

Sales Tax Audit Best Practices in the Digital Age

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Overview

1. How did we get here?
2. A walk through and discussion of
Audits in the “Paper Age” and
Audits in the “Digital Age”
3. Questions

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History of Paperless

- “A paperless office” - also known as digitization.
- Bloomberg Businessweek article published in 1975. George Pake, head of R&D for one of Xerox’s research centers, said in 20 years there would be a TV-display terminal with a keyboard sitting on a desk where people will be able to pull up documents from their files and display them on the screen. People will be able to get mail and messages on the screen.



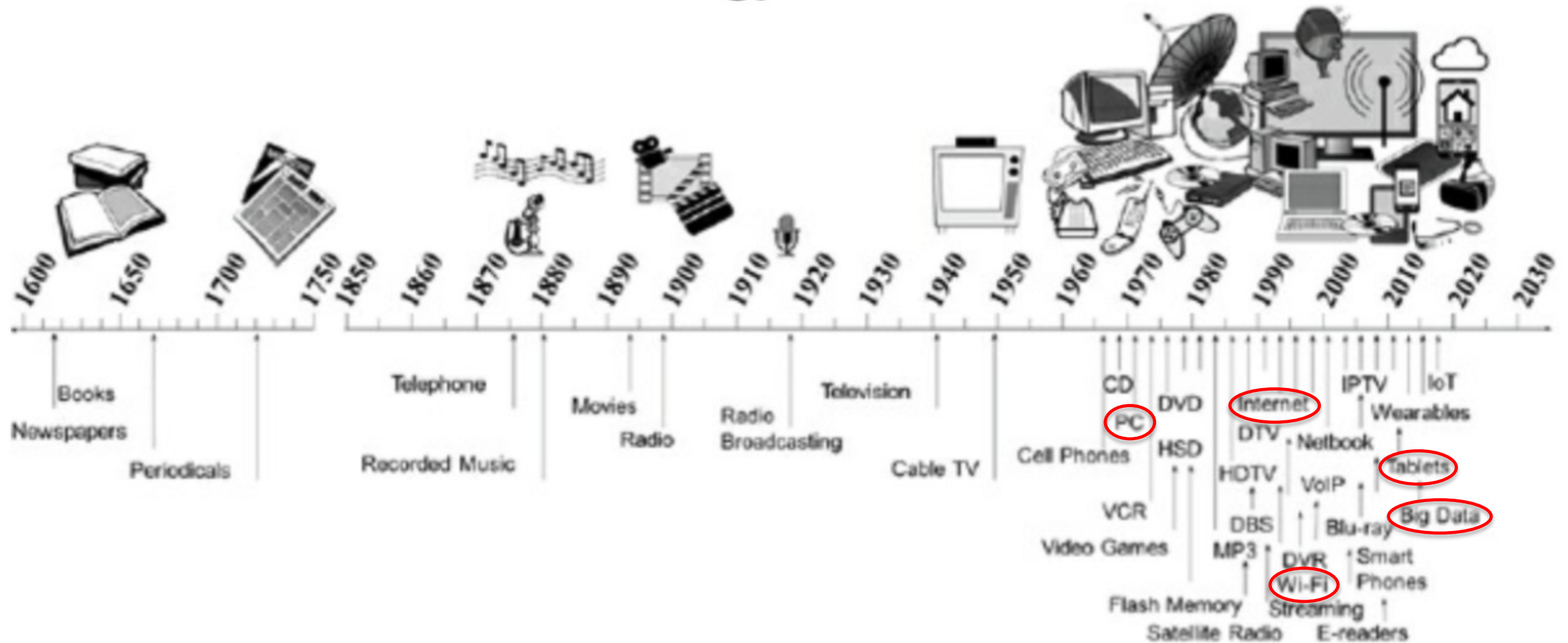
Other Predictions

- 1984 – Steve Jobs said “The next stage is going to be computers as agents. In other words, it will be as if there’s a little person inside that box who starts to anticipate what you want. (iPhone released in 2007 with Siri in 2010)
- 1999 – Bill Gates said, “People looking for work will be able to find employment opportunities online by declaring their interest, needs, and specialized skills. (LinkedIn launched in 2003. Today, there are more than 150 million profiles in LinkedIn.)

