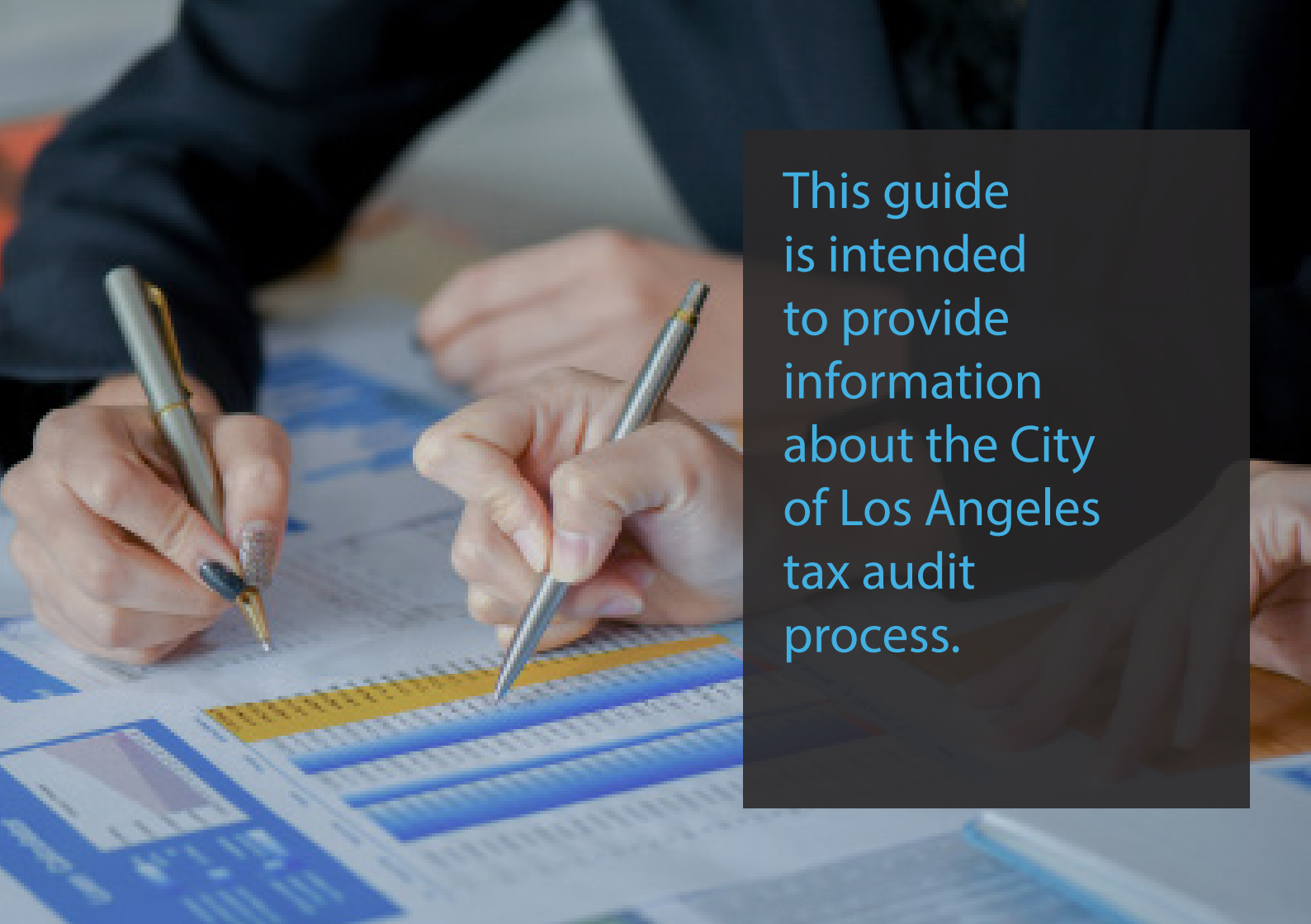


Municipal Taxes Audit Guide





This guide is intended to provide information about the City of Los Angeles tax audit process.

