

What to Expect During an Audit

Overview

This document explains what to expect if you are selected for an audit by the Nebraska Department of Revenue (DOR). We are committed to making the audit process efficient, with as little inconvenience to you as possible.

DOR has the right to examine any taxpayer's records, including electronic records, to determine if all taxes were properly paid, or in some cases, overpaid and a refund is owed.

An audit normally covers the most recent three year period. However, if tax returns have not been filed or if there are large omissions of income or taxable sales or purchases, the statute of limitations may be longer, and the audit period could be extended more than three years.

Taxpayers can expect DOR auditors to maintain a high degree of professionalism and integrity. DOR auditors are required to possess a bachelor's degree with a minimum of 24 hours of upper level accounting coursework. All Audit Managers and Auditor IVs are required to possess a current CPA license.

Confidentiality

By law, any information obtained from a taxpayer is confidential. DOR takes this requirement very seriously and has instituted safeguards to protect taxpayer information. If there are any questions about confidentiality, the taxpayer is encouraged to discuss them with the Audit Manager.

Combining an Incentive Audit with a Tax Audit

If a taxpayer has an upcoming use tax audit that has overlapping periods with an incentive project, the taxpayer can request a coordination of the audits. Coordinating the two audits may affect the timeframes for the process described below. However, there will be a reduction in duplicative efforts to provide asset and investment documentation for both audits, likely reducing the aggregate time spent on each audit.

The taxpayer will need to make sure the data provided for the individual assets in the investment for the incentive project can be tied to data provided for the individual assets for the use tax audit.

Coordinating the audits will also make it easier to produce documentation supporting direct refunds and credit refunds on any tax assessed in the use tax audit once the incentive audit has been finalized. The use tax liability will have to be paid before the taxpayer can request and receive a refund for the benefits associated with the incentives project.

Audit Process

Audit Start Date

The first step in the audit process is deciding on the audit start date.

- ❖ A representative from the Audit Section will call to set up a mutually acceptable date and time;
- ❖ The call will be followed by a confirmation letter that includes the proposed audit periods and a list of records the auditors will need to examine;

- ❖ Before the audit starts, it helps to go through this list and make sure the records are readily available; and
- ❖ If you have any questions about the audit before it starts, contact the auditor.

The taxpayer may be asked to execute a [Nebraska Extension of Statute of Limitations Agreement, Form 872N](#). This form allows more time for the taxpayer to gather all required documents and allows the auditor time to examine the documents, communicate the results to you, address any questions the taxpayer may have and issue the notice. The taxpayer is not required to sign an extension. However, DOR can be more flexible with the taxpayer regarding audit start date, time to gather additional or missing documentation, and the taxpayers work schedule if an extension is executed. In the event that an audit cannot be completed prior to the expiration of the statute of limitations, and an extension is not agreed to, DOR may issue its audit findings based on the best information in DOR's possession at that time.

The in-charge auditor assigned to your audit will call you to discuss the records that will be required to complete the audit. Some examples of records needed include backup to your tax returns, purchase invoices, sales invoices, and payroll journals. Auditors will cooperate with you when the request for records is too burdensome to see if mutually agreeable alternatives can be used to fulfill the audit purpose at less expense or inconvenience. See [Revenue Ruling 99-08-1](#) for more detailed information.

Records

In many cases, the auditors will look at a sample period of transactions. Errors found in the sample are then projected over the entire audit period. Sampling provides accurate results with significant savings of time and expense for you and DOR. The sample period selected will be discussed so you understand how it works. A Computer Assisted Audit Techniques (CAAT) tool may be utilized to conduct a sample and projection depending on the size of the taxpayer and volume of the audit period records. To determine if you are eligible for a CAAT audit, please discuss with the in-charge auditor.

Sometimes the auditors will examine all transactions for the entire audit period. This is usually done at smaller businesses, or when a sample would not fairly show the activity of the business.

In addition to traditional hard-copy (paper) records, our auditors can examine your records electronically to perform the audit. Providing records electronically improves the accuracy of the audit and can reduce the amount of time spent at the taxpayer's location. This can be done for the entire audit or portions of the audit. If the taxpayer is able to provide all records electronically the audit can be completely performed by the auditors at the DOR office rather than at the taxpayer's location if that is preferable to the taxpayer.

Initial Audit Meeting

At the start of the audit, the auditors will have a meeting with your representative or employee working on the audit. It is helpful if this is the person who is responsible for the accounting records and tax returns. You may also have your external accountant or attorney present. In this meeting, the auditors will ask some general questions about your business. They will ask about the location of your records if they are not being provided electronically and how the tax returns are prepared. Depending on the nature of your business, they may ask for a tour of the facilities. This helps the auditors to understand your business and to complete the audit effectively and efficiently.

Examination of Records

After the initial audit meeting, the auditors will review the accounting and tax reporting records. In most cases, the auditors work independently. However, they may have some questions. If you prefer, they can save their questions and ask them at a pre-planned time during the day, or they can ask questions as they arise. Please feel free to indicate your preferences for method of communication and frequency of communication during all phases of the audit process.

Audit Results Meeting

After the auditors are finished examining your records, they will meet with you to go over the results. In this meeting, they will give you copies of their work papers detailing any overpayments or additional tax due. You should review these work papers closely and if you have questions, or believe an error has been made, please discuss this with the auditors. If you need time to gather additional documentation, you can establish a mutually agreeable date when the information will be furnished. Providing all necessary information to the auditor in a timely manner helps resolve most, if not all, questions before the audit is issued.

Audit Resolution

If the audit is not resolved by a settlement agreement, you may receive a Notice of Deficiency Determination. For most tax programs, you have 60 days to protest this Notice by filing a Petition for Redetermination. For information to protest the audit findings please see [Electronically File Your Protest](#) on DOR's website and [How to Protest a Notice of Deficiency Determination Information Guide](#). You may also request a payment plan if you cannot pay the entire amount at one time.

The auditor may offer to resolve the audit as a Minor Assessment Resolution (MAR) or Audit Settlement. This will depend on the types of issues identified, if the taxpayer has made appropriate adjustments to correct the issues identified, and if the taxpayer was cooperative while working with DOR. If the audit is resolved as a MAR, DOR may waive a portion or all of the penalty that would have been assessed as long as the taxpayer is in agreement with the tax and interest amounts due. If the audit is resolved as an Audit Settlement, DOR may waive portions of the tax, interest, and/or penalty depending on the specific scenarios of the audit.

Audit Comments

The taxpayer's opinion is important to DOR. An Audit Evaluation will be sent to the taxpayer to complete and return to the Director of Compliance. Receipt of the audit evaluation is appreciated and very helpful as we seek to constantly improve our processes.

Questions

If you have any questions or concerns, please discuss them with the auditor or an audit manager or visit our website at revenue.nebraska.gov.

revenue.nebraska.gov

800-742-7474 (NE and IA) or 402-471-5729

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