

Understanding Your Consumer Tax Audit

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

This bulletin provides specific tax information about what to expect during your consumer tax audit. The Consumer Taxation Audit Branch is committed to the service standards and code of conduct outlined in the *Taxpayer Fairness and Service Code*.

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The revision bar (|) identifies changes to the previous version of this bulletin dated June 2008.

What is an Audit?

An audit is a formal examination of your business' financial records to ensure that you are charging and paying tax that is due, and to identify any areas where you may be doing this incorrectly.

Why am I Being Audited?

The British Columbia tax system operates on the principle of voluntary compliance. Each taxpayer is responsible for correctly paying taxes on their taxable purchases, and for charging and sending in tax (remitting) on their taxable sales. If some taxpayers do not meet their obligations, all British Columbians are adversely affected.

We audit to identify and collect unpaid provincial revenue, which is used to support important government programs and services, such as health care, education, transportation and social services. Audits help ensure that all taxpayers pay their taxes and promote a level playing field for all British Columbia businesses.

Audits also help you understand how tax applies to your business.

Audit Selection

Any taxpayer, including individuals, manufacturers, wholesalers and retailers – large or small – could be audited. Taxpayers may be chosen for an audit based on a special audit project, legislated program, risk-based selection or a referral from another audit.

Businesses located outside British Columbia that conduct business in the province could also be audited.

Even if you do not make taxable sales, you may still be required to pay tax on the equipment, supplies or taxable services you use in your business.

You also may not realize that you make taxable sales and are required to collect tax.

Tax Refunds

Refund claims are reviewed to confirm that you have overpaid tax. You may be audited as part of the review to ensure that all taxes due to the province have been paid before the refund claim is processed.

What is the Auditor Looking For?

When an audit is conducted, the auditor is looking for evidence that you:

- charged the proper amount of tax on your taxable sales,
- kept track of the tax you charged, and sent that money to the government on time,
- have documentation to support any tax-exempt sales made, and
- paid or self-assessed tax on taxable goods and services you purchased or leased for your own use in British Columbia. This includes taxable goods and services purchased or leased from outside the province.

For more information, please see [Bulletins SST 043](#), *Goods Purchased from Out-of-Province Suppliers* and [SST 118](#), *Out-of-Province Purchases: Goods for Personal Use*.

Audit Authority

The auditor has the authority to enter your business premises during your normal business hours to inspect, audit or examine your business' financial records in order to confirm that you have met your tax obligations.

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

Records for Inspection

The auditor can inspect any of your records – both in paper and electronic format.

Typically, the auditor will review your:

- financial statements, such as your income statement and balance sheet, including any schedules of capital additions or disposals,
- records, such as general ledgers, purchase and sales journals, cash receipts and disbursement journals, and
- other documentation, such as sales and purchase invoices, sales and purchase orders, bank statements, cancelled cheques, deposit slips and cash register tapes.

The auditor will safeguard and handle your records without compromise.

Records Stored Off-Site

As an audit can go back several years, you may need to retrieve some of your records from storage. To avoid unnecessary time and expense, ask the auditor which records will be needed before retrieval.

Records for Retention

You must retain your provincial tax-related records for at least five years. You need written authorization from us to destroy any tax-related records that are less than five years old.

Please note: In some cases, businesses may wish to retain their PST-related records for longer periods of time to establish their entitlement to an exemption. For example, where a corporation purchases tangible personal property from a related corporation, to be eligible for a tax exemption on this transfer, records are required to establish that tax was paid on the tangible personal property.

How Far Back Can I Be Audited?

Generally, an audit covers up to a four-year period, depending on the tax type and the audit focus as follows:

	Tax not collected on sales	Tax collected but not remitted	Tax not paid on purchases
Social Service Tax (PST)	3 years*	4 years	4 years
Hotel Room Tax	3 years	4 years	N/A
Motor Fuel Tax	4 years	4 years	4 years
Tobacco Tax	3 years	4 years	4 years
Carbon Tax	4 years	4 years	4 years

There are no time limits for an audit if you knowingly do not pay or send in your taxes, or commit fraud.

*Effective February 21, 2007, audit assessments of liquor licensees for variances between the amount of tax remitted on liquor sales and the amount of tax expected based on liquor purchases will be reduced from a six-year period to a maximum three-year period. This measure enhances fairness for liquor licensees by providing tax treatment equivalent to other retailers with variances between their purchases and sales.

Audit Period

Generally, the start date of your audit will be the later date of the following:

- if you have been in operation for less than four years, the date you started your operation,
- if you have been audited by us before, the end date of the last completed audit, or
- four years back from the date your audit is expected to be completed.

