

Understanding Your Consumer Taxation Branch Audit

*Social Service Tax Act, Hotel Room Tax Act,
Motor Fuel Tax Act, Tobacco Tax Act*

UPDATED: DECEMBER 2005
Included the *Taxpayer Fairness
and Service Code* as part of the
audit process.

This bulletin provides information about what to expect during an audit and will assist you in preparing for the audit. The Consumer Taxation Audit Branch conducts audits to ensure consumption taxes are collected and paid fairly and consistently throughout the province. We are committed to the service standards and code of conduct outlined in our [Taxpayer Fairness and Service Code](#).

The information in this bulletin is provided for your convenience and guidance and is not a replacement for the legislation. The relevant Acts and Regulations can be found on the web at www.gov.bc.ca/sbr

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WHAT IS AN AUDIT?

An audit is a formal examination of your business' financial records to ensure you are collecting and remitting tax according to the law, and to identify any areas where you may be doing this incorrectly.

The process begins when you are contacted by an auditor who schedules an appointment to visit your business and review your records and accounts. If you owe money as a result of the audit, a *Notice of Assessment* is issued to you.

The auditor safeguards and handles your records with due care and maintains the confidentiality of your information.

What is a Notice of Assessment?

A *Notice of Assessment* is a letter that shows the amount of any unpaid tax that is assessed as a result of the audit. It also includes any penalties and interest owed at the time the *Notice of Assessment* is issued.

It is important that you note the issue date on your *Notice of Assessment*. This is a final notice and you are required to pay the assessed amount within 15 days of the issue date. Also, if you appeal your assessment, you have a maximum of 90 days from the issue date to do so.

It is best to pay the assessed amount promptly, even if you plan to appeal, because interest is charged from the issue date on your *Notice of Assessment* on any amounts you still owe following the due date. If an appeal overturns the assessment, you will be refunded the amount you have paid, with interest.

Collection actions, which could include frozen accounts, liens or seizure of goods, may start at any time following the due date.

More Info: [Bulletin GEN 011](#), *Collecting Unpaid Taxes*.

WHY AM I BEING AUDITED?

Audits help to ensure that all taxpayers pay their share of taxes and to promote a level playing field for all British Columbia businesses.

The British Columbia tax system operates on the principle of voluntary compliance. Each taxpayer is responsible for paying taxes on their taxable purchases, and collecting and remitting taxes correctly and promptly.

If some taxpayers don't collect and remit taxes or pay taxes on their purchases, everyone is affected. Audits promote voluntary compliance by educating taxpayers about how to calculate their taxes and by collecting taxes that should have been remitted or paid.

Are All Taxpayers Audited?

Any taxpayer could be audited. This includes individuals, manufacturers, wholesalers and retailers — large or small.

If your business is located outside British Columbia but you conduct business in the province, you are also subject to an audit.

Why am I Being Audited if I do not Make Taxable Retail Sales?

Even though you are not a retailer, you may still be required to pay tax on the equipment, supplies or taxable services you use to run your business.

You may also be unaware that you make taxable sales and are required to collect tax.

I Have Applied for a Tax Refund. Why am I Being Audited?

Refund claims are examined in detail to ensure the refund is payable. An audit may be conducted at the same time to ensure that all taxes due to the province have been paid before the refund is approved.

WHAT IS THE AUDITOR LOOKING FOR?

When conducting an audit, the auditor is looking for evidence that you have properly collected and remitted tax on your sales, and correctly paid tax on your purchases.

While the auditor can look at any aspect of your business, most often the auditor wants to know whether or not:

- you collected tax according to the law
- you accumulated the tax you collected in a tax account and remitted that money to the government on time
- you correctly recorded registration numbers on invoices or kept valid *Certificates of Exemption* on file when you made exempt sales
- you correctly remitted tax on goods you purchased or leased for your own use or consumption, including goods purchased or leased from outside the province

More Info: [Bulletin SST 043, Goods Purchased from Out-of-Province Suppliers](#) and [Bulletin SST 118, Out-of-Province Purchases: Goods for Personal Use](#)

HOW FAR BACK CAN I BE AUDITED?

An audit is limited to the last three or six years, depending on the tax type and the audit focus. The time limits are as follows.

