



What to Expect from a MRS Audit



Why does MRS do audits?

- Tax Dollars fund services and infrastructure, schools and fire departments among other things.
- It encourages voluntary compliance.
- It helps to ensure that everyone pays their fair share.



What to Expect during Covid-19



During the Covid-19 pandemic audit work IS CONTINUING for all tax types

MRS understands that people working remotely may not have immediate access to records

MRS can set up secure file transfer sites to facilitate a records transfer



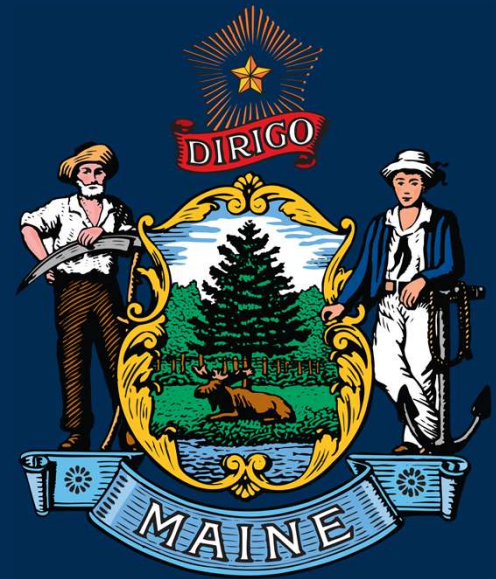
What to Expect

You will receive an Audit Notification letter and/or a phone call from the agent to discuss the following:

- The best manner to conduct the audit
- Taxpayer representation — POA
- Records to be made available
- Location and format of records
- Questions you may have



Frequently Asked Questions





Why me???





Audit Selection

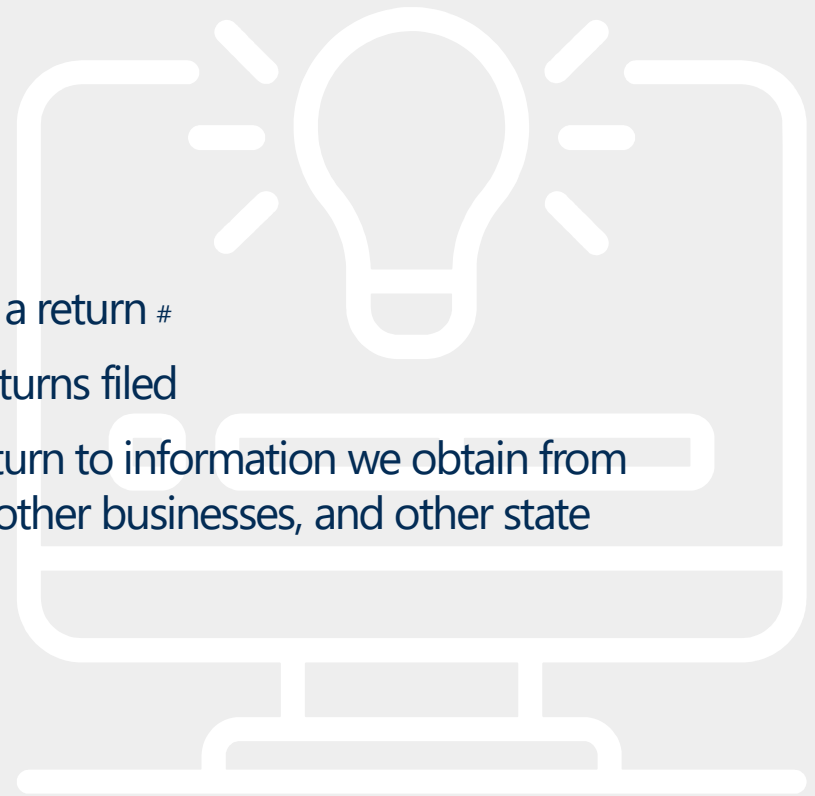
- Database queries
- Business activity reports submitted by staff
- Past audit history information
- Potential focus groups or industries
- Leads from outside sources
- Leads from auditors
- Administrative suggestions





Other reasons why we might select a taxpayer for audit

- Failure to file a return
- Failure to report income or sales
- Excessive credits or exclusions claimed on a return #
- Incorrect or fraudulent refund claims or returns filed
- Differences found when we compare a return to information we obtain from others such as the IRS, banks, employers, other businesses, and other state agencies
- Misuse of exemption certificates
- Year to year inconsistencies





“Do we have to start today?”

Statute of limitations:

3 years

6 years

May be waived by agreement



What are the record keeping requirements?

MRS 36 §135

- Records must be retained for a period of at least 6 years.
- The records must be kept in such a manner as to ensure their security and accessibility for inspection by the assessor or any designated agent.

