/30/2023	7 Generate the samples	taxpayer		
7/20/2023	8 Evaluate samples	state	Select items to be sampled or detailed	
8/15/2023	10 Perform sample analysis	state	Review the sample selected for extraordinary transaction and/or duplicate transactions	
8/30/2023	12 review completed sample transactions	taxpayer		
9/15/2023	13 State reviews transactions and identifies questions	state		
9/15/2023	14 Auditor and taxpayer meet to discuss schedules and adjustments	both parties		



TPT Managed Audit Process

What is the TPT Audit process?

- Audit is assigned to an auditor.
- A letter confirming the taxpayer is under audit.
- If additional time is needed, an extension can be requested by contacting the Audit department.
- Once the taxpayer provides documentation to audit, the auditor will review items and determine taxability.
- Auditor will contact the taxpayer regarding outcome of audit.
- Auditor will allow for the taxpayer to provide any additional information that may help corrections to information that the auditor found during review.
- The auditor will send final determination regarding the audit to the taxpayer.
- If no protest is filed, the audit will go on billing and the collections system will send a bill based on the deficiency assessment, plus applicable penalties and interest.
- Taxpayers who cannot pay the full liability within **45 days** have the right to request an installment plan with ADOR's Collection District.



MANAGED AUDIT PROGRAM

What are the benefits to a managed audit?

Managed audits come with multiple benefits to the taxpayer that promote accurate reporting and reward the taxpayer for working in cooperation with the department. These benefits include:

- No penalties.
- No interest.
- Locking the audit period. (Ensures the periods will not be audited again unless false reporting is found at a later date.)
- Partnering with the Department for your business. (You do the work, auditors review, makes the process faster, and ensure we do not impede on your regular business activities.)
- Does NOT waive your protest rights.



MANAGED AUDIT PROGRAM

Where can I find more information?

Managed audits and all the required documents to request a managed audit are currently available at the following webpage:

<https://azdor.gov/business/transaction-privilege-tax/tpt-audit>

At this time, the managed audit page is being improved upon for easier taxpayer access and additional information to help promote taxpayer interest.

Following this slide will be examples of managed audit documents.



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Additional Audit documents that may come up

Audit Documents

With a managed audit being a full audit of your business we do utilize standard audit letters in the event that the department needs to request additional information. These can include:

- 1st request for information
- 2nd request for information
- Waivers (To lock in the audit period the managed audit is covering)
- Draft notice of proposed assessments



TPT AUDIT PROCESS (1st Request for Information)

Arizona Department of Revenue
1600 W. Monroe St. Div. Code 16
Phoenix, AZ 85007

STATE OF ARIZONA
Department of Revenue



July 11, 2024

Attn:

RE: Notice of First Request

License #:
Audit Period: to

Dear TAXPAYER,

The Arizona Department of Revenue has notified you of our Intent to Audit and the Department respectfully requests documentation necessary to complete our review of your financial records regarding your transaction privilege and/or use tax audit.

The Department requests these documents listed on page 2, no later than **(15 days from Letter date)**. The items listed will enable the Department to ensure that TAXPAYER NAME is in compliance and properly educated on how to correctly remit transaction privilege and use tax. Please note in the process of conducting the audit, the Department may request additional supporting information to complete its review.

A fifteen (15) day time period is the standard time period to request these documents electronically. If additional time is necessary, please complete the attached extension request on page 3. Please be aware that noncompliance with a document request, or failure to request additional time, may result in additional penalties per [A.R.S. §42-1125\(c\)](#).

Once all documentation is received and reviewed, our goal is to have this review completed in a timely manner.

If you would like to appoint anyone other than yourself to work with me in this matter, please complete an [Arizona Form 285](#) - General Disclosure/Representative Authorization Form, found at [azdor.gov](#) under Forms.

If you have any questions regarding this matter, please contact me via email at auditor@azdor.gov.

Sincerely,

Auditor Name:
ADOR Auditor Number:
Phone:
Email:



A.R.S. §42-1125



TPT AUDIT PROCESS (2nd Request for Information)

Arizona Department of Revenue
1600 W. Monroe St. Div. Code 16
Phoenix, AZ 85007

STATE OF ARIZONA
Department of Revenue



July 11, 2024

TAXPAYER NAME

Attn:

RE: **Notice of Final Request**

License #:

Audit Period: to

Dear TAXPAYER,

On (DATE), the Department sent your business a letter requesting specific documentation necessary to complete a transaction privilege (sales) and use tax audit. As of the date of this letter, the auditor has not received the documents requested.

The Department requests these documents listed on page 2, no later than (Ten). The items listed will enable the Department to ensure that is in compliance and properly educated on how to correctly remit transaction privilege and use tax. Please note in the process of conducting the audit, the Department may request additional supporting information to complete its review.

Please be aware that noncompliance with fulfilling a document request may result in additional penalties per A.R.S. [§42-1125\(C\)](#) and /or further action. In fulfilling its statutory duty, per A.R.S. [§42-1112](#), the Department may issue subpoenas, signed by the director or a designated representative, to request the above specified documents.

If you would like to appoint anyone other than yourself to work with me in this matter, please complete an [Arizona Form 285](#) - General Disclosure/Representative Authorization Form, found at [azdor.gov](#) under Forms.

If you have any questions regarding this matter, please contact me via email at Test@azdor.gov.

Sincerely,

Auditor Name:
ADOR Auditor Number:
Phone:
Email:
Education & Compliance Division



A.R.S. §42-1125



A.R.S. §42-1112



TPT AUDIT PROCESS (Draft/Notice of Proposed Assessment)

STATE OF ARIZONA
Department of Revenue



July 11, 2024

Attn:

Draft Assessment

License No.:
Audit Period: through
Federal ID:
Response Due By:

Dear Taxpayer,

The Department of Revenue is providing this **Draft Audit Assessment** to advise you of the preliminary results of our audit, encompassing all taxes imposed under Chapter 5 and 6 of Arizona Revised Statutes Title 42 and the Model City Tax Code, for the audit period indicated above. An explanation of the audit changes is enclosed with the schedules describing the adjustments that form the basis for the amounts shown below:

Corrected Total Tax per Audit	\$	
Less: Tax as Previously Reported		_____
Additional Tax Due		
Penalties		
Interest Through		
Total Deficiency	\$	=====
Daily Interest	\$	=====

Note: If payment is made PRIOR to the interest through date, please deduct the daily interest amount for each day prior to the interest through date.

Please review the audit adjustments that are attached to this notice. If you have additional information that may impact this assessment please furnish it to your auditor by the above response due date. If you need additional time to provide the information, please contact the auditor. The Notice of Proposed Assessment will be issued as outlined here if you do not respond by the response due date above.

IMPORTANT

All **unprotected** amounts **must** be paid at the time any protest is filed (A.R.S. § 42-1251A). If you would like to make a payment prior to your audit being finalized, please contact the City Services Unit at (602) 716-6906 or CitiesUnit@azdor.gov.

Date 7/11/2024

ADOR Auditor Number: Phone #

Date 7/11/2024

ADOR Supervisor Number: Phone #



**THANK
YOU**