Back to our History Lesson

- From 1980 – 2000, consumption of paper more than doubled.
- Since 2000, paper consumption has been on a steady decline.
- Why?
 - Online collaboration tools
 - Digital documents
 - Digital storage

Communication Technology Timeline



Source: Technology Futures, Inc.

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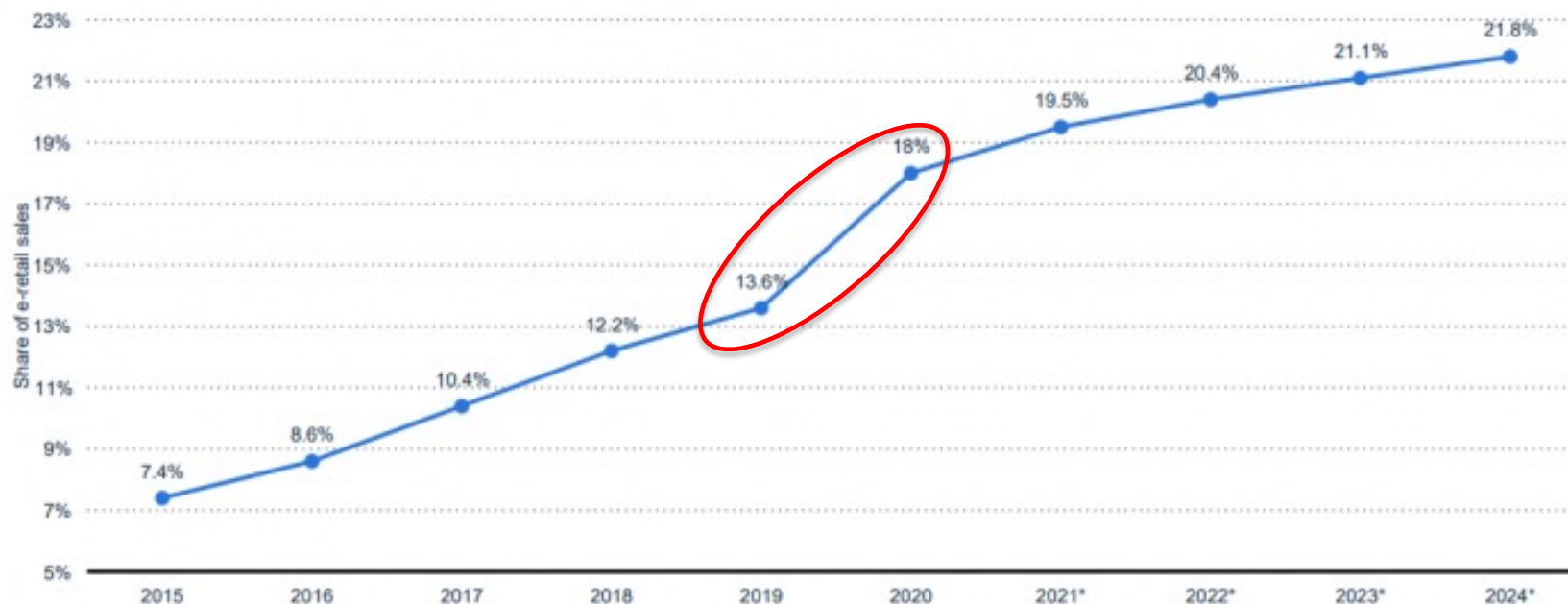
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Pandemic Hits

March 2020

E-Commerce Sales During Pandemic



- Total global retail sales show a much greater increase from 2019 to 2020 than in prior years.
- And the growth in e-commerce continues.....

