

# Ministry of Finance

## Tax Bulletin



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Bulletin CTB 003

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## Audits

*Carbon Tax Act, Motor Fuel Tax Act, Provincial Sales Tax Act, Tobacco Tax Act*

Latest Revision: The revision bar ( | ) identifies changes to the previous version of this bulletin dated November 2014. For a summary of the changes, see Latest Revision at the end of this document.

This bulletin explains 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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### What is an Audit?

An audit is a formal examination of financial records of your business 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 BC tax system operates on the principle of voluntary compliance. Each taxpayer is responsible for correctly paying taxes on their taxable purchases, and for charging,

collecting and remitting tax 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 BC businesses.

Audits help you understand how tax applies to your business.

You may not realize that some of your sales or services are taxable and that you are required to collect tax. Through an audit we also verify that you have properly paid tax on goods used in operating your business.

### **Audit Selection**

Any taxpayer, including individuals, manufacturers, wholesalers and retailers – large or small – can 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 BC that conduct business in the province can also be audited.

### **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,
- have documentation to support any tax adjustments made on your tax returns, and
- paid or self-assessed tax as required.

### **Audit Authority**

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

inspect the business premises to understand your operations as that may impact the taxation of related purchases.

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 paper and electronic format.

Typically, the auditor will review:

- 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 maintaining confidentiality 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. Ask the auditor which records will be needed before retrieval to avoid unnecessary time and expense.

## **Records Located Out of Province**

An audit fee applies when an auditor attends your location outside of BC. The fees recover the annual costs of conducting audits outside the province and apply to provincial sales tax, carbon tax and motor fuel tax audits.

The fee is billed separately from any potential audit assessment. It is billed after the on-site audit work is completed and cannot be waived or appealed.

For more information on the rates, cancellation fees and billing, visit [Out of Province Audit Fee](#) on the web.

## **Records for Retention**

You must keep 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 keep their PST-related records for longer periods of time to prove their entitlement to an exemption. For example, if

a corporation acquires tangible personal property (or software) from a related corporation, to be eligible for a tax exemption on this transfer, records are required to show that an applicable tax was paid on the transferred item(s).

## **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 type	Tax not collected on sales	Tax collected but not remitted	Tax not paid on purchases
Provincial Sales Tax	3 years	4 years	4 years
Carbon Tax	4 years	4 years	4 years
Motor Fuel Tax	4 years	4 years	4 years
Tobacco Tax	3 years	4 years	4 years

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

### **Audit Period**

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

- 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 discussion with you or your representative to explain the general audit process (see Typical Audit Process Flowchart below). 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 discussion, 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 their examination of your records as quickly as possible. The time the auditor spends at your office can be minimized by ensuring that you locate the requested information before your audit begins.

The auditor will keep you informed during your audit and 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 (see *What If I Still Have Concerns?* below).

## **Audit Method**

The ministry would prefer to conduct audits by reviewing and evaluating each transaction in detail. However, the volume of transactions in most businesses makes this option inefficient for you and the ministry. Therefore, the auditor will consider a sampling method to review your business records.

Sampling is a detailed analysis of a selection of sales and purchase transactions that represent your business operations for the entire audit period. This will minimize disruption to your business and the number of records that you will need to make available. 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.

During the audit-planning discussion, you and the auditor will decide the best sampling method to use in conducting your audit. At all times, the auditor will be available to answer any questions you may have about the audit sampling methodology.

Statistical sampling will typically be used to audit businesses that have computerized records available for electronic examination; otherwise block sampling will be employed.

Statistical sampling uses randomly selected samples to evaluate your sales and purchase transactions for the audit period. With this sampling method, the ministry can measure how closely the sample results match the actual results.

If statistical sampling is used, the auditor may involve a Computer Audit Specialist (CAS) to consult with you or your IT staff to review the available data. For a detailed explanation of the statistical sampling method, see [Bulletin CTB 004](#), *Statistical Sampling*.

Block sampling uses sample periods or blocks of time selected by the auditor to evaluate your sales and purchase transactions for the audit period. The auditor will

select these sample blocks in consultation with you to help ensure that the samples represent your normal business activity.

After the sampling method has been chosen, the auditor will perform a detailed examination of the sample selected for sales made in BC and for purchases of items used by your business. If errors are found in the sample, the auditor may apply them to the entire audit period when calculating the assessment. However, isolated occurrences are not usually applied over the entire 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.