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About Audits

The City of Los Angeles Office of Finance is responsible for collecting municipal taxes, supporting businesses to obtain tax exemptions when applicable, and administering a variety of business licenses. We also conduct audits and examine financial records to verify if the proper amount of tax due was filed and remitted.

Any information obtained during the course of the audit is treated with utmost confidentiality. Since confidential records are examined during the course of an audit, Tax Auditors have the administrative duty to not disclose such information.

Audits of municipal taxes are normally subject to a three-year period. Since municipal taxes are self-assessed and self-reported, it is necessary for the City to verify the accuracy of the reported

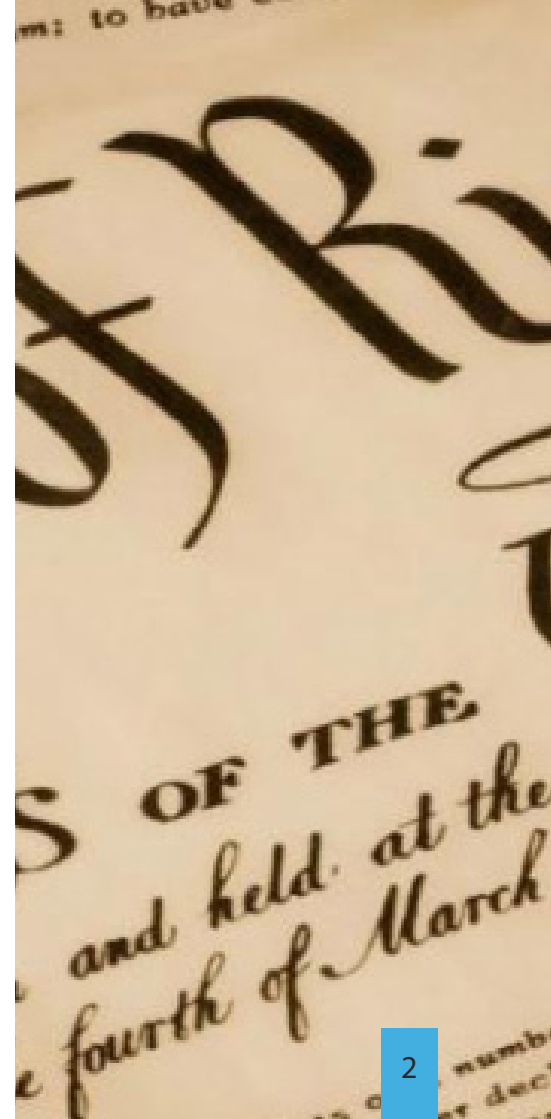
tax measures. An audit may be selected at random, initiated by information obtained from an audit of a related entity, by information provided by outside sources, or as a result of a prior audit and to substantiate a claim for refund.

Taxpayer Bill of Rights

Our ongoing commitment to provide each taxpayer with fair and just treatment has been published in the form of a Taxpayer Bill of Rights. The bill of rights consists of:

- Fair and consistent application of the law
- Professional treatment
- Clear explanation of rights
- Confidential treatment of tax information
- An explanation of charges due
- Information about tax exemptions
- Administrative appeal if issued an assessment
- Installment agreements
- Taxpayer representatives
- Business tax liaison assistance

For a detailed version of the Taxpayer Bill of Rights please refer to our website at finance.lacity.org.



The Audit Process



Initiation of
Audit



Audit
Appointment



Audit Exit
Conference



Audit Closing
Statement



Review of
Records



Audit
Results



Audit Closing
Letter



Bill or
Refund



Initiation of Audit



The audit will be initiated through a letter that states the audit period, records requested for review, and a tour of the location to gain an understanding of the business activity. The letter requests for you to contact the assigned auditor within 10 days from the date of the letter to schedule an audit appointment. If there is no response from you, the auditor will make a second attempt to contact either by mail, phone call, or an office visit. If there is still no response from you, the auditor may issue an estimated assessment in accordance to LAMC Chapter 2 Article 1 Section 21.16 Estimated Assessment.