The auditor will discuss your audit period start and end dates with you beforehand.

What Happens During an Audit?

The auditor will contact you to arrange a mutually convenient time for a pre-audit meeting with you or your representative. At the pre-audit meeting, the auditor will explain the general audit process (for details, please see the section below, Typical Small Business Audit Process Flowchart) and will show a short, informative audit video. The auditor will also discuss the service standards and conduct you can expect, as outlined in the *Taxpayer Fairness and Service Code*. The auditor will ask you about the nature of your business and your accounting system. If needed, the auditor will provide detailed instructions to help you provide copies of your electronic accounting records.

Following the pre-audit meeting, the auditor will send you a letter confirming your discussion and the records you need to make available during your audit. You will need to provide a contact person to work with the auditor during your audit. The contact person can be yourself, your accountant or bookkeeper, or another knowledgeable member of your staff.

The auditor will make every effort to complete your audit as quickly as possible. The time the auditor spends at your office can be minimized by ensuring that you locate the information requested during the pre-audit meeting before your audit begins.

The auditor will keep you informed during your audit, and will work with you to ensure your business is disrupted as little as possible. If you have any questions or concerns, please raise them with the auditor (for details, please see the section below, What If I Still Have Concerns?).

Audit Method

Generally, the auditor will use audit sampling and pro-ration methods when reviewing your records. This will minimize disruption to your business and the number of records that you will need to make available.

As an example, with your input, samples are chosen that reflect your normal business activity. If errors are found during sampling, the auditor may apply them over the audit period. However, isolated occurrences are not usually applied over the audit period.

In some cases, such as with a low volume of sales transactions, it may be more practical to examine all your records in the audit period.

Requests for Additional Information

During the audit, the auditor may request additional information to verify the tax status of certain transactions. You will be given additional time to provide the requested information, but excessive delays should be avoided as they will affect the audit period time limit required by law. An option that gives you more time is an *Audit Period Limitation Waiver Agreement* which keeps the original audit start date (for a sample of the agreement, please see the section below, *Audit Period Limitation Waiver Agreement Sample*).

The waiver agreement identifies the sections of the act that allow for the extension of the audit period, and provides the commencement date of the assessment period. When you sign the waiver agreement, you elect to waive the audit period time limit beyond the time limit required by law. This allows the auditor to delay issuing an assessment while you gather the requested additional information.

Please note: Modifications to the *Audit Period Limitation Waiver Agreement* sample will be considered on an individual basis.

Refunds

During the review of your records, the auditor will let you know if they discover you have overpaid tax and are entitled to a refund. You may submit your refund application, together with all supporting documentation, to the auditor during your audit or to the ministry after your audit. Refunds must be claimed within four years of the date the taxes were originally paid.

If you are undergoing a PST or hotel room tax audit and your refund is confirmed prior to the completion of your audit, we may net the interest between the audit assessment and the refund. This is beneficial to you as the assessment interest rate is higher than the refund interest rate.

Your refund can only be netted against an assessment issued under the same tax Act. Also, netting the interest does not apply to assessments for failure to collect tax.

To avoid unnecessary delays, please ensure that all supporting documentation is included with your refund claim.

For more information, please see [Bulletin GEN 008](#), *Refunds of Overpayments of Tax*.

What Happens After the Audit?

Once the audit is complete, the auditor will discuss the results with you. If the review of your records has determined that an amount is owed, the auditor will provide you with copies of the audit working papers and fully explain the findings. The auditor will also discuss the reason for the proposed assessment, explain how to avoid future assessments and answer any other tax questions you may have.

When the review of the audit is complete and you fully understand the reason for the proposed assessment, the auditor will provide you with an information notice. The information notice summarizes the audit assessment, advises that the audit will be reviewed before a *Notice of Assessment*, if applicable, is issued and confirms your right to appeal. The auditor will request payment of any amounts owing.

If you disagree with the audit results, the auditor will discuss your concerns with you and will try to resolve them as quickly as possible. If your concerns cannot be resolved, you will be asked to provide a letter to the auditor explaining why you disagree. Audit management will review the letter along with your file, and you will receive a detailed written response explaining the results of the review. If a *Notice of Assessment* is still needed, it will not be issued to you until the management review is complete.

For details regarding appeals, please see the section below, *What If I Still Have Concerns?*

Your Notice of Assessment

Your *Notice of Assessment* is an official document that shows the amount of unpaid tax owing as a result of your audit. It will also include any interest and penalties assessed in the audit.

