Department of Revenue
Washington State

Compliance & Enforcement

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Introduction

- Overview of Washington tax system.
- Address recent questions and misperceptions about DOR audits.
- Overview of Audit Division and audit processes.
- What you may hear from constituent taxpayers.

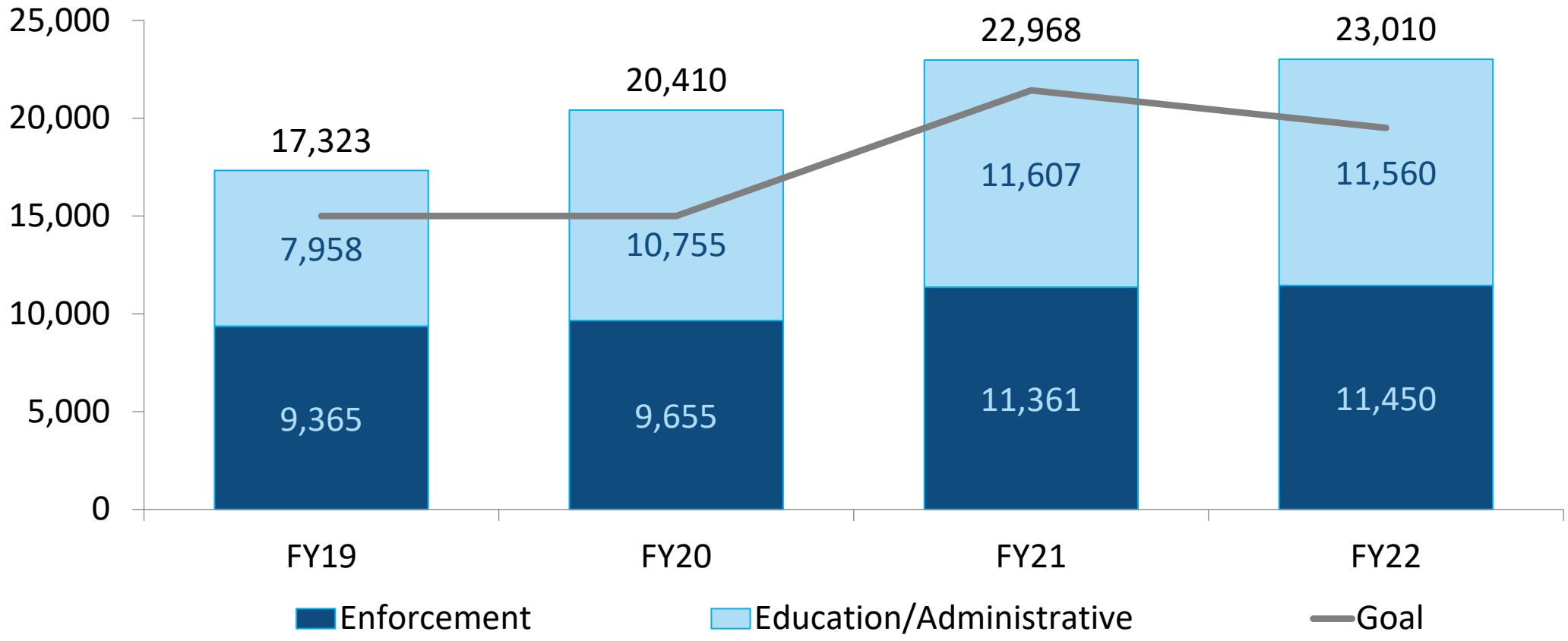
Senior meals (SB 5494)

- “DOR has changed its tune,” or, “They’ve flipped on long-standing practice.”
- An audit may be the impetus.
- Taxpayer was audited: not collecting sales tax on meals of independent-living residents.
- Audits are an opportunity to educate.
  - Discuss reporting requirements.
  - Review policies and new legislation with taxpayers.

Washington's tax system

- Largely based on voluntary compliance.
- Educate taxpayers whenever possible.
  - Outreach, speaking engagements, business consultations.
  - Penalty waivers.
  - Free guidance.
  - Voluntary Disclosure Program.
- Enforce tax laws when necessary.
- Allow for taxpayers to dispute/appeal DOR findings.

Outreach & enforcement



Taxpayer rights

PDF **RCW 82.32A.020**

Rights.

