

Memorandum

To : Ms. Cynthia Bridges
Executive Director (MIC 73)

Date: July 10, 2015

From : Mr. Jeffrey L. McGuire, Deputy Director
Sales and Use Tax Department (MIC 43)



Subject : **Board Meeting July 28-29, 2015**
Item N: Administrative Agenda
Proposed Revisions to Audit Manual Chapter 4, *General Audit Procedures*
and Chapter 6, *Vehicle, Vessel and Aircraft Dealers*

I am requesting approval to forward the attached revisions to Audit Manual (AM) Chapter 4, *General Audit Procedures* and Chapter 6, *Vehicle, Vessel and Aircraft Dealers*, to the Board Proceedings Division to be placed as a consent item on the Administrative Agenda at the July 2015 meeting.

The proposed revisions incorporate current audit policies and management guidelines. The revisions have been reviewed and approved by SUTD management, provided to Board Members, and posted on the Board's website at <http://www.boe.ca.gov/sutax/pmr.htm> to solicit comments from interested parties. No comments were received from interested parties. A suggestion was received from Ms. Harkey's office and incorporated into the revision material for AM Chapter 4.

If you have any questions, please let me know or contact Ms. Susanne Buehler at 324-1825.

JLM:ljm

Attachment

Approved:

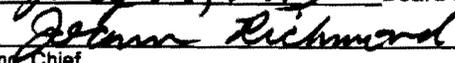

Ms. Cynthia Bridges
Executive Director

STATE BOARD OF EQUALIZATION

BOARD APPROVED



At the July 28, 2015 Board Meeting


Joann Richmond, Chief
Board Proceedings Division

cc: (all with attachment)
Mr. David Gau (MIC 101)
Mr. Wayne Mashihara (MIC 47)
Ms. Susanne Buehler (MIC 92)
Ms. Lynn Bartolo (MIC 57)
Mr. Richard Parrott (MIC 88)
Mr. Kevin Hanks (MIC 49)
Mr. John Thiella (MIC 73)
Mr. Marc Alviso (MIC 101)
Mr. Chris Lee (MIC 101)
Mr. Gary Lambert (MIC 43)

AUDIT OF FRANCHISORS OR LARGE RETAILERS

0423.00

THIRD-PARTY DATA REQUESTS TO FRANCHISORS AND LARGE RETAILERS

0423.10

The Data Analysis Section (DAS) coordinates, solicits and maintains a database of third-party data for use in audit selection, to create leads for audit and compliance programs, and to provide purchase/sales information to auditors on accounts being audited. Third-party data is solicited from various resources such as auction houses, big box retailers, and franchisors.

Third-party data resources may be identified during audit selection and while auditing a franchisee, franchisor or large retailer. To enhance the third-party database and streamline requests, DAS will coordinate requests for franchisor or large retailer data with the district office in which the franchisor/large retailer is located or with the office auditing a franchisor/large retailer. District staff will request the third-party data (i.e., either sales reported to the franchisor by their California franchisee, or all sales made by the large retailer to their resale customers) using the BOE-116 forms as described below.

The following two forms are available on eBoe to request third-party data from franchisors or large retailers. District staff should use these forms when requesting third-party data directly from franchisors or large retailers that are identified by the Sales and Use Tax Department (SUTD) or the DAS.

- BOE-116-A, Franchisor/Vendor Sales Transaction Data-1st Request, and
- BOE-116-B, Franchisor/Vendor Sales Transaction Data-2nd Request,

PROCEDURE

0423.15

When staff begins an audit suited for a third-party data request, the BOE-116-A must be used for the request. This form allows users to fill in or choose relevant information and may be addressed to either franchisors or large retailers. The BOE-116-A is signed by the District Principal Auditor (DPA) and instructs the franchisor/large retailer to send the data directly to DAS. DAS is copied on the BOE-116-A. Third-party data should be requested for the same period(s) as the franchisor or large retailer is being audited.

Once the initial request for the third-party data to the franchisor or large retailer is made using the BOE-116-A, DAS will monitor the request. If necessary, the DPA will send a follow-up second request using the BOE-116-B. DAS maintains a central list of all data requested through the use of these forms. If a franchisor/large retailer does not comply with the request to supply records, the DPA of the district conducting the audit may pursue a subpoena for records as outlined in AM Chapter 4, Exhibit 3.

Upon receipt of the third-party data from the franchisor or large retailer, DAS will notify the district office and process, cleanse, data match, and validate the data to BOE IRIS registration for seller's permit identification and verification. Any leads (i.e.,

noncompliance leads and under-reported leads) that result from processing this third-party data will be sent to the appropriate district.

In order to avoid sending franchisors or large retailers multiple requests for the same data, staff is instructed to contact DAS for third-party data availability when auditing a franchisee and certain large retail accounts. For franchisor accounts not already available in DAS, staff should use their judgment and discuss with their supervisors if they believe a third-party data request is appropriate. All questions regarding third-party data should be emailed to *SUTD-Data Request Mailbox*.

U.S. GOVERNMENT SALES

0610.00

U.S. GOVERNMENT PURCHASE ORDERS

0610.05

The accounting procedures of most instrumentalities of the Federal Government are such that purchase orders are mandatory. The seller is always given more than one copy of the purchase order and these copies are usually found in the customer folder. In the absence of the purchase order, correspondence is usually available which will give sufficient data to establish validity of the deduction.

DISABLED VETERANS' EXEMPTION

0610.10

Sales of vehicles to disabled veterans may qualify for partial tax exemption. Any amount paid toward the purchase price by the Veterans Administration directly to the seller may be excluded from the measure subject to tax, even though t~~The vehicle is registered in the purchaser's name and all other documents reflect the disabled veteran as the purchaser.~~ The amount paid by the disabled veteran is taxable.

The documentation furnished by the Veterans Administration parallels that of purchases by the U.S. Government. The seller should retain a Government Purchase Order or other documentation supporting direct payment to the seller by the United States. ~~In addition, the selling dealer is required to show the Veterans Administration as the actual purchaser on the sales invoice to the extent that payment is made by the Veterans Administration. The vehicle is registered in the purchaser's name and all other documents reflect the disabled veteran as the purchaser.~~

Verification of the validity of the deduction is readily made by examination of the customer folder.