It is important that you note the issue date on your *Notice of Assessment* as you are required to pay the amount owing by the due date (within 15 days of the issue date). If you do not pay the total amount by the due date, we charge interest on the outstanding balance from the issue date on your *Notice of Assessment*.

If you have not paid the assessment by the due date, call the telephone number printed at the end of your *Notice of Assessment* to avoid collection action. For more information, please see [Bulletin GEN 011](#), *Collecting Unpaid Taxes*.

Partial Assessments

Partial assessments may be issued when a portion of the audit work has been completed while other sections remain to be completed. For example, a partial assessment may be issued on a number of a business's locations, divisions or branch offices while other locations, division or branch offices remain to be examined. A partial assessment may also be issued on the purchases section of the audit while the sales section remains to be completed.

Recovering Unpaid Taxes

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.

Post-Audit Letter

If your audit results in an assessment, you will receive a letter outlining the areas where tax was not correctly applied. This will help you avoid future assessments.

Finding New Information After a *Notice of Assessment*

Your audit results are based on the information that you provide to the auditor during your audit. After your audit is complete and a *Notice of Assessment* has been issued, you may discover new information that may change the amount of your assessment. For example, you may locate additional documents or records that confirm that tax owing in an assessment has already been paid. You may request an adjustment to the assessment by contacting your auditor and providing copies of the new information. The auditor will review the documents and advise you if any adjustments will be made to your assessment. The results of this review are not subject to appeal and do not impact the appeal timelines (for more information on appeal timelines, please see the section below, *What If I Still Have Concerns?*).

Post-Audit Survey

Following the audit, you may be selected to complete a survey. The survey's purpose is to receive feedback on the audit and the service provided by the auditor. Please complete the survey. The information collected from you will help us better serve taxpayers in the conduct of our audit programs.

What If I Still Have Concerns?

As part of our commitment, as outlined in the *Taxpayer Fairness and Service Code*, you have the right to expect that your audit concerns, disagreements or complaints will be resolved fairly, in a timely manner and in accordance with the law.

If you disagree with an action we have taken, a decision we have made, feel you have been treated unfairly or have received information that you believe is incorrect, we encourage you to discuss your concerns with the auditor. The auditor will work with you to resolve them as quickly as possible. If you are still dissatisfied, you can raise the issue with audit management. Ask the auditor to give you the name and number of their team leader or audit manager.

If you disagree with your *Notice of Assessment*, you have the right to appeal to the Minister of Finance. The ministry must receive your appeal in writing, no later than 90 days after the issue date on your *Notice of Assessment*.

Appeals may be mailed to:

Minister of Finance
Appeals Section
PO Box 9629 Stn Prov Govt
Victoria BC V8W 9N6

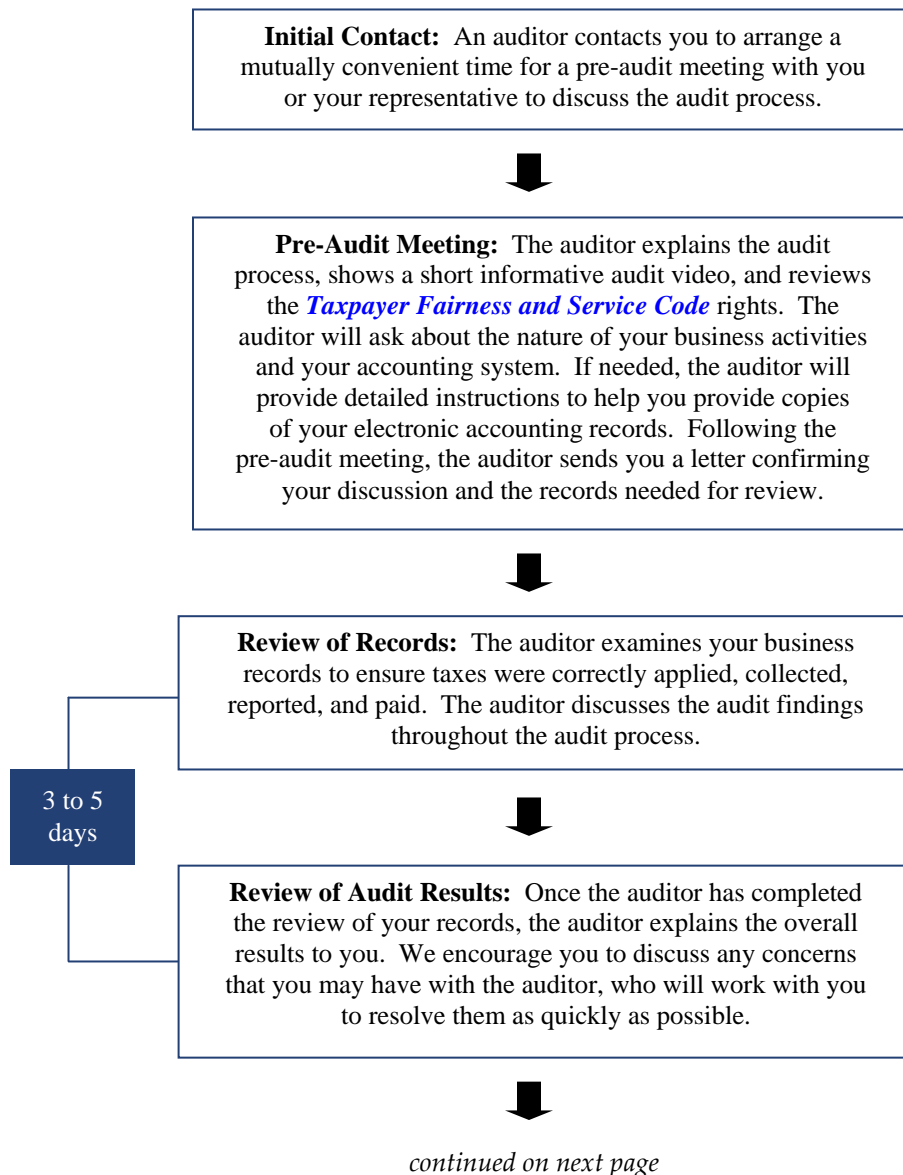
Interest is charged from the issue date on your *Notice of Assessment* on any amount you still owe. Therefore, it is best to pay the assessed amount even if you plan to appeal. If your appeal overturns the assessment, you will be refunded the amount you have paid, with interest.