Audit appointment



Usually, an audit appointment is confirmed during the telephone call to the Tax Auditor. During the phone conversation the auditor will inquire about the business, if a representative will be retained, and will ask to set an appointment date. If you are planning to use a representative, the auditor will ask for written authorization which allows the Office of Finance to discuss your confidential information with the representative. Typically an appointment is scheduled within two to four weeks from date of contact. The auditor will work with you to set a mutually agreed audit appointment date. An extension request is allowed if you are not ready for the appointment. The extension request must be made in writing to the auditor.



Review of records

Typically the audit is conducted at the Los Angeles location. However if the records are not available locally, arrangements can be made to provide the records electronically. If you are not located near Los Angeles arrangements can be made to conduct the audit by correspondence.

The general ledgers, financial statements, federal and state income tax returns, California state sales tax returns, City of Los Angeles business tax working papers will be requested for review. Schedules, invoices, contracts, agreements and other documents necessary to complete the audit may also be requested for review.



Audit Results and Exit Conference

Upon completion of the audit, the auditor will request to schedule an exit conference. This is usually done in person, however you may request for the exit to be conducted over the phone. The auditor will provide a copy of the audit report and will explain the results of the audit. You are encouraged to ask questions regarding the findings. Part of the auditor's job is to inform you of errors made in the filling and calculation of amounts due. If an error was made, you should take this opportunity to learn the proper way to file and calculate the amount due.

Audit Closing Statement and Letter



An audit closing statement will be given to you for review and signature. The closing statement serves two purposes. The first purpose is to acknowledge you received the audit report and are aware of the audit findings. The second purpose is an opportunity to indicate if you agree or disagree with the audit findings. If you disagree, please fill out the appropriate section and tell us the reason for disagreement.

Billing Notices



A billing will be mailed out when there is an additional amount due. Interest on the principal business tax liability accrues, and continues to accrue, at the beginning of each month. An additional penalty of 20% may be added if the payment is not received within 60 days from the date of the billing. To avoid additional interest or penalties you should pay the amount due when the billing is received.



Administrative Remedies

An appeal process is available if you disagree with the audit findings. Business tax appeals must be requested within 45 days from the date of the audit billing. The request must be made in writing and a response form is included in the bill mailed to you. For all other taxes, you have 15 days from the billing date to request a hearing. You will be contacted by a representative when your hearing request is received.

There are two levels in the appeal process. The first level is a hearing before an Assessment Review Officer and the second level is a hearing before the Board of Review. Both of these processes are informal and you may represent yourself or you may hire a representative to help.

When the Assessment Review hearing is completed, you will receive a decision by mail. If you agree with the decision, please follow the instructions sent along with decision. If you disagree with the decision, you may appeal by following the instructions provided in the mailing. You have 45 days from the billing date to appeal and request for a Board of Review hearing. You will be contacted by a

representative when your hearing request is received. After the Board of Review hearing is completed, you will receive a decision by mail.

The administrative appeal process is exhausted if you did not request an Assessment Review hearing or if you were late in filing the request; if you did not appeal the decision of Assessment Review Officer or were late in filing the request for a Board of Review hearing; or the Board of Review issues a decision. The appeal process must be done in order. The Assessment Review process must be completed before you can proceed to the Board of Review.



Collections and Settlement

The City of Los Angeles is committed to utilizing all available resources to increase the collection of amounts legally owed to the City. The City makes several attempts to collect in-house before the delinquent accounts are referred to outside collection agencies.

Citywide Collections Unit

The Citywide Collection Unit is the City's in-house collection unit. For information regarding a Notice of Collection or for instructions on how to pay amounts owed to the City of Los Angeles, you can contact the Unit at (213) 978-7900 or visit <https://finance.lacity.org/citywide-collection-unit-faq>.