GRAPH: eCommerce Share of Total Global Retail Sales 2015-2024

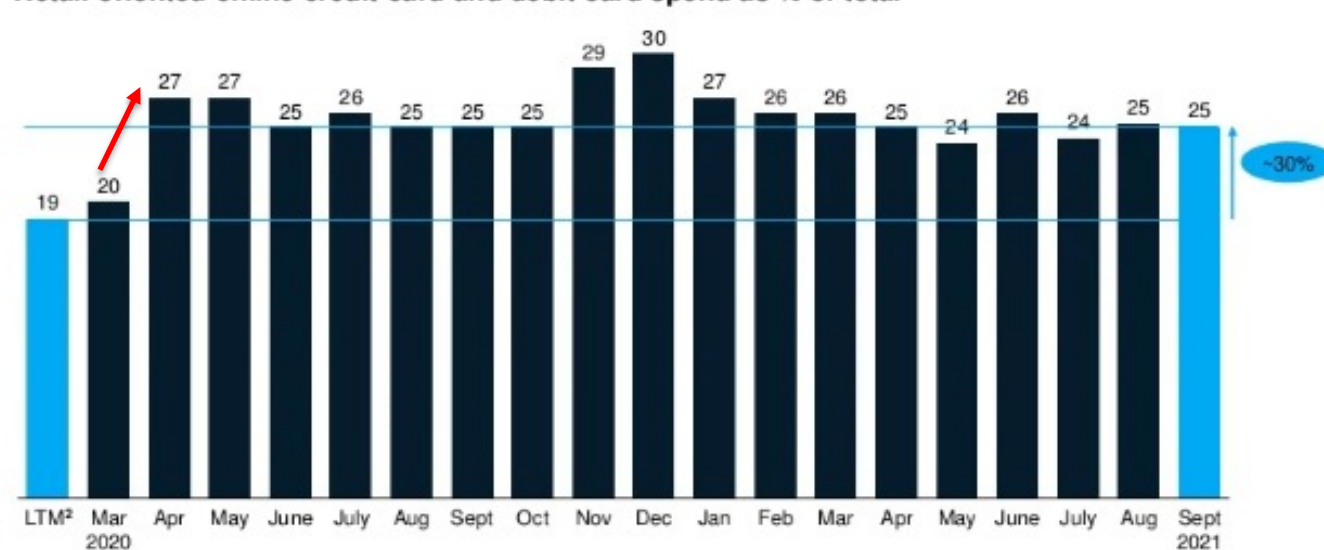
Pandemic Impact to Consumer Behavior

Online penetration holds steady at about 30 percent above pre-COVID-19 levels

~30%

Increase in online penetration since Mar 2020, based on credit-card and debit-card spend

Retail-oriented online credit-card and debit-card spend as % of total¹



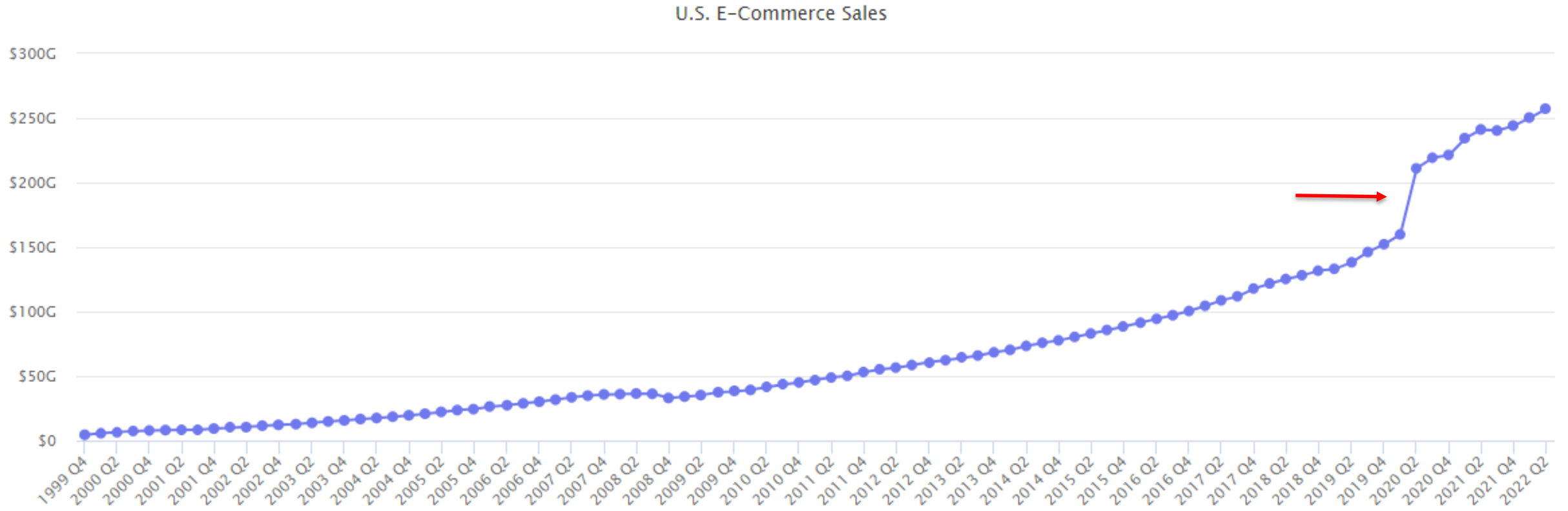
1. Includes the following retailer categories: Amazon, apparel, software and electronics, cosmetics stores, pet supplies, home stores, mass stores, club stores, restaurants, grocery stores, drugstores, discount stores.
 2. Last 12 months.