	Tax not collected on sales	Tax collected but not remitted	Tax not paid on purchases
Social Service Tax (PST)	3 yrs	6 yrs	6 yrs
Hotel Room Tax	3 yrs	6 yrs	N/A
Motor Fuel Tax	6 yrs	6 yrs	6 yrs
Tobacco Tax	3 yrs	6 yrs	6 yrs

There are no time limits if you wilfully default or commit fraud.

When Does the Audit Period Start?

To determine when the six year audit period starts, the auditor works backwards to a maximum of six years from the estimated audit completion date. Some general guidelines the auditor uses for determining a start date are:

- when your business opened, if you've been open less than six years

- your tax return filing frequency and when your last tax return was due
- if you've been audited by the ministry before, when that audit was completed

The estimated audit period start and end dates are included in the letter the auditor sends you prior to starting the audit.

Extending the Audit Period with a Waiver

Even though an audit may be scheduled to, and does, begin on a certain date, the audit period can fluctuate depending on when the audit is finished.

If critical information requested by the auditor is missing or incomplete, you and the auditor can agree to freeze the audit start date, which can extend the audit period.

By signing a waiver to this effect, which must be approved by the commissioner of the applicable tax Act, you waive your right to the time limit and the auditor allows you more time to find the information you need. Waivers can play an important role where critical documents or staff members are unavailable.

However, if the audit is delayed too long, the auditor may issue an assessment based on an estimate of the amount owed. If you appeal the estimated assessment, you will be asked to provide any missing information.

Partial Assessments

Partial assessments may be issued where a complex problem is revealed during an audit or where the business has multiple locations or branch offices.

The partial assessment includes any amount that is owed and is not in dispute. Once the complex problem is resolved, or as each branch audit is completed, another partial assessment may be issued, if required.

WHAT HAPPENS DURING AN AUDIT?

If you are selected for an audit, an auditor will call or write to arrange an appointment at a mutually convenient time to conduct the audit.

The auditor will also tell you what records you need to make available for the audit. Please designate a contact person to be available to the auditor during

the audit. You can be the contact person, or it can be your accountant or bookkeeper, or another knowledgeable member of your staff.

Before examining your books and records, the auditor and your designated contact person review the nature of your business, accounting system and basic accounting procedures. Also discussed are the audit process and the service standards and conduct you can expect as outlined in the ministry's [Taxpayer Fairness and Service Code](#).

A tour of the premises might be appropriate to give the auditor a better understanding of your business.

What Records Should be Available?

The auditor can inspect any of your records. Typically, the auditor will review:

- financial statements, such as your income statement and balance sheet, including any schedules of capital additions or deletions
- the books from which the financial statements are derived, such as a general ledger, purchase or sales journals, cash receipt or disbursement journals, or any combination
- source documents, such as invoices, bank statements, cancelled cheques, deposit slips and cash register tapes

The auditor will make every effort to complete the audit as quickly as possible. The time spent by the auditor at your office can be minimized by ensuring that any information requested in the auditor's letter to you is located before the audit begins.

Records Stored Off-Site

As an audit can cover up to six years, you may have some records in storage. To avoid unnecessary expense, before retrieving your records, ask the auditor which documents will be required.

Retention of Records

You must retain your records for seven years. Records older than seven years may be destroyed at your discretion.

Please note: exemptions for intra-company transfers of tangible personal property require original documentation that might be older than seven years.

You need written authorization from the ministry to destroy any provincial tax related records less than seven years old.

The Auditor's Authority

The auditor can examine all aspects of your business and may enter your business premises to inspect your records, business processes, and inventory and other assets.

You must allow the auditor access, answer any questions and produce any records the auditor requests.

Refunds of Tax Paid in Error

Identifying tax that you may have paid in error is not part of the audit. However, if the auditor notices an instance where you paid tax in error, the auditor will point this out to you. You may prepare and submit a refund application to the auditor, provided the auditor is still in the review phase of the audit. The auditor may then review and process your refund application in conjunction with the audit.

Ensure all supporting documentation is included with the refund application, otherwise the auditor may not be able to process the refund prior to completing the audit and you will need to submit your application to the ministry separately.

