

The logo of the Wisconsin Department of Revenue is located in the top right corner. It features a circular seal with the text "WISCONSIN DEPARTMENT OF REVENUE" around the perimeter. Inside the seal, there are several figures and symbols, including a person holding a scale and a person holding a sword, representing justice and law. The logo is partially obscured by a silver, wavy banner that curves across the top of the slide.

# **Sales and Use Tax Training for Grocers Part 4**

**Wisconsin Department of Revenue  
April 2017**

# Topics of Discussion

- Preparing for an Audit
- Field Audit Process

# Additional Training for Grocers

- Part 1 – Sales by Grocers
- Part 2 - Sales of Candy, Soft Drinks, and Dietary Supplements
- Part 3 – Sales of Prepared Foods

# Preparing for an Audit

- All sales, licenses, leases, and rentals of tangible personal property are subject to Wisconsin sales tax, unless an exemption applies.
- Grocers sell a variety of taxable and nontaxable products.
- A grocer has the burden of proving that a sale is not subject to tax.
- It is essential to maintain a good record keeping system.

# Record Keeping

- Retain records for all years open to audit (generally 4 years).
- At a minimum this would include:
  - Sales tax returns (ST-12) and the supporting documentation and backup detail used to complete the returns.
    - Exemption certificates
    - Records to support tax determinations of food items

# Record Keeping

- At a minimum this would include (cont.):
  - Fixed asset records
    - Sales and purchase invoices
    - Depreciation schedules
  - General purchase Invoices
  - General ledger/journal entries
  - Chart of accounts



# Record Keeping – Exempt Food Products

- Records must be kept to determine taxability of food products.
- If a food product is exempt, there is no need to obtain and keep an exemption certificate to support the exempt sale.

# Record Keeping – Exempt Food Products

- Documentation to help support an exempt food product include the following:
  - UPC or SKU,
  - product description
  - product label
  - tax treatment assigned to the product in your sales system
- Changes made to add/remove a product or changes to the tax treatment (i.e., historical data) should also be maintained.



# Record Keeping – Exempt Products

- Exemption certificates are NOT needed for the following exempt products:
  - Food and food ingredients
  - Prescription drugs
  - Durable medical equipment
  - Mobility-enhancing equipment
  - Prosthetic devices
  - Motor fuel
  - Newspapers
  - United States and Wisconsin flags
- See sec. Tax 11.14(16) for a full list of exempt sales which do not require an exemption certificate

# Record Keeping – Exempt Purchaser

- Federal and Wisconsin governmental units
  - Claimed by submitting any of the following to the grocer:
    - Exemption certificate
    - Certificate of Exempt Status (CES) number issued by DOR
    - Purchase order
- Organizations organized and operated exclusively for religious, charitable, scientific, educational, or prevention of cruelty to children or animals (generally exempt under sec. 501(c)(3) of the Internal Revenue Code)
  - MUST provide its CES number to the grocer (except for out-of-state organizations)

# Record Keeping – Exempt Use

- Exemption certificates are needed when a purchaser indicates they will use the product in an exempt manner, such as sales for resale
- An exemption certificate is valid if it is received within 90 days of the sale and is fully completed by containing the following:
  - Purchaser's name and address
  - Purchaser's type of business
  - Reason for exemption
  - Seller's permit number or CES number, if applicable
  - Signature of purchaser

# Don't Forget Use Tax!

- Use tax is the most common audit adjustment
- Review all purchase invoices to ensure tax has been properly paid on all taxable products and services (other than inventory resold).
- Pay special attention to:
  - Out-of-state vendors
  - Vendors that you have provided an exemption certificate
- Keep detailed records and copies of invoices for all use tax remitted.