Outside Collection Agencies

Delinquent accounts may be referred to outside collection agencies if the City is unsuccessful in collecting the amounts owed. If you have received a letter from a collection agency you must contact them directly to resolve the matter or establish a payment plan. For a list of

referred collection agencies please visit

<https://finance.lacity.org/collection-agency-information>

Settlements

The Office of Finance can settle some of the cases presented by taxpayers. For the remaining settlement requests, the City Attorney's Office has formed a Settlement Bureau, to receive and respond to offers of settlement from taxpayers for delinquent taxes or a denied claim refund of overpaid taxes at any time prior to the commencement of litigation. Any offers, which are not accepted by the City, remain confidential and will not be shared outside of the Settlement Bureau. Any pending offer or counteroffer of settlement will be deemed rejected if not completed before the start of litigation. The settlement Bureau can be reached at (213) 978-7700.

Revised Account Balances

Penalties and Interest

Penalties and interest may be applied if you did not register for a Business Tax Registration Certificate or if your business tax renewals were not filed timely.

- Annual taxes are to be filed and paid on or before the last day of February.
- Quarterly taxes are to be filed and paid on or before the last day of January, April, July and October.
- Monthly taxes are to be filed and paid on or before the last day of the following month.
- The penalties for late filing can range from 5% of principal balance due up to 40% of the principal balance due.
- Interest accrues on outstanding principal balances at the beginning of every month.
- Additional penalties may be applied for not paying your tax bill on time, fraud and negligence.

Please refer to LAMC Section 21.04 Due Dates and Section 21.05 Delinquent Dates - Interest - Penalties for complete information.

Refunds and Overpayments

Refund claims must be filed within one year from the date of payment. If an audit results in an overpayment that is within the refund period, the auditor will provide you a refund claim form for processing. A refund will be issued if there are no other outstanding liabilities. A refund claim form can be found at <https://finance.lacity.org/refund-policy>

Non-refundable overpayments will remain in the account and may be used as credits against underpayments. The overpayment must be used within three years from the date of payment. Overpayments are applied to underpayments in the oldest period before applying to a later period. Any overpayments not used within three years from the date of payment will remain in the account and will be considered out of statute for use.

Audit Periods

The Audit Period(s) for levying an assessment are as follows:

1 Within 3 years of due date

At any time within three years of the date on which such taxes were due.

2 Within 3 years of untimely filing

At any time within three years of the date on which an untimely business registration application or untimely tax renewal form was filed.

3 Within 6 years if substantial understatement

At any time within six years of the date on which such taxes were due if there is a substantial understatement of the amount of tax due.

A substantial understatement occurs when a taxpayer fails to report some of the tax due and the omitted amount is 25% or more of the amount of tax reported in the tax registration or renewal process.

4 Within 8 years if business not registered

Within eight years if a taxpayer does not register their business and obtain Business License Registration Certificate.

5 Waiver

A signed waiver may be requested to toll the audit period.

Questions and Answers

What is a tax audit?

A tax audit is an examination of financial records to determine if the proper amount of tax due was filed and paid.

Why does the Office of Finance conduct audits?

Audits help ensure taxes are calculated and paid in a fair and consistent manner. An audit will also help provide an education and understanding on how to accurately report the self-assessed tax.

What does the City do with the taxes collected from business tax?

The funds are contributed to the City's General Fund which are used to support essential services such as those provided by the Police and Fire Departments. The services are provided to City residents, visitors, and businesses.

Based on the 2019-20 budget, the Fire and Police budget accounted for 68.8% of the unrestricted revenue budget.

What if I am no longer engaged in business?

Although you may no longer have a business, you may still be liable for the prior years the business was in operation.

What if the business has never been profitable?

The City tax is a gross receipts tax. All businesses regardless of profitability are required to register and pay taxes based on gross receipts earned.

How will I be notified about an audit?

A letter will be mailed notifying of an audit, years under audit, and the contact information of the auditor. Please contact the auditor to schedule a convenient time and location for the audit.

Why was I selected for an audit?

Selection for an audit does not always mean there is a problem. There are several methods for selection:

Random audit – The audit was selected at random

Large variance – There is a large variance in reported measures from year to year.

Refund claimed – Audit was requested to verify the refundable amount.

Follow up audit – A follow up audit is usually conducted if a prior audit found significant amount of underreporting

Automated computer flags – An audit may be selected if flags were triggered when the account was compared against industry norms and references.

What are my rights as a taxpayer?

The Office of Finance has established a bill of rights for the taxpayer.