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; however, interest will continue to accrue.

### **Refunds**

During the examination of your records, the auditor will let you know if they discover you have overpaid tax and are entitled to a refund. At your request, these overpaid tax transactions may be offset against the audit assessment. Otherwise, you may submit your refund application, together with all supporting documentation, 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 audit and your refund amount is confirmed prior to the completion of your audit, we may net both the amount and 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, refer to the refund publications for the applicable Act.

## **What Happens After the Audit?**

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Once the examination of your records is completed, the auditor will discuss the results with you. If the examination 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 provincial tax questions you may have.

After the proposed assessment has been explained and the proposed assessment has been reviewed and approved by the auditor's supervisor, the auditor will provide you with a conclusion letter. This letter summarizes the audit assessment, advises that a *Notice of Assessment* will be 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 and their supervisor will discuss your concerns with you and try to resolve them as quickly as possible. If a *Notice of Assessment* is still warranted, it will be issued after these discussions.

For details regarding appeals, see *What If I Still Have Concerns?* below.

### **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.

If you do not pay the total amount owing, interest will be charged on the outstanding balance from the issue date on your *Notice of Assessment*.

### **Assessments**

A *Notice of Assessment* may be issued when a portion of the audit work has been completed while other sections remain to be completed. For example, a *Notice of Assessment* may be issued on a number of business locations, divisions or branch offices while other locations, divisions or branch offices remain to be examined. A *Notice of 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.

## **Finding New Information after a Notice of Assessment**

Your audit results are based on the information you provide to the auditor during your audit. After we complete our examination of your records 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 examine the documents and advise you if any adjustments will be made to your assessment. The results of this examination are not subject to appeal and do not impact the appeal timelines (for more information on appeal timelines, see *What If I Still Have Concerns?* below).

## **What if I Still Have Concerns?**

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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, the auditor's supervisor will contact you to discuss your concerns.

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 sent to the ministry:

**By mail:**

Tax Appeals and Litigation Branch  
Ministry of Finance  
PO Box 9629 Stn Prov Govt  
Victoria BC V8W 9N6

**By courier**

Tax Appeals and Litigation Branch  
Ministry of Finance  
1802 Douglas Street



Victoria BC V8T 4K6

Appeals may also be faxed to 250 387-5883.

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.