If the audit results in an assessment, any allowable refund may be subtracted from the amount owed on the assessment and you pay only the difference.

If the audit results in a NIL assessment (no money owing), a cheque may be issued to you for any allowable refund amount. Similarly, if an allowable refund amount is greater than an assessed amount, a cheque may be issued to you for the difference.

You may also submit your refund application, together with all supporting documentation, directly to the ministry at a later date. Refunds must be claimed within six years of the date the taxes were originally paid.

More Info: [Bulletin GEN 008](#), *Refunds of Overpayments of Tax*

WHAT HAPPENS AFTER THE AUDIT?

Once the audit is complete, you may or may not owe money, depending on what the auditor finds. The auditor discusses the results with you and gives you copies of the audit working papers.

During this discussion:

- the auditor explains the results of the audit
- the auditor reviews and explains the contents of the audit working papers
- if the audit results in an assessment, the auditor explains why you were assessed and how to avoid this situation in the future

You have the opportunity to raise any concerns with the auditor. You might discuss any differences between the auditor's application of the tax and your understanding of how the tax applies.

Audit Acknowledgement and Proposed Audit Assessment Form

At the end of the audit, the auditor asks you or a senior representative of your company to sign the *Audit Acknowledgement and Proposed Audit Assessment* form.

The *Audit Acknowledgement* form states the audit was explained to you and you understand the auditor's findings. Signing the form still allows you to request an adjustment or appeal the audit at a later date.

If you sign the *Audit Acknowledgement* form as agreeing with the results, a *Notice of Assessment* is issued shortly afterwards, if one is required.

If you sign the *Audit Acknowledgement* form as disagreeing with the results, please provide a letter to the auditor outlining the reasons why you disagree. The auditor's manager reviews your objections and contacts you to discuss them. After making any changes as a result of reviewing your file and discussing your objections, the auditor's manager sends you a written response before issuing a *Notice of Assessment*, if one is required.

Paying Your Assessment

Before the auditor leaves, you will be asked for a cheque to pay the assessment. If you cannot pay at the time, when you receive the *Notice of Assessment*, call the telephone number printed at the end of the notice to discuss payment options.

You may wait until you receive the *Notice of Assessment* before paying, however, it costs you less to pay the auditor what you can because interest is charged from the date on the *Notice of Assessment* until the debt is paid in full. The due date is 15 days from the issue date.

Any amounts paid to the auditor will be shown on the *Notice of Assessment*, which you will receive even if you provide full payment to the auditor.

Billing Your Customers for Unpaid Tax

You may recover all or part of an assessment for tax you did not collect on a sale by billing your customer for the unpaid tax.

The Post Audit Letter

Following the audit, if the audit results in an assessment, you will receive a letter outlining the areas where tax was not correctly applied. This letter is intended to help you avoid future assessments by summarizing the tax application errors that resulted in the assessment.

What if I Find New Information?

If, after the audit is complete, you discover new information that you feel may reduce an assessment, contact the auditor. The auditor will review this information and will make an adjustment if necessary. This new information is considered part of the audit, therefore, it cannot be submitted as a refund application.

The Post Audit Questionnaire

Following the audit, you may be selected to receive a questionnaire. The questionnaire's purpose is to obtain feedback on the audit and the service provided by the auditor. Your responses help us determine how we can perform future audits more effectively.

APPEALING YOUR NOTICE OF ASSESSMENT

If you do not agree with your assessment, you have the right to appeal to the Minister of Small Business and Revenue. The ministry must physically **receive** your appeal no later than 90 days after the issue date on your *Notice of Assessment*.

If you do not agree with the minister's response, you have the right to appeal to the courts within 90 days of the date of the minister's response.

More Info: [Bulletin GEN 003](#), *Appeals of Tax Assessments or Disallowed Refunds*

Remember that you must pay the *Notice of Assessment* when it is due. Interest accrues and collection actions may result, even if you file an appeal.

NEED MORE INFO?