The rights consists of:

1. Fair and consistent application of the law
2. Professional treatment
3. A clear explanation of rights
4. Confidential treatment of tax information
5. An explanation of charges due
6. Information about tax exemptions
7. Administrative appeal if issued an assessment
8. Installment agreements
9. Taxpayer representatives
10. Business tax liaison assistance

For a detailed version of the Taxpayer Bill of Rights please refer to our website at <https://finance.lacity.org/sites/g/files/wph1051/f/Taxpayer%20Bill%20of%20Rights%20%287-30-15%29-3.pdf>

Where will the audit take place?

Audits are usually conducted at the business location. An alternative off-site location such as a bookkeeper's office may also be acceptable.

In cases where the records are not located locally, a correspondence audit by mail or email may be performed.

How many auditors will show up to for the audit?

Typically one auditor is assigned to an audit. However as part of the Office of Finance's continuous training process, a supervisor may be present at any given point during the audit process.

What to expect during the audit process?

It is our goal to conduct audits with minimum disruption to the regular business activities. The auditor will ask about the business activity and analyze the financial records. The results will be summarized in an audit report. The audit report and explanation of findings will be provided during an exit conference.

Can I hire a representative for the audit?

The audit may be conducted through a representative. The auditor will request for an authorization letter stating the representative is allowed to act on your behalf and is authorized to discuss confidential details during the course of the audit.

Is my information confidential?

The auditor is bound by a strict code of confidentiality. The Los Angeles Municipal Code Section 21.17 Confidential Character of Information Obtained – Disclosure Unlawful prohibits the disclosure of business details. Any information reviewed or obtained during the audit process will be kept confidential.

Are the auditors impartial?

The auditor is fair and impartial. The audit findings will be based on a review and analysis of relevant documents. The auditor will provide and explain the report that summarizes any findings.

How many years will be included the audit?

A typical business tax audit will cover three years of reporting. However number of years may be expanded through a statute of limitations waiver. The number of audited years may also be expanded up to six years if the reporting was found to be substantially understated. An audit of up to eight years may be conducted if an unregistered business was discovered by the Office of Finance.

How long will the audit take?

The audit can take anywhere from several days to several months to complete. The duration of time will depend on the complexity of the business, availability of both staff and taxpayer, when the records were provided, completeness and accuracy of records.

What are the possible outcomes of the audit?

There are three types of audit determinations. A no change audit means the gross receipts were adequately reported and paid. A liability means the gross receipts were underreported and or the amounts owed were underpaid. A credit means the gross receipts were overreported and or the amounts owed were overpaid.

What if I do not respond to the first audit notice?

If there is no response to the audit notice, the auditor will make a second attempt to establish contact. This may be accomplished by mail, phone call or personally through an initial call.

What if I choose not to set an audit appointment or choose not to provide financial documents?

The auditor will levy an estimated assessment based on available information. The estimated assessment will be sent to you with a timeline to respond. If there is no response, the estimated assessment will be considered final and will be submitted for billing.

Can I appeal an estimated assessment?

Yes. An Assessment Response Form will be sent along with the assessment billing. Fill out the form accordingly and mail it back within the timeline specified in the audit billing. A representative from the Office of Finance will contact the person listed on the form to discuss the next step.

What if I disagree with an audit?

Discuss any unresolved issues with the auditor. The auditor should be willing to consider relevant information to resolve the issue. However, if you are unable to resolve the issue, you have the right to appeal the audit results. The auditor will explain the administrative appeal rights and process.

How do I request for an appeal?

An Assessment Response Form will be mailed along with the audit billing. Complete the response form and provide a brief explanation on the issue. The form must be returned within the timeline stated on the audit billing. A representative will contact you when the form is received.

What is the appeal process?

An informal meeting will be held with the taxpayer, the auditor, and an Assessment Review Officer to discuss the issue. You may submit information that supports the unresolved issue. After the meeting, a decision regarding the unresolved issue will be mailed to you. If unsatisfied with the decision, please refer to the decision mailing for

appeal instructions.