Rule 103 – Recordkeeping and Retention

- Detailed requirement for different types of records.



What records do you want to look at?

Sales Tax Agents may examine any books, records or other property that they believe will be helpful in determining your tax liability

Sales and income tax returns

Original invoices for purchases and sales

Fixed assets and depreciation schedules

Lease agreements

Exempt sales documentation

Electronic and paper records



What records do you want to look at?

Income Tax Agents may also examine books and records or other items that are helpful in determining your liability

Federal return & consolidation workpapers

50 state breakdowns

SEC/Government Filings

3rd party interviews

Contracts with 3rd parties

Partnership agreements

Franchise agreements



“What if records are missing?”



Test periods



Contact 3rd party



Data modeling



Estimates



“What if I don’t produce records?”

**Records may be subpoenaed
from you or a third party**

**A jeopardy assessment may be
issued pursuant to
MRS 36 §145.**



“What is my role?”


- Gather information
- Liaison with other departments
- Provide a tour of the facility
- Answer questions
- Provide space for agent(s)
- Review work papers
- Provide additional documentation





Do I have a right to representation?

Power of Attorney

 FORM 2848-ME	Power of Attorney	Maine Revenue Services P.O. Box 1060 Augusta, ME 04332-1060
<p>READ INSTRUCTIONS attached before completing this form. The filing of this form automatically revokes all earlier powers of attorney on file with Maine Revenue Services for the same tax type and years/periods.</p>		
<p>If you previously submitted another Power of Attorney ("POA") and you do not want the prior POA revoked, check here and attach a copy of the POA you would like to remain in effect.....<input type="checkbox"/></p>		
<p><i>PART I: POWER OF ATTORNEY</i></p>		
<p>1. Taxpayer information (taxpayer(s) must sign and date this form in Section 5 below)</p>		
Taxpayer's name	Taxpayer ID Number (SSN or EIN)	
Spouse's name (if you filed a joint return and both spouses are appointing the same representative)	Spouse's SSN	
Mailing address	City, state, zip	
Country (if not United States)	Telephone number	Email address (optional)



“What should I expect from the agent?”

- Review audit procedures
- A general understanding of your business
- Ask questions and identify any concerns promptly
- Answer questions and provide information regarding tax laws
- Maintain confidentiality
- Complete the audit in a reasonable period of time
- Discuss the preliminary audit results
- Review your rights to appeal



“What should I expect from the agent?”

- At the conclusion of an audit, the assessor or an agent shall conduct an audit conference with the taxpayer and shall give the taxpayer a written summary of the audit findings, including the legal basis for the audit findings and adjustments, along with copies of relevant bureau audit workpapers.
- Audit acknowledgement form

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“What does the audit process look like?”

Pre-audit interview

- Audit approach determined
- Tentative schedule for providing records
- Record format (electronic or paper, file formats, etc.)

Records review

- Sales data
- Purchase data
- Exemption documentation



“What does the audit process look like?”

Preliminary schedules provided with a list of additional documentation requirements

Taxpayer schedule review

- Gather additional supporting evidence

Preliminary results reviewed

- Agent review of additional documentation and schedules updated appropriately



“What does the audit process look like?”

Internal audit review by District Tax Audit Manager

Final audit discussion

- Audit finding report and final schedules provided
- Audit discussion acknowledgement form



“What’s next?”

Formal assessment
or refund check
will be sent via mail





If you agree with the agent's findings...