# Don't Forget Use Tax!

- Examples of common use tax situations
  - Equipment (coolers, shelves, cash registers, shopping carts)
  - Cleaning supplies and other items removed from inventory for store use
  - Office equipment and supplies

# Don't Forget Use Tax!

- Examples of common use tax situations (cont.)
  - Credit card or p-card purchases
  - Landscaping services (see Publication 210)
  - Brochures, flyers, promotional giveaways (see Publication 235)



# Field Audit Process

# Initial Audit Contact

- Audit setup letter sent to the taxpayer which identifies:
  - Auditor
  - Audit start date
  - Audit location
  - Audit tax type and audit period
- Initial audit set up letter also requests the taxpayer to call the auditor within 5 days of receiving the letter



# Initial Audit Contact

- Telephone call with auditor
  - Confirm date, time, and location of the audit
  - Ask auditor questions
  - Discuss business and records

# Initial Audit Contact

- How long will the audit take?
  - Varies depending on records and audit issues
    - Missing records
    - Availability of records (e.g., electronic vs. paper, condition, organization, location)
    - Volume of records
    - Number of questionable items, consistency of records
    - Whether 3<sup>rd</sup> party contacts are needed to obtain additional information

# Initial Audit Contact

- Audit Confirmation Letter
  - Confirms the date, time, and location
  - Provides a list of records requested
  - Publication 501, *Field Audit of Wisconsin Tax Returns*
  - Publication 114, *Your Wisconsin Taxpayer Bill of Rights*

# Initial Field Work & Records Review

- Initial discussion to gather any information that was not provided during the initial phone call that will aid in the understanding of the business and records process
- Walk-through of the records that are provided
- Explain the audit process, including information about submitting any Claims for Refund
- Auditor will start reviewing the records
  - 1 day to 2 weeks or more

# Initial Field Work & Records Review

- Records initially requested
  - Sales Tax Returns (ST-12) and supporting detail
  - Listing of UPC or SKU items with taxability
  - Exemption certificates
  - Sales of fixed assets
  - Purchase invoices
  - Fixed asset purchase invoices

# Initial Field Work & Records Review

- May request additional records or information and provide a response time for providing them
- Preliminary audit schedules
  - Provided after the initial field work
  - Identifies questionable transactions
  - Additional records or information needed to resolve questions
  - Identify vendors and customers to contact

# What Do You Need To Do?

- Have records ready
  - Discuss records (quantity, format, filing method)
  - Provide records electronically whenever possible
  - Discuss reports that could be generated to streamline the audit
- Work with the auditor
  - Respond to requests in a timely fashion
  - Suggest more efficient ways to provide data (if possible)
  - Ask questions when you don't understand policy or procedure

# What Do You Need To Do?

- Review records and identify possible Claims for Refund EARLY in the audit
- Make 3<sup>rd</sup> party contacts as soon as possible (if necessary)



# Completion of the Audit

- Final Conference
  - Notice of Proposed Audit Report is presented and explained
  - Provides the additional tax or refund, estimated interest, and penalties (if applicable)
  - Resolve any outstanding issues/disagreements
    - Auditor's supervisor may need to be involved

# Completion of the Audit

- Notice of Proposed Audit Report
  - 30 days to review the proposed audit report and provide any final documentation or information
  - Indicate if you agree or disagree with the audit adjustments
  - Provides instructions for prepay option (if fully agreed)

# Completion of the Audit

- Auditor completes the audit report and submits for final review and processing
- Report is reviewed for accuracy and completeness
- Once finalized, the Notice of Field Audit Action letter is sent to the taxpayer/taxpayer's representative with Notice of Amount Due or Refund

# Audit Resources

- Publication 114: *Your Wisconsin Taxpayer Bill of Rights*
- Publication 501: *Field Audit of Wisconsin Tax Returns*
- Publication 506: *Taxpayers' Appeal Rights of Field Audit Adjustments*
- Publication 515: *Non-Statistical Sampling*
- Publication 516: *Statistical Sampling*

# Additional Training for Grocers

- Part 1 – Sales by Grocers
- Part 2 - Sales of Candy, Soft Drinks, and Dietary Supplements
- Part 3 – Sales of Prepared Foods

## Contact DOR if you have questions

WISCONSIN DEPARTMENT OF REVENUE  
Customer Service Bureau  
PO Box 8949, MS 5-77  
Madison, WI 53708-8949

Phone: (608) 266-2776

Email: [DORSalesandUse@wisconsin.gov](mailto:DORSalesandUse@wisconsin.gov)