



Revenue Office  
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## AUDITS

The City of Arvada Revenue Office conducts routine audits of taxpayers to determine compliance with the *Arvada Municipal Code*. The purpose of the audit is to determine whether the correct amount of tax has been reported and paid by the taxpayer. Taxpayers are required to maintain adequate books and records to allow for a determination of the taxes due and make those books and records available for inspection by the City. The City selects a diverse group of taxpayers for audit based upon a number of factors. Selection for audit is not an indication that a taxpayer has made an error.

### **Audit Statute of Limitations**

In most cases, the City may audit returns up to 36 months (3 years) after they are filed. This period is fixed by the date of the City's written notice of audit. The City may also extend the period of limitation by entering into a written agreement between the taxpayer and the Finance Director. In some cases, the City may conduct an audit of a taxpayer that has been in business for fewer than 3 years to identify potential problems early. If the taxpayer has filed a false or fraudulent return, or has failed to file a return, the City may collect taxes more than 3 years past due.

### **Location of Audit**

Audits are conducted by the City's team of professional tax auditors who are familiar with generally accepted accounting principles and auditing standards. Audits may be conducted at the location where the taxpayer's records are maintained. This can be the taxpayer's place of business, a main office, or an accountant's office. Records can also be examined at City Hall if space is a problem or if records are being provided electronically. Every effort will be made to conduct the audit at a time that is mutually convenient. Taxpayers that are required to produce records will be given a reasonable amount of time to do so. In most cases, copies will be acceptable provided that the auditor may require that some original records be produced for proper authentication.

The City has the discretion to conduct the audit at the location where records are maintained (either locally, or out-of-state), or to require that records be produced at City Hall for examination. In the case of home-based businesses, for example, the audit will not be conducted at the taxpayer's location. Taxpayers are permitted to offer to reimburse the City for costs of travel to out-of-state offices, but the decision to travel remains at the City's discretion.

### **Required Records**

The audit engagement letter includes a Check List of the records that are required. Your own records may vary from these depending on your accounting system. If you are unclear about any of the items requested, it is important to contact your auditor in advance so that all requested records are ready when for the Records Due Date.

Required records need not be stored or kept within the city, but if they are not they must, upon request of them, be produced for inspection no later than 14 days from the date requested.

**Generally, the records requested may include the following:**

- Charts of accounts and other accounting system legends describing department codes, location codes, commodity codes, tax codes or flags, or other codes necessary to understanding accounting system data.
- Reports detailing how City tax returns were calculated.
- Detailed ledgers of sales and/or purchase transactions.
- Trial balances, balance sheet, or profit and loss reports

**Records specific to Sales, Accommodations, and Admissions Tax testing:**

- Sales invoices, billings, or receipts detailing the items purchased the purchase price, the tax collected, and the delivery address, if applicable.
- Taxability of product and services.
- Documentation supporting exempted sales.

**Records specific to Use Tax testing:**

- Purchase invoices for supplies and services not held for resale.
- Purchase invoices for capital assets.
- Fixed asset listings and/or depreciation schedules.
- General ledger activity of fixed asset accounts.
- Sale / Purchase Agreement of Business Operation

Additional records may be requested during the course of the audit. You will be given reasonable time to produce these records. In some cases, the auditor may review a sample of records rather than reviewing all periods.

**Confidential of Audit Records**

With few exceptions, the Code prohibits the disclosure of information obtained from tax returns filed or obtained during the course of an audit to unauthorized persons. Information used by the auditor will be kept secure to prevent unauthorized access. Throughout the audit, you may ask your auditor why certain information is being requested, how such information will be used, and the consequences of failing to submit the requested information.

**Third-Party Representation**

At any time during the audit, you have the right to suspend a meeting or interview for a reasonable amount of time in order to retain such representation. Any person representing you must have the proper written authorization, such as a *Power of Attorney*, to act on your behalf.

**Audit Findings**

Once the auditor has finished examining your records, they will prepare preliminary work papers and provide you, either in person or electronically, the work papers and a general summary of what they found. You will be given sufficient time to review the preliminary findings and to provide any additional information requested or that you deem pertinent to the audit. Once you have gathered the required information, you may review the findings with the auditor and discuss any proposed adjustments. Once this review is complete, the auditor will compute any adjustments, if any, and issue a formal audit conclusion letter and assessment or overpayment notice.

## **Additional Tax Due - Assessment**

If the audit concludes that additional tax is due, a Notice of Assessment will be issued listing the total deficiency, plus penalty and interest. If you agree with the findings, the Notice of Assessment must be paid within 30 days. If you believe that good cause can be demonstrated for penalty abatement a written request for abatement should accompany full payment of the tax and interest. Properly assessed interest cannot be abated. All or part of the Notice of Assessment may be protested within the 30 day period by filing a written protest with the Finance Director. The un-protested amounts must be paid by the due date.

## **Interest Due**

Interest accrues only in whole-month increments from the original due date of the tax until the assessment is paid. The monthly rate is 1% of the tax deficiency, and is not pro-rated if a deficiency is unpaid for only a portion of a month. The filing of a protest does not stop the accrual of interest. The Code prohibits the abatement of interest.