Source: Affinity Solutions credit-card and debit-card spend data for Feb 2019–Sept 2021; Facteus debit-card spend data for Feb 2019–Sept 2021; Stackline Amazon spend data for Feb 2019–Sept 2021

McKinsey & Company 18

- Online sales = average of 19% of total sales prior to pandemic.
- Online sales increased to 27% of total sales in April of 2020.
- That level has been maintained post pandemic.

Pandemic Impact to Consumer Behavior

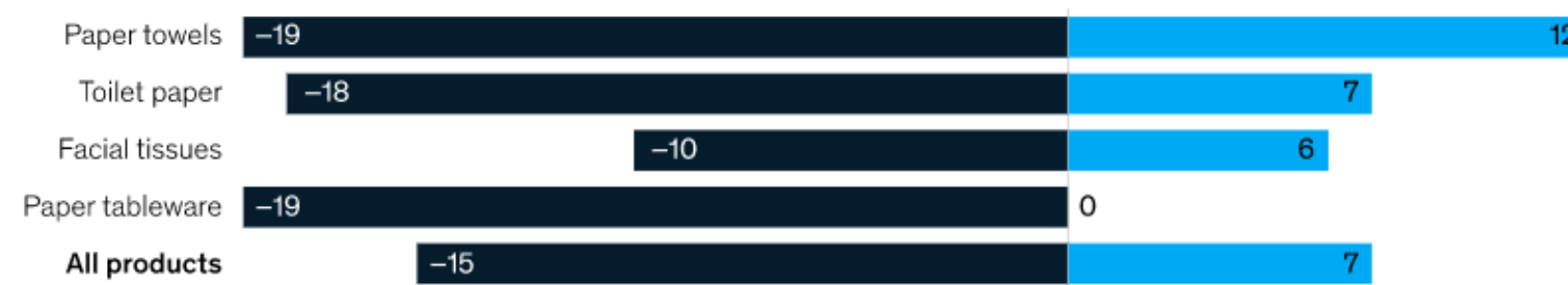


Pandemic Impact to Consumer Behavior

COVID-19 caused tissue demand to shift dramatically from away-from-home to at-home consumption across all categories.

Change in global paper-product consumption, by consumption type, 2019–20,¹ %

■ Away-from-home ■ Retail



¹Away-from-home tissue measured as manufacturing selling price, does not include away-from-home wipes; retail tissue measured as retail selling price.
Source: Euromonitor International, Tissues & Hygiene February 2021 Edition; McKinsey analysis

McKinsey
& Company

Work From Home

// [Census.gov](#) / [Newsroom](#) / [News Releases](#) / [The Number of People Primarily Working From Home Tripled Between 2019 and 2021](#)