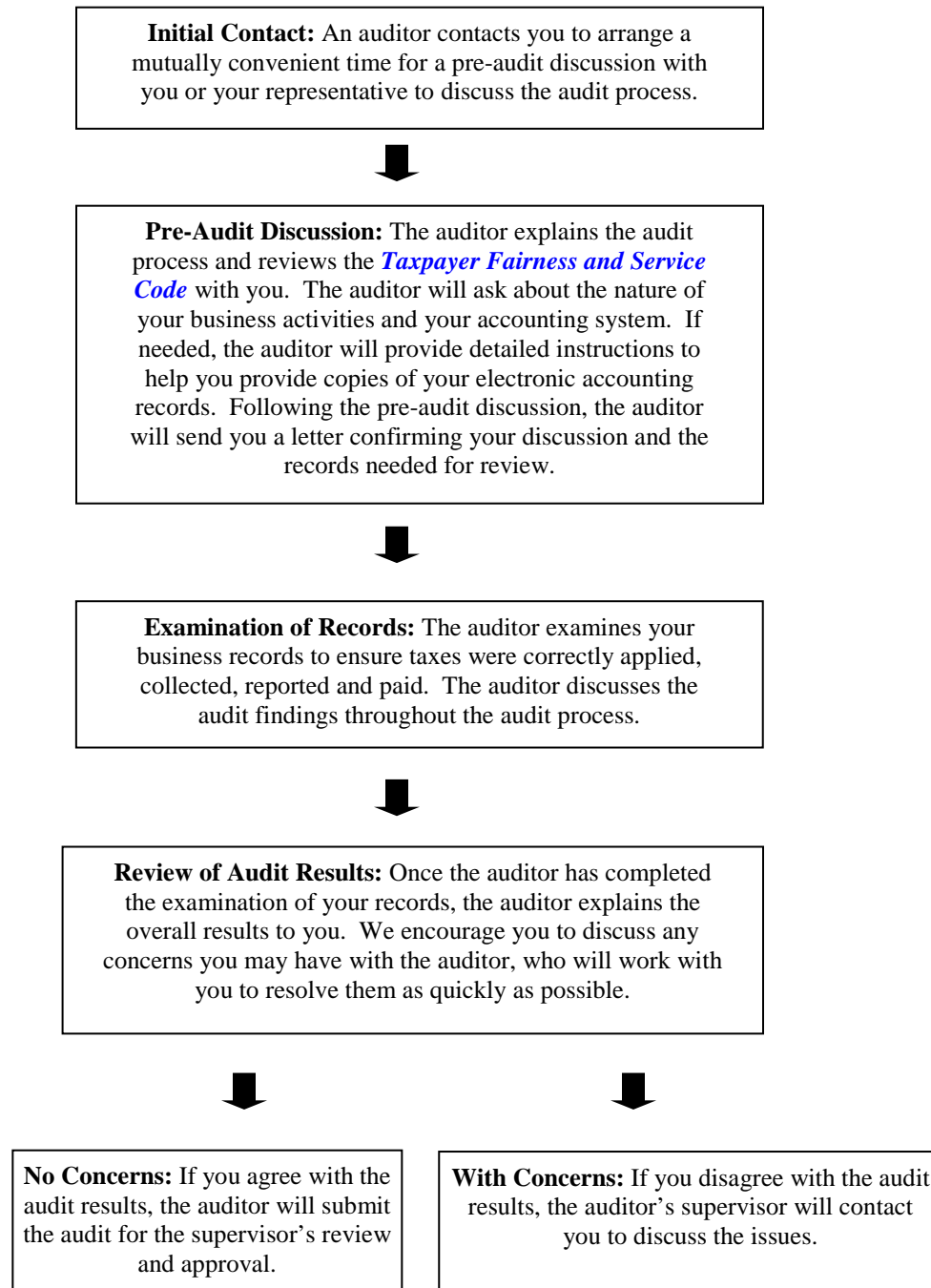
Finally, if you do not agree with the minister's decision, you have the right to appeal to the courts within 90 days of the date of the minister's response.

For more information, see [Bulletin GEN 002](#), *Appeals*.



## Typical Audit Process Flowchart

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The ministry is committed to continuously improving customer service and has further streamlined the process for carbon tax, motor fuel tax, provincial sales tax (PST) and tobacco tax audits. Timelines for a typical audit may vary depending upon the complexity of your business, your schedule and the availability of your records. The following chart illustrates the process:



*continued on next page*




**Audit working papers and conclusion letter:** Once the supervisor has approved the audit working papers, the auditor will provide you with a copy, along with a conclusion letter documenting the errors noted.




**No Assessment:** If there is no amount owing (a NIL assessment), the review is complete. You will receive a letter confirming this.

**Assessment:** If there is an amount owing, you will receive a *Notice of Assessment*.



**Right to Appeal:** If you disagree with the *Notice of Assessment*, you have 90 days from the issue date on the *Notice of Assessment* to appeal to the minister, who will conduct an impartial review.



**Appeal to Court:** If the minister's decision is not satisfactory, you have 90 days from the date of the minister's decision letter to further appeal to the courts.

## Need more info?

Online: [gov.bc.ca/consumertaxes](http://gov.bc.ca/consumertaxes)

Toll free in Canada: 1 877 388-4440

E-mail: [CTBTaxQuestions@gov.bc.ca](mailto:CTBTaxQuestions@gov.bc.ca)

You can access our forms and publications online at [gov.bc.ca/consumertaxes](http://gov.bc.ca/consumertaxes)

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. You can find the *Carbon Tax Act*, *Motor Fuel Tax Act*, *Provincial Sales Tax Act* and *Tobacco Tax Act* and regulations online under [Consumer Taxes](#).

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### Latest Revision

February 2020

- Added information on the Out of Province Audit Fee.
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References: *Carbon Tax Act*, Sections 44(3), 44(4), 45(3), 45(5), 46(4) and 46(6); *Motor Fuel Tax Act*, Sections 41, 42, 43, 46, 50 and 51; *Provincial Sales Tax Act*, Sections 178, 194, 198, 199, 200, 203, 211 and 212; *Tobacco Tax Act*, Sections 21, 22, 23 and 24.