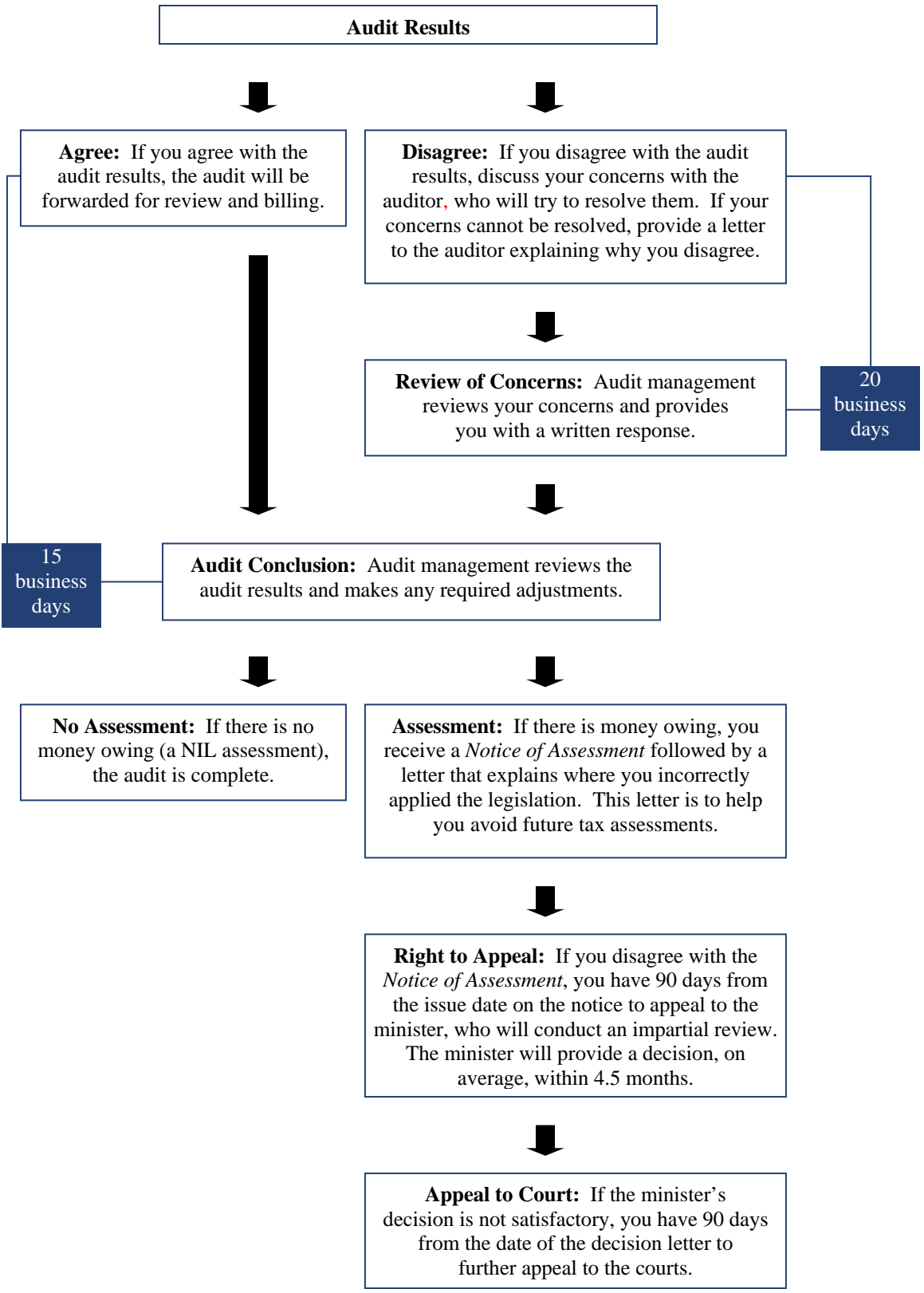
Finally, if you do not agree with the minister's decision, you have the right to appeal to the courts within 90 days of the date of the minister's response.