For Immediate Release: Thursday, September 15, 2022

The Number of People Primarily Working From Home Tripled Between 2019 and 2021

September 15, 2022

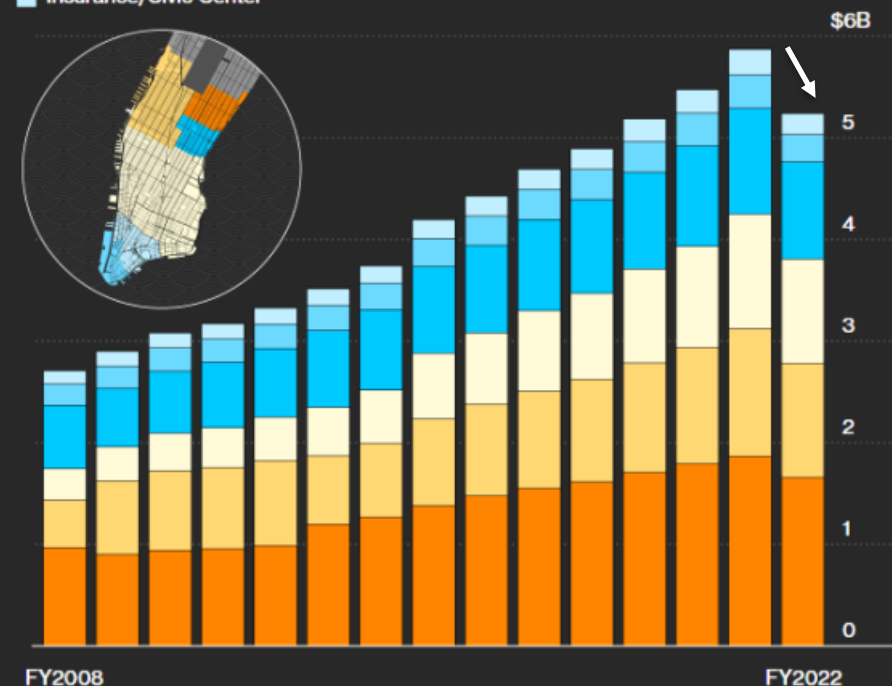
Press Release Number CB22-155

Office Space Decline

Shrinking Revenue

Property Tax Levies on Offices in Manhattan's Major Work Areas

Plaza Midtown West Midtown South Grand Central Financial/WTC
 Insurance/Civic Center



Note: Figures don't account for tax abatement programs.

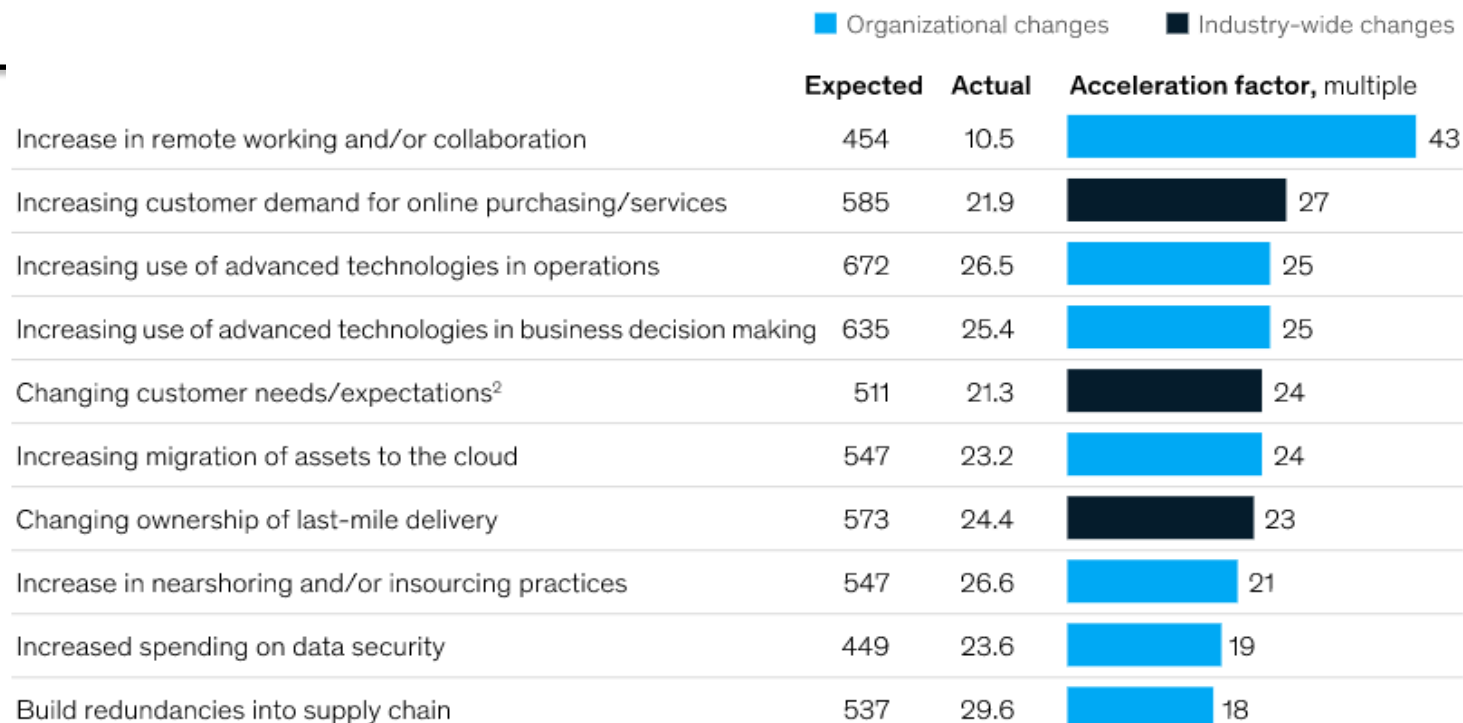
Source: NYC Department of Finance, Bloomberg calculations