## **Overpayment of Tax - Refund**

If the audit results in an overpayment a Claim for Refund will need to be completed, signed, and submitted. The overpayment will be either credited to the account which can be used for future taxes owed or a refund check will be issued. A refund check will generally be issued within two weeks.

## **Coordinated Audits**

If you have a sales tax license in at least four other Colorado home- rule municipalities, you may request that an audit by all cities be conducted at the same time. You must contact all cities involved within 14 days of your receipt of an audit notice. Contact the Revenue Office for details.

## **Audit Philosophy**

The City of Arvada audit procedures used by the Revenue Office shall at all times be unbiased, confidential, and shall be held to the highest standards of public service. It is our priority to provide every person with assistance, information and guidance regarding the City's licensing and taxation processes, rules and regulations in a concise and professional manner.

### **ARVADA MUNICIPAL CODE – Chapter 98 – Taxation**

#### **Sec. 98-61. - Definitions.**

*Taxpayer means any person obligated to collect and/or pay tax under the terms of this article.*

#### **Sec. 98-71. - Interest on deficiency; computation.**

*The finance director shall, as soon as practical after receipt of a taxpayer's report under this article, re-compute the tax by the use of known and visible factors; and if the resulting recomputed tax is less than that shown and paid by the taxpayer, the difference shall be refunded. A claim for refund must be submitted by the taxpayer to request credit. The refunded amount will be net of any vendor fee retained and will not accrue interest. If the recomputed tax is more than that shown and paid by the taxpayer, the difference shall be recorded as a deficiency together with interest at the rate of one percent per month, or fractional part thereof. The taxpayer shall be notified of the deficiency, the amount thereof and interest thereon. The payment due date for the total tax liability pursuant to a notice of assessment shall be 30 calendar days after the date of the notice of assessment. Interest properly assessed on any tax deficiency shall not be abated.*

**Sec. 98-72. - Penalty.**

*Negligence or intentional disregard of the requirements for reporting, and remittance of tax due, or failing to respond within ten calendar days to the finance director's notice of deficiency, shall subject the taxpayer to a penalty of ten percent of the amount of the tax. The finance director is hereby authorized to waive for good cause shown any penalty assessed in this article.*

**Sec. 98-75. - Appeal of denial of refund and demand for hearing.**

*An appeal of a denial of a refund and demand for administrative hearing shall be submitted in writing to the finance director no later than 30 calendar days after the date of the denial of the refund and shall identify the amount of the refund requested and the basis for the appeal. Failure to appeal a denial of a refund and demand an administrative hearing shall constitute a waiver of the right to contest such denial.*

**Sec. 98-91. - Records.**

(a) *Required records need not be stored or kept within the city, but if they are not they must, upon request of the enforcement officer, be produced for inspection either at the taxpayer's place of business within the city, or at the city hall no later than 14 days from the date of request.*

(b) *When the enforcement officer has scheduled an audit or examination of the records required in this article, not less than 14 calendar days in advance, and has so notified the vendor or taxpayer, and the taxpayer fails to make available the records required hereunder at the appointed time, he shall pay to the city costs of \$200.00 and any prepaid travel expenses which have been incurred prior to notice of cancellation; provided, however, that costs shall not be assessed if:*

(1) *A postponement is approved by the enforcement officer, for good cause shown, not less than seven calendar days before the scheduled audit; or*

(2) *Sufficient notice is given within seven calendar days that the enforcement officer is able to schedule and conduct an audit of another taxpayer at the appointed time in lieu thereof. (c) If any taxpayer refuses to furnish any of the foregoing information when requested by the finance director, the finance director may issue a subpoena to require the taxpayer or their representative to produce any such books, accounts and records for examination.*

**Sec. 98-92. - Confidentiality of returns.**

**Sec. 98-94 - Statute of limitations.**

**Sec. 98-99. - Appeal and demand for hearing.**

*In the event that the taxpayer or vendor disputes a notice of assessment issued to the vendor or taxpayer for failure to file a return, underpayment of tax owed or as a result of an audit, or disputes a denial of a refund, he shall no later than 30 calendar days after the date of the notice of assessment or denial of refund file a written appeal and demand for an administrative hearing which demand will stay the sale under any pending distraint warrant (until the conclusion of the hearing). Any such appeal and demand for hearing shall identify the amount of tax disputed and the basis for the appeal. In the event that it is determined at the hearing that the taxpayer's liability is less than the amount in the possession of the finance director, if any, such excess shall be paid to the taxpayer forthwith. Failure to file a written appeal and demand for an administrative hearing shall constitute a waiver of the right to contest such liability; however, when such hearing is requested, the final decision rendered therein shall be appealable to the district court as provided by law.*

**Sec. 98-104. - Coordinated audit.**

**RELATED TOPICS**

**NOTICE OF ASSESSMENT APPEALS AND PROTEST**

*THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT ARVADA TAX LAW FOR THIS SUBJECT, INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE ARVADA MUNICIPAL CODE. HOWEVER, THE TAX GUIDE SHALL BE USED IN CONJUNCTION WITH THE ARVADA MUNICIPAL CODE (CHAPTER 98) IN DETERMINING TAX LIABILITY.*