Pay the assessment within 30 days

Request a payment plan



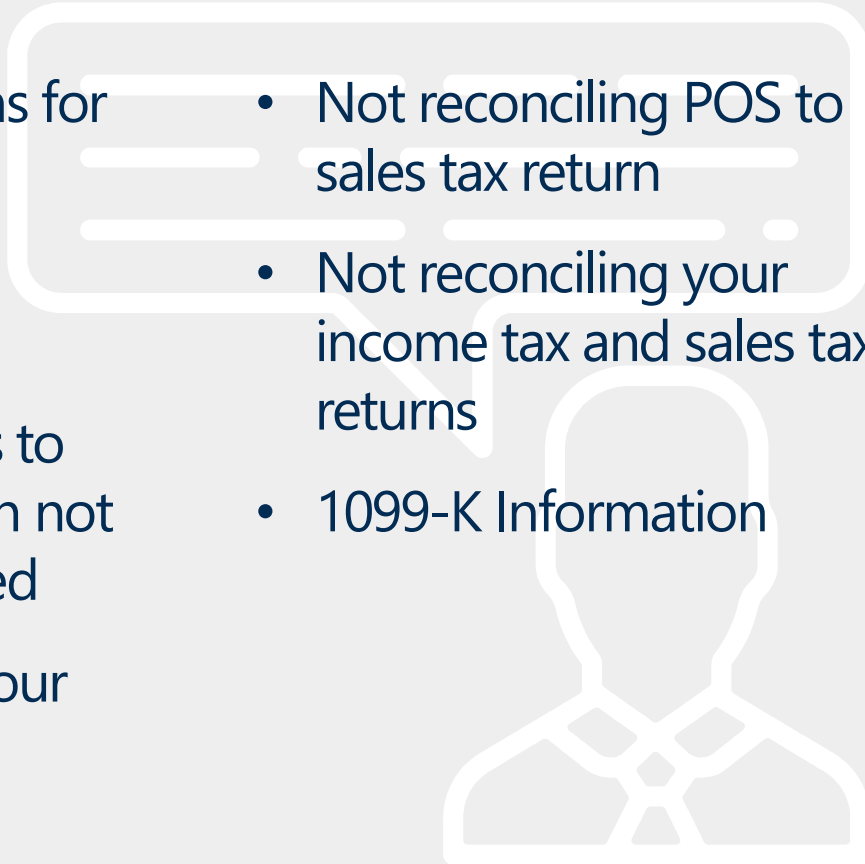
**“What if I
don’t agree?”**





Common Errors/Actions That Result in Sales Tax Assessments

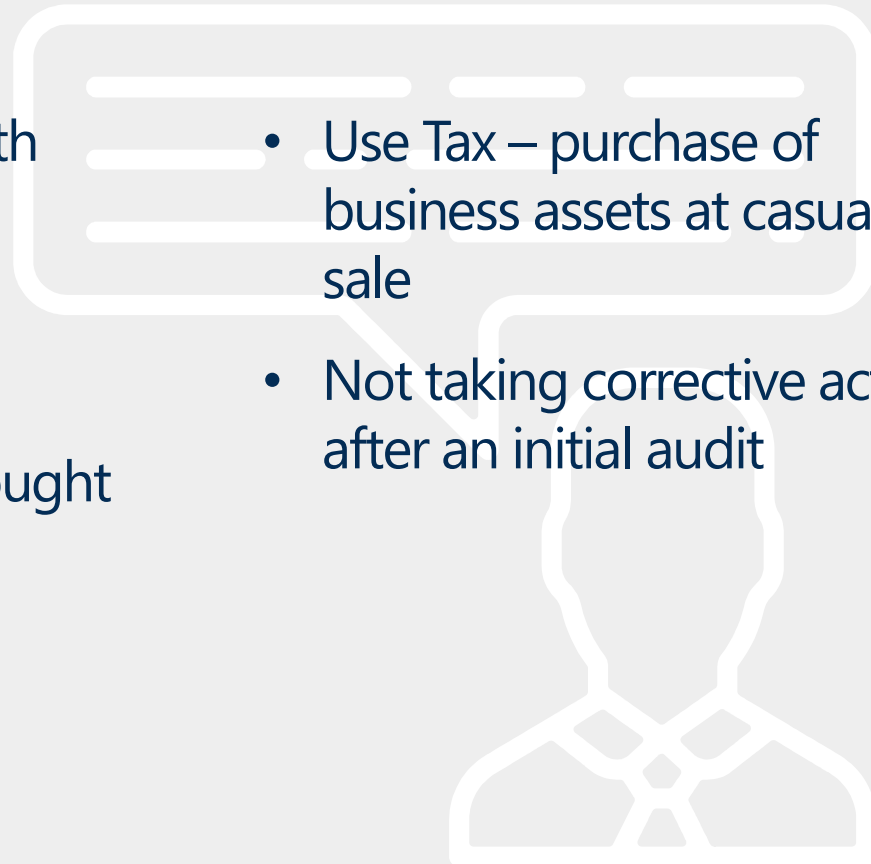
- Lack of documentations for exempt sales
- Assuming an entity is exempt
- Using bank statements to calculate sales tax when not all monies are deposited
- Knowing how to use your POS
- Not reconciling POS to sales tax return
- Not reconciling your income tax and sales tax returns
- 1099-K Information





Common Errors/Actions That Result in Sales Tax Assessments

- Not staying current with law changes
- Assuming all labor is exempt
- Use Tax – property brought into the State.
- Use Tax – purchase of business assets at casual sale
- Not taking corrective action after an initial audit





What the Auditor Wishes You Knew

- Maintain good records
 - Read and respond to emails
 - Ask for help
 - Know where to find the statutes and industry information
- Keep iFile information up to date
 - Workpapers are not necessarily final
 - Most work can be done remotely
 - Communication





What to Expect from a MRS Audit

MRS Tax Violations Hotline

- (207) 624-9600
- mrs.taxtip@maine.gov

Thank You

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