- Employers adapted to flexible work schedules and restructured leases.
- New York is the largest office real estate market in US.
- Same effect is being seen globally – from Hong Kong to London and in every major city.
- A recent study by professors at Columbia University and New York University estimated remote work may cut 28% (\$456B) of value from offices across the US.

History shows us the tools for going digital were available. This chart shows why we are quickly moving from audits in a “paper age” to audits in a “digital age.”

Executives say their companies responded to a range of COVID-19-related changes much more quickly than they thought possible before the crisis.

Time required to respond to or implement changes,¹ expected vs actual, number of days



¹Respondents who answered “entry of new competitors in company’s market/value chain” or “exit of major competitors from company’s market/value chain” are not shown; compared with the other 10 changes, respondents are much more likely to say their companies have not been able to respond.

²For instance, increased focus on health/hygiene.

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The Audit Process



Pre Audit
Planning /
Compliance



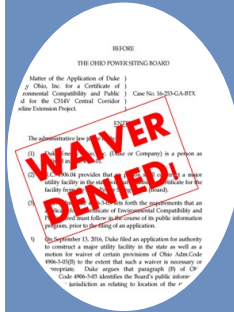
Receive Audit
Notification
Letter



Review Files /
Transactions



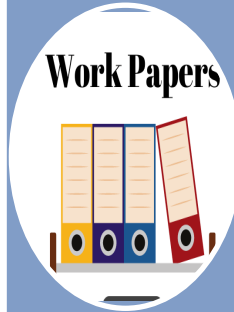
Opening Audit
Conference



Consider
Waivers



Perform
Audit
(Information
Requests, Review
Invoices, Answer
Questions)



Review
Preliminary
Audit
Workpapers



Exchange
Additional
Information
and Support
for Tax
Treatment of
Transactions



Receive Final
Audit
Workpapers



Closing Audit
Conference



The Audit Process – Pre-Audit / Audit Plan



Pre Audit
Planning /
Compliance



Paper

- Begin with the end in mind
- What are you required to keep? What should you keep?
- Boxes and boxes of invoices.
- Set up a binder of fixed assets that tie to GL.
- Set up monthly paper file that contains all supporting documentation.
- Document retention policies.

Digital

- Begin with the end in mind
- Have you automated your audit prep process?
- What are you required to (or should) keep?
- Make sure all data sources tie esp if different systems required (POS, A/P, G/L, EDW)
- Set up Audit Lockers with contemporaneous files.
- Standard in most statutes is “adequate books and records”
- Set up OnBase or some other workflow or document repository.
- Ensure advice from counsel or expert opinions are properly documented.
- Document retention policies.



Pre Audit
Planning /
Compliance



The Audit Process – Audit Notification

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Receive
Audit
Notification
Letter



Paper

- Check the mail regularly, it's been slow.
- Create internal policy for routing paper notifications.
- Ensure the proper taxpayer was notified.
- Evaluate whether to respond.

Digital

- Check your spam folders (and your mail!), regularly.
- Ensure electronically delivered audit notifications are proper.
- Understand the bounds of the authority of any third-party auditor
- Know responsible officer rules and practices
- Get a copy of the audit manual if available
- Understand settlement, mediation, compromise points in jurisdiction—contact the experts!