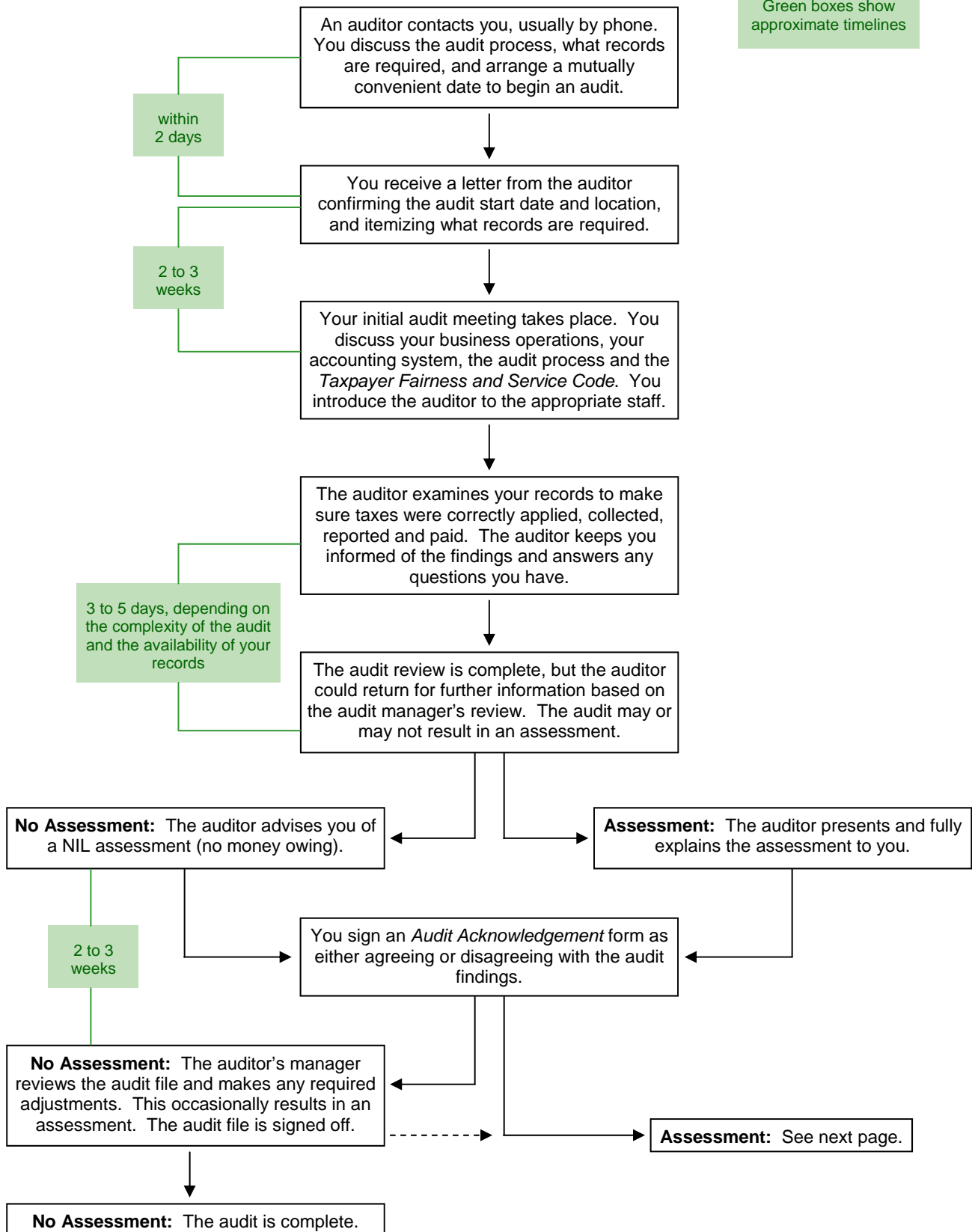
This bulletin is provided for convenience and guidance. If you still have questions, call us at 604 660-4524 in Vancouver or toll-free at 1 877 388-4440 elsewhere in Canada or refer to the legislation.

Information is also on the web at www.gov.bc.ca/sbr While there, you can subscribe to our free electronic update service.

