

The City of Louisville Sales Tax and Licensing Division conducts routine audits of taxpayers to determine compliance with the Louisville Municipal Code (LMC). 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 any errors.

Audit Statute of Limitations

In most cases, the City may audit up to 36 months (3 years) from the date the taxes were due or returns were filed, whichever is greater. The period becomes fixed by the City's written audit engagement letter. The City may extend the period of limitation by entering into a written agreement (waiver) between the taxpayer and the Finance Director. The City may conduct an audit of a taxpayer that has been in business for fewer than 3 years. If the taxpayer has filed a false or fraudulent return, or has failed to file a return or license to collect tax, the City may collect taxes for a period greater than 3 years.

Location of Audit

Audits are generally conducted by the City's tax auditors who are familiar with generally accepted accounting principles and auditing standards. Occasionally, it is necessary to use professional accounting services to conduct City audits. These entities are versed in the requirements of the LMC and the ethical and professional standards required by the City. Audits are usually conducted at the location where the taxpayer's records are maintained. This can be the taxpayer's place of business, headquarters, or an accountant's office. Records can also be examined at City Hall if space is a problem, or electronically if records are not available locally. Every effort will be made to conduct the audit at a time and location that is mutually convenient.

If a taxpayer does not wish to make records available within the City or the taxpayer is located outside the City or out-of-state, then the taxpayer must enter into a binding agreement with the City to reimburse the City for all expenses incurred. The City is also entitled to charge an hourly fee for time spent organizing, gathering, or in any way assembling taxpayer records for audit. Please see "Penalties, Interest and Other Costs" publication in this Tax Guide for further information.

Required Records

The engagement letter includes a general list of records required to conduct the audit. Your own records may vary from these depending on your accounting system. The City auditor will be in touch with you before the audit begins to review the documents needed and to answer any of your questions.

Generally, the records requested may include the following:

- Chart of accounts and other accounting system legends describing department codes, locations codes, commodity codes, tax codes, or other codes necessary to understand your accounting system and data.

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- Reports detailing how City tax returns were calculated
- Detailed ledgers of sales and/or purchase transactions
- Trial balances, income statements, or profit and loss reports

Records specific to Sales and Lodging Tax for sampling purposes may include:

- Sales invoices, billings, or receipts detailing the items purchased, the purchase price, the tax collected and the delivery address
- Documentation supporting exempted sales

Records specific to Use Tax for sampling purposes may include:

- Purchase invoices for supplies and services not held in inventory for resale
- Purchase invoices for capital assets
- Fixed asset listings or depreciation schedules

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 representation. Any person representing you must have the proper written authorization, such as Power of Attorney, to act on your behalf.

Audit Results

Once the auditor has finished examining your records, they will prepare preliminary workpapers and provide you, either in person or electronically, the workpapers and a general summary of what they found. You will be given sufficient time to review the findings and to provide any additional information requested or that you deem pertinent to the audit. Once the review is complete, the auditor will compute any adjustments and issue a formal audit conclusion letter and assessment. The final documents are generally sent to the taxpayer via certified mail.

If the audit concludes that additional tax is due, a Notice of Final Determination, Assessment and Demand for Payment will be issued which will summarize the total deficiency plus penalties and interest. Please see the "Assessments" and "Penalties, Interest and Other Costs" publications in this Tax Guide for information on your rights and obligations. If you believe that good cause can be demonstrated for a waiver of the penalties or interest, or if you disagree with the findings of the audit, a written request for appeal must be submitted to the Finance Director within 30 days of the date of the Notice.

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If the audit concludes that a refund is due, a Claim for Refund form will need to be completed, signed and submitted. A refund check will generally be issued within two weeks. If you believe the amount of the refund calculated should be more, then documentation should be submitted to the auditor who will review the information and provide a written summary of the new overpayment amount, if any. Please see the “Refunds” publication in this Tax Guide for additional information.

Coordinated Audits

If you have a sales/use 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 the date of your audit notice or engagement letter. For additional information, please contact the Louisville Sales Tax and Licensing Division.

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