

# Why Are They Picking on Me?

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**A**s a business owner, the down side of tax compliance is an audit conducted by the Nevada Department of Taxation. Unfortunately, compliance costs time and money. The cost of gathering requested documents, the time the auditor spends reviewing records, and time required to review the auditor's workpapers to determine if the assessment is reasonable. If the audit is petitioned, there is an investment of additional time and money.

One rule that seems to apply to all audits – an audit is always conducted at the most inconvenient time. The usual human reaction is a complete lack of understanding as to why the department has selected YOU. How can this be? You look around your place of business and wonder. I have been meticulous about filing sales tax returns timely, my payments are always prompt. And yet...you have been notified that your business has been “selected” for an audit. It's almost as mysterious as being called to jury duty. Why are they picking on me?

The world is full of mysteries and unanswered questions. The Bermuda Triangle. Jack the Ripper. The Roswell UFO incident. The Chicago Cubs not winning a world series in over 100 years, and of course, why your business was selected for audit by the Nevada Department of Taxation in the first place when there are so many other eligible candidates.

Now that we have the frustration out of the way, let's consider the reason why you were selected for audit. I confess, I really do not know. I often pose this question to department officials. The reaction is always the same – the deer in the headlights stare. However, I have managed to determine that two factors create an audit situation and are addressed below: leads from another audit, and the audit lottery.

Leads from another audit give the Nevada Department of Taxation cause for a Sales and Use Tax audit of your business. When a taxpayer is audited, everyone the taxpayer conducts business with is audited too. Since the purpose of an audit is compliance, then all transactions are considered to be within the audit limits. Auditors look at vendors that the taxpayer has purchased from to determine if they are registered by the state. In addition, if the vendor is outside Nevada, a review of the transaction is conducted thoroughly to determine if the vendor has nexus and is required to register.

The audit lottery is the main source of audits. The state uses a random selection procedure to generate approximately 5,000 audit candidates annually. This honored group is then broken out evenly to audit supervisors for review. Supervisors look at several factors to determine which businesses will face an audit. These factors include, but are not limited to federal NAICS code, history of taxpayer filing, and industry initiatives.

Once the notice of intent to audit arrives at your business, and imponderables are pondered, the usual reaction is “What do I need to do for this to go smoothly?” Well, that is a topic for another article. However, I can report confidently that the failures of the Chicago Cubs can be traced back to a goat from 1945 and a black cat entering the field of play in September 1969.