For more information, please see [Bulletin GEN 003](#), *Appeals of Tax Assessments or Disallowed Refunds*.

Typical Small Business Audit Process Flowchart

The ministry is committed to continuously improving customer service and has further streamlined its process for sales, hotel, fuel and tobacco tax audits. These improvements, including assisting small businesses with providing copies of their electronic accounting records, are expected to save a small business owner approximately five hours during an audit. Timelines for a typical small business audit may vary depending upon the complexity of your business, your schedule, and the availability of your records. This chart shows approximate timelines.





Audit Period Limitation Waiver Agreement Sample

Agreement In Respect of an Audit under the Social Service Tax Act

BETWEEN:

**The Commissioner of the *Social Service Tax Act*
for the Province of British Columbia
(the “Commissioner”)**

AND

**[Legal Name]
 (“HereAfter”[Name of the Taxpayer]”)**

WHEREAS

- A. The Consumer Taxation Audit Branch, Revenue Programs Division, Ministry of Finance (the “Branch”) is performing an audit on ‘HereAfter’ [Name of the Taxpayer] under the provisions of the *Social Service Tax Act* (the “Act”), and the progress of the audit is creating a situation in which the Commissioner may become barred from taking certain actions under the Act as a result of subsections 115(3) and 116(4) of the Act.
- B. Subsection 115(8) of the Act provides that the Commissioner may enter into a written agreement with a person in which the person waives subsection 115(3) and allows the Commissioner, in making an assessment, to consider and include any period specified in the agreement.
- C. Subsection 116(4.1) of the Act provides that the Commissioner may enter into a written agreement with a person in which the person waives subsection 116(4) and allows the Commissioner, in making an estimate, to consider and include any period specified in the agreement.

THEREFORE, in accordance with subsections 115(8) and 116(4.1) of the Act, ‘HereAfter’ [Name of the Taxpayer] and the Commissioner agree as follows:

1. ‘HereAfter’ [Name of the Taxpayer] waives subsection 115(3) of the Act and the Commissioner may make an assessment under section 115 of the Act in respect of a tax liability or an obligation to collect or remit tax that arose, or an excess refund that was paid, on or after [Date of Commencement].
2. ‘HereAfter’ [Name of the Taxpayer] waives subsection 116(4) of the Act and the Commissioner, in making an estimate under section 116 of the Act, may consider and include the period commencing on [Date of Commencement].
3. This agreement may only be amended by mutual agreement of the parties in writing.
4. In this agreement, a reference to the *Social Service Tax Act* includes every amendment to it, every regulation made under it, and any law enacted in substitution for, or in replacement of, it.
5. This agreement is the entire agreement among the parties in respect of the subject matter of this agreement.

IN WITNESS WHEREOF this Agreement has been executed by the parties on the dates appearing below:

**The Commissioner
*Social Service Tax Act***

Legal Name

Name: _____

Name: _____

Title: Commissioner

Title: _____

Date: _____

Date: _____



Need more info?

Telephone (Vancouver): 604 660-4524

Toll free in Canada: 1 877 388-4440

E-mail: CTBTaxQuestions@gov.bc.ca

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act*, *Hotel Room Tax Act*, *Motor Fuel Tax Act*, *Tobacco Tax Act*, *Carbon Tax Act* and Regulations are on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/consumer_taxes.htm

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; *Carbon Tax Act*, Sections 44(3), 44(4), 45(3), 45(5), 46(4) and 46(6)