Receive
Audit
Notification
Letter



The Audit Process – Review Files / Transactions

Review Files /
Transactions

Paper

- Determine what information is privileged.
- Customer privacy concerns.
- Boxes and boxes of invoices.
- Review invoices to remove “I hate this vendor” notes
- Confirm all documents are available per document retention policies.
- What are opportunities to pursue at audit?
 - Know SOL and procedures for offsets/refunds

Digital

- Determine what information is privileged.
- Customer privacy concerns (e.g. HIPAA)
- If the planning process was followed, this review can be more strategic and preparation-related to ensure a smooth audit.
- Review all files to determine what files are in scope.
- Confirm all documents are available per document retention policies.
- What are opportunities to pursue at audit?
 - Know SOL and procedures for offsets/refunds

Review Files /
Transactions

The Audit Process – Opening Audit Conference


 Opening
Audit
Conference


Paper

- Establish rapport
- Establish agreement on goal of the audit
- In person. On-site in an office or conference room.
- States are cutting audit travel budgets.
- Can you limit the scope of the audit?
- Document all discussions with the auditor.
- Establish a work plan – discuss timing expectations and how auditor will review additional information.

Digital

- Establish rapport.
- Establish agreement on goal of the audit
- Conduct virtually (Webex or Zoom). Can you record?
- Determine how files will be exchanged.
- Can you limit the scope of the audit?
- Full audit or sample?
- Document all discussions with the auditor.
- Establish a work plan – discuss timing expectations (auditor specific and department generally).


 Opening
Audit
Conference


The Audit Process - Waivers

Paper

- Wet signature. Fax. Scan and email. Overnight.
- Should you sign?
- Establish process for approval and storage.

Digital

- Have signature rules adapted to a remote environment?
- DocuSign returns a PDF where Adobe will verify signatures each subsequent time the file is opened.
- Should you sign?
- Establish process for approval and storage.



The Audit Process – Perform Audit



Perform
Audit
(Information
Requests,
Review
Invoices,
Answer
Questions)



Paper

- Recall boxes and boxes of invoices from storage.
- “Flip invoices”

Digital

- Pull data from EDW (Electronic Data Warehouse)
- Exchange data through SharePoint or secured file transfer
- EDI
- Automate document retrieval (e.g. RPA, Alteryx)
- If review is slow, should you reach out to audit for an update?



Perform
Audit
(Information
Requests,
Review
Invoices,
Answer
Questions)



The Audit Process – Preliminary Workpapers

Work Papers

 Review
 Preliminary
 Audit
 Workpapers


Paper

- Ask if an electronic version is available, if possible.
- Make sure you project samples to determine true materiality
- 80/20 rule for large volumes

Digital

- Ensure the workpapers include the correct information, check all formulas, confirm within the scope discussed, confirm sampling approach.
- Make sure you project samples to determine true materiality
- Do you need 80/20 rule anymore?

Work Papers

 Review
 Preliminary
 Audit
 Workpapers


The Audit Process – Exchange Additional Information



Exchange
Additional
Information
and Support
for Tax
Treatment of
Transactions



Paper

- Determine if an in-person visit is necessary.

Digital

- Understand why an auditor is making a request and/or ask why additional information is necessary.
- Determine whether set meeting cadence is helpful
- Determine if requests are in scope or is the auditor trying to expand the scope of the audit?
- Are additional requests burdensome or necessary?



Exchange
Additional
Information
and Support
for Tax
Treatment of
Transactions



The Audit Process – Final Audit Workpapers



Receive
Final Audit
Workpapers



Paper

- If numbers do not tie, ask for the electronic version.

Digital

- Ensure the workpapers include the correct information, check all formulas, confirm within the scope discussed.
- Make sure statistical sample makes sense.
- Confirm all revisions are captured.



Receive
Final Audit
Workpapers



The Audit Process – Closing Audit Conference



Closing
Audit
Conference



Paper

- Closing agreement?
- What information will you receive confirm the audit is closed.

Digital

- Is a closing agreement necessary/helpful?
- Obtaining the Department's digital audit file (Auditor request, FOIA, etc)
- Consider appeal options.
- If appealing, do you need additional information or clarification from auditor before proceeding?
- Can you bifurcate issues to settle or appeal?



Closing
Audit
Conference



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Questions?

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