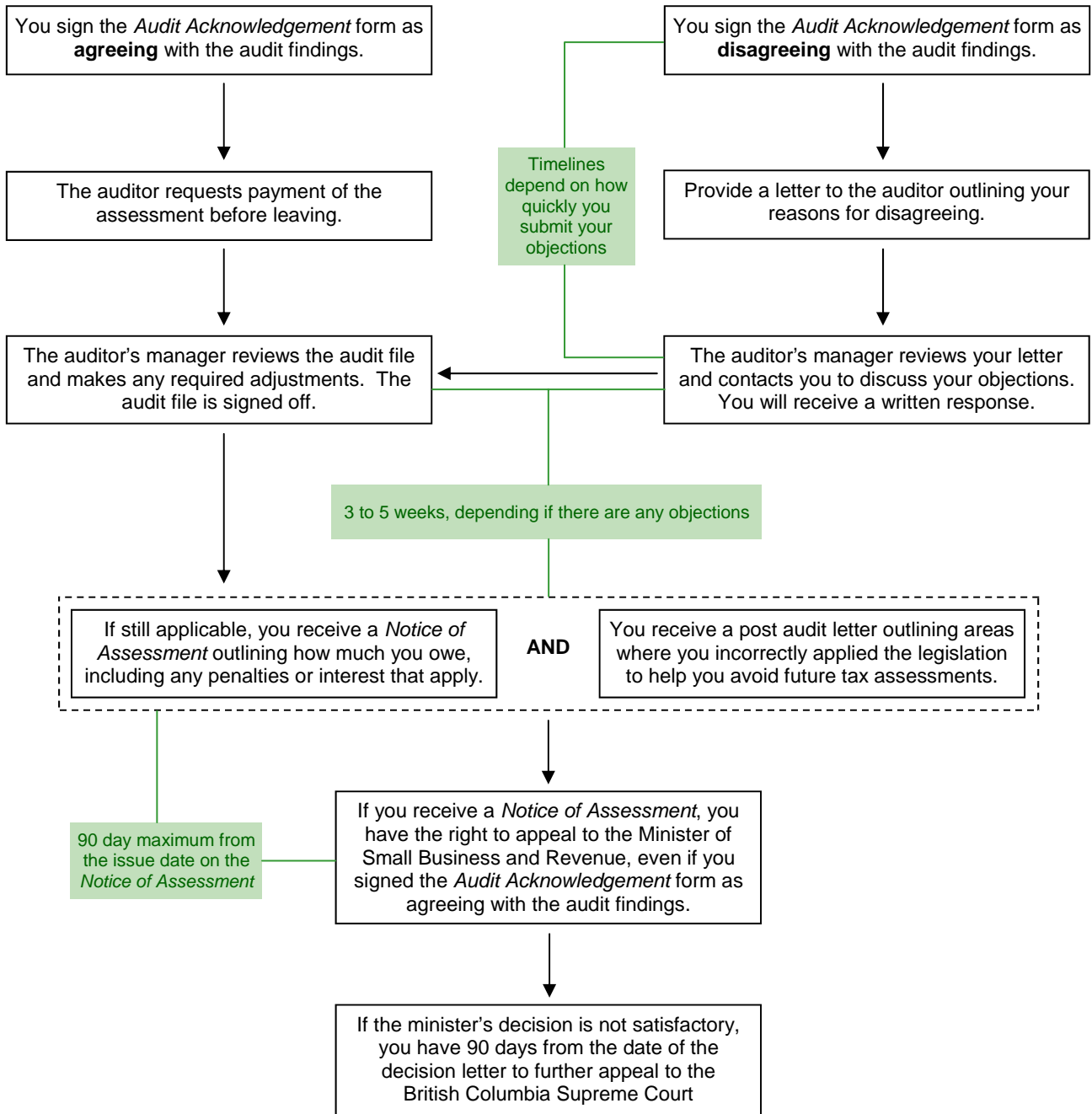
References: *Social Service Tax Act*, Sections 93, 113, 115, 118 and 119; *Hotel Room Tax Act*, Sections 17, 18 and 19; *Motor Fuel Tax Act*, Sections 41, 42, 43, 46, 50 and 51; *Tobacco Tax Act*, Sections 21, 22, 23 and 24

TYPICAL SMALL BUSINESS AUDIT PROCESS

Green boxes show approximate timelines



TYPICAL SMALL BUSINESS AUDIT PROCESS (CONTINUED)



Typical time required to audit a small business:
Approximately 8 weeks, not including the appeal process