The taxpayers of the state of Washington have:

(1) The right to a written explanation of the basis for any tax deficiency assessment, interest, and penalties at the time the assessments are issued;

(2) The right to rely on specific, official written advice and written tax reporting instructions from the department of revenue to that taxpayer, and to have interest, penalties, and in some instances, tax deficiency assessments waived where the taxpayer has so relied to their proven detriment;

(3) The right to redress and relief where tax laws or rules are found to be unconstitutional by the final decision of a court of record and the right to prompt administrative remedies in such cases;

(4) The right to confidentiality and protection from public inquiry regarding financial and business information in the possession of the department of revenue in accordance with the requirements of RCW **82.32.330**;

(5) The right to receive, upon request, clear and current tax instructions, rules, procedures, forms, and other tax information; and

(6) The right to a prompt and independent administrative review by the department of revenue of a decision to revoke a tax registration, and to a written determination that either sustains the revocation or reinstates the registration.

Taxpayer responsibilities

PDF **RCW 82.32A.030**

Responsibilities.

To ensure consistent application of the revenue laws, taxpayers have certain responsibilities under chapter **82.32** RCW, including, but not limited to, the responsibility to:

(1) Register with the department of revenue;

(2) Know their tax reporting obligations, and when they are uncertain about their obligations, seek instructions from the department of revenue;

(3) Keep accurate and complete business records;

(4) File accurate returns and pay taxes in a timely manner;

(5) Ensure the accuracy of the information entered on their tax returns;

(6) Substantiate claims for refund;

(7) Timely pay all taxes after closing a business and request cancellation of registration number; and

(8) Timely respond to communications from the department of revenue.

Voluntary compliance

- Audit window: 4 years + current year.
- FY 2022:
  - 632,324 actively reporting businesses.
  - 3,983 audits.
  - 98.2% voluntary compliance of registered businesses.

Audit Division

Audits & examinations

- Field audits.
- Public works contract clearances.
- Desk examinations.
- Refund request verification.
- Real estate excise tax.
- Estate tax.
- Forest tax.

Taxpayer education

- Business outreach.
- Speaking engagements.
- Consultation visits.

Other services

- Corporate dissolutions.
- Voluntary Disclosure Program.
- Lemon law refunds.

Audit Division

Audits & examinations

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- 229 excise tax auditors:
  - 174 in-state.
  - 55 out-of-state.

Why we audit

- Verify reporting accuracy for various taxes.
- Correct improper reporting.
- Identify unregistered businesses.
- Deter tax evasion.
- Promote voluntary compliance:
  - Explain reporting requirements to businesses.
  - Review policies, administrative rules, and laws.

Who we audit

- Account analysis.
- Fraud referrals / tax discovery.
  - Identify unregistered businesses.
  - Detect taxpayers significantly underreporting tax liability.
- New businesses.
- Training and development.
- Random selection.

What an audit entails

Planning the audit

- Taxpayer research: reporting history, industry.
- Tax law research.
- Business is contacted and audit is scheduled.

What an audit entails

Performing the audit

- Meet the business's representative.
- Tour the business.
- Interview owner and accounting staff.
- Evaluate the accounting system and internal controls.

What an audit entails

Performing the audit

- Income verification.
- Deductions and exemptions.
- Sales tax.
- Purchases.

What an audit entails

Audit findings & education

- Explain the tax law and application to the business.
- Explain reporting errors resulting in the assessment.
- Discuss any disagreements.
- Explain options for administrative review.

What an audit entails

Conclusion of the audit

- Taxpayer agreement:
  - Audit is reviewed and the assessment is issued.
  - Business receives the audit results and a written explanation of findings.
- Taxpayer disagreement:
  - Meeting with the revenue auditor's supervisor is offered to discuss the audit before it is submitted.
  - Administrative review options are again provided.

Taxpayer responses

- “I talked to other businesses like mine, and they aren’t paying the tax.”
- “I’ve never heard that I have to pay this tax.”
- “DOR audited me before and didn’t raise this issue.”

- No two taxpayers are alike.
- A DOR letter ruling only applies to one taxpayer.
- Taxes very dependent upon specifics of business model & activity.
- Audits may be focused on one particular tax, not whole business.

DOR adjustments

- DOR will not fault a taxpayer operating off of written DOR guidance, even if guidance is wrong.
- If DOR determines widespread misunderstanding, may publish additional information.

Conclusion

- Reasons for audits:
  - Verify accurate reporting of taxes.
  - Correct improper reporting.
  - Identify unregistered businesses.
  - Deter tax evasion.
  - Promote voluntary compliance.
- Voluntary compliance tax system.
- Audits are a true-up of taxpayer practice.