

City of Detroit General Audit Overview

If a taxpayer is chosen for an audit, an interview or visit with the taxpayer generally is required. In some cases, the taxpayer may receive an information request and/or a request to submit copies of certain records by mail in advance of the audit start date. In the case of business audits, a site visit will give the auditor a better understanding of the business activities; which, in turn, can minimize the time needed to complete the audit.

Taxpayers have the right to:

- Confidentiality. Income Tax Division employees honor a taxpayer's right to confidentiality. Taxpayers must authorize the disclosure of tax information to any third party before it can be released using the *Power of Attorney Authorization Form* available on the City of Detroit website.
- Ask that the audit take place at a reasonable time in a convenient location.
- Represent oneself, have someone accompany him or her or, with authorization, have a third party represent the taxpayer in his or her absence.
- Receive copies of the audit schedules that show how the auditor determined any changes to taxes due or applicable refunds.
- Meet with the auditor or the audit supervisor to discuss the audit finding
- Be notified in writing of any refund opportunity the auditor identifies. The taxpayer may then claim the refund by filing a return or amended return.
- Be informed of rights to appeal.

The Audit Process

Section 141.673 of the City Income Tax Act authorizes examination of the books and records of a taxpayer to determine if the correct tax was reported and paid.

City Auditors are professionals familiar with the application of City tax law in the business environment. The auditor assigned to an audit will conduct a fair and impartial examination of the taxpayer's records. If assistance is needed before the audit begins or if questions arise during the audit, the taxpayer should contact the auditor assigned to the case or his/her supervisor. When the audit is finished, the auditor will explain the audit findings and the alternatives available to the taxpayer if the taxpayer disagrees with the audit results.

Examination of Records

To perform an audit, the auditor must examine certain records. These may include, but are not limited to:

- Sales invoices
- Rental income
- Purchase invoices for supplies
- Capital asset invoices and journals
- Resale and exemption certificates
- General ledgers, subsidiary ledgers and journals, and supporting books and records
- Wage and Withholding records
- Tax returns
- Bank statements
- Work papers and accounting data used to prepare tax returns
- Electronic records.

The size and complexity of a business determines the scope of the audit and what records will be examined during the audit. Taxpayers are obligated to furnish all records requested by the auditor necessary for performing a fair and impartial audit. Providing information in electronic format will generally result in reduced audit time.

Audits can typically last 3-6 months. However, it may take longer depending on the complexity, the availability of resources and records and the cooperation of taxpayer.

Audit Methods: Detail vs. Sample

Generally, the auditor's first step is to review the accounting, tax accrual, and reporting systems and evaluate the internal controls within each. If tax errors are identified, either of two types of audits can be performed:

1. **Detail audit:** The auditor may examine all business and individual records for the entire audit period.
2. **Sample audit:** The auditor may use sampling methods. Errors found in representative samples of business records are projected over the entire audit period. Sampling provides accurate results with significant savings of time and manpower for the City and the taxpayer. In either method, if the records are inadequate, the audit is based on the best information available.

Statute of Limitations

Generally, the statute of limitations to assess income tax is six (6) years. However, tax may be assessed for any period if returns have not been filed.

Notification of Audit Determination Upon completion of an audit, the taxpayer will be presented with a *Notice of Proposed Assessment* letter, along with audit work papers that substantiate the audit determination. If the taxpayer is in agreement with the amount due, payment should be submitted by the response date identified.

If the taxpayer disagrees with the *Notice of Proposed Assessment*, the taxpayer has 30 days after receipt to file a written protest with the Income Tax Administrator. The Tax Administrator will give the taxpayer or a duly authorized representative an opportunity to be heard and present evidence and arguments. The Tax Administrator will then issue a *Final Assessment or Ruling* denying in whole or part of a claim for refund or may make other rulings.

The Appeals Process

(1) If the taxpayer wishes to appeal the *Final Assessment or Ruling*, a written notice of appeal must be filed with the Income Tax Board of Review not more than 30 days after the taxpayer receives a final assessment, or a ruling denying in whole or part of a claim for refund, or other special ruling. Upon receipt of the notice of appeal, the Income Tax Board of Review shall notify the tax administrator, who shall forward within 15 days a certified transcript of all actions and findings taken by the administrator or the department that relate to the matter under appeal. The appellant or his or her duly authorized representative may inspect the transcript.

(2) The Income Tax Board of Review shall grant the appellant a hearing at which the appellant or his or her duly authorized representative and the tax administrator or the department have an opportunity to present evidence that relates to the matter under appeal. After conclusion of the hearing, the Board of Review by a majority vote of its 3 members shall affirm, reverse, or modify the final assessment, denial, decision, or order under appeal and furnish a copy of the decision to the appellant and to the administrator or the department.

(3) For additional appellate rights, *See* City Code Ch. 18, Art. X, Sec. 18-10-17; MCL 141.693.

Paying the Tax

If full payment of taxes owed cannot be made, a payment arrangement may be requested from the Income Tax Division.

Penalty and Interest

Interest and/or penalty will apply as long as there is a tax balance due. Penalty on an assessment may be waived if reasonable cause for failure to pay on time is demonstrated. Reasonable cause may be serious illness or death, a fire or natural disaster, or criminal acts against the taxpayer. The penalty waiver will apply only to periods directly affected by the circumstances. Waiver requests must be made in writing.

Non-Payment of Tax Balance

Failure to make payment in full or to enter into an approved payment arrangement will initiate collection action by the Income Tax Division. The Income Tax Division may take collection action, after notice has been given and due process has been provided, to secure payment of the debt. Action may include lien, wage levy/garnishment, financial institution levy, refund offset and/or freezing assets or restricting the transfer of property.

Contact Information

The City Income Tax Division makes every effort to make tax forms and instructions clear and easy to follow. Forms are available at <http://www.detroitmi.gov/How-Do-I/File/Income-Tax-Forms>

For questions about tax debts that have been assessed: taxpayers should contact the Office of Collections at 313-224-9159 or contact the appropriate tax unit below:

Assistance & Information -	(313) 224-3315
Non-Filers -	(313) 224-3330
Audit -	(313) 224-1751
Bankruptcy -	(313) 224-9158
Civil Action -	(313) 224-3341
Corporations & Partnerships -	(313) 628-2905
Employer Withholding -	(313) 224-3332
Estates & Trusts -	(313) 628-2523
Fax -	(313) 224-4588
Tax Forms -	(313) 224-3315
Utility Users Tax -	(313) 224-9461
GC Services-	(877) 497-0804



Audit Process Taxpayers Rights & Obligations

Working Together

Tax audits are performed to verify that a taxpayer has properly accrued and paid all applicable taxes. Statutory authority to conduct audits for the taxes is provided in Section 141.673 of the City Income Tax Act, Public Act 284 of 1964.

This brochure is intended to help clarify taxpayer rights and responsibilities; it does not take the place of the law.

Auditors are expected to provide:

- Prompt, fair, and courteous service.
- Confidentiality.

Taxpayers have a responsibility to:

- File returns on time with the correct payment (if required).
- Make sure returns are correct, regardless of who prepares them.
- Provide documentation as requested to complete an audit or review.

For complete version of the City Income Tax Act, visit:

<http://legislature.mi.gov/doc.aspx?mcl-284-1964-2>