The second level appeal will be heard by the Board of Review. This is also an informal meeting that is held with the taxpayer, the auditor, the Board of Review Hearing Officer, a representative from the Controller's office, and a Public Member. The board will collectively make a decision regarding the issue. The decision will be mailed to you.

What if I conduct business in multiple cities?

If conducting business in multiple cities, you should contact each city to determine if a business license and tax payment is required. Each city has their respective apportionment methodology, tax regulations, and tax rates.

Tax refund

A refund claim for overpayment of business tax must be filed within one year from the original payment date. Any overpayments of business tax not eligible for refund will remain in the account as an overpayment. For additional information please see LAMC Section 21.07 Refunds of Overpayments. The refund claim form can be found at <https://finance.lacity.org/refund-policy>

Tax over payments

Business tax overpayments may be applied toward future tax liabilities. The overpayment must be applied within three years of the original payment date. Any overpayment not applied within three years of the original payment date will become out of statute and cannot be used. For additional information please refer to LAMC Section 21.05 Delinquent Dates – Interest – Penalties.

Penalties and Interest

Penalties are applied if the tax payment was late or if there was an underpayment of original tax due. Additional penalties for failure to pay the determination owed, fraud, and negligence may be applied if applicable. Interest continues to accrue until the amount due is paid. For additional information please see LAMC Section 21.05 Delinquent Dates – Interest – Penalties.

Where can I find the Los Angeles Municipal Code?

A link to the Los Angeles Municipal Code can be found at <https://finance.lacity.org/tax-ordinance>

What are my payment options?

- Payments by check may be mailed.
- Payments in cash, check, or credit card can be made at any of our public offices.
- Credit card payments are accepted through the Office of Finance website online services.
- All credit card or debit card payments will be assessed a fee of

2.7% of the payment amount.

- Payments of \$50,000.00 and above are required to be sent by ACH. For additional ACH information please see <https://finance.lacity.org/electronic-funds-transfer-payments-ach-faq>

Public Offices are located at:

City Hall
200 N. Spring St, Room 101
(Note: Use Main Street Entrance)

Van Nuys Civic Center
6262 Van Nuys Blvd., Suite 110

West Los Angeles
1828 Sawtelle Blvd., Room 102

Office hours for all locations are:

Monday, Tuesday, Thursday and Friday - 8 AM to 4:30 PM
Wednesday - 9 AM to 4:30 PM

Excluding City Holidays

We can be contacted at:

844.663.4411

finance.customerservice@lacity.org

finance.lacity.org

What if I choose not to pay my assessment bill?

Interest and penalties will accrue on the amount outstanding. If not paid, the amount due may be sent to collections, a lien may be filed on the business, or the Office of Finance may file a lawsuit. For outstanding Parking Occupancy Tax, a claim against the bond, if applicable, may be made in the amount of outstanding balances. You will be billed for any fees or charges incurred during the collection effort.

Do you offer installment payment plans?

Installment plans are generally available for business taxes. Installment plans are not available for cannabis businesses or for users tax. Please refer to <https://finance.lacity.org/installment-agreement> for additional information.

What if I cannot afford to pay the amount due?

An Offer in Compromise program has been created that allows financially troubled taxpayers to enter into settlement agreements for business tax. There is a \$150.00 application fee for this program. Regardless if the offer is accepted, the \$150.00 will be applied toward the outstanding balance. For more information please refer to <https://finance.lacity.org/offer-compromise-info-and-faq>

Can I settle on the amount due?

The Office of Finance is not authorized to settle on amounts owed. Any settlement officers should be directed to the Settlement Bureau of the Office of the City Attorney. For additional information please refer to <https://finance.lacity.org/settlement-bureau>

Can I get the penalties waived?

Yes. A waiver must be submitted in writing and will be considered on a case-by-case basis only if the outstanding principal and interest are paid in full. If the waiver is denied, you will be notified and the penalty will be billed. The Office of Finance may waive penalties up to \$15,000.00. Any waiver submitted for amounts above \$15,000.00 will be automatically denied. For additional information please refer to <https://finance.lacity.org/waiver-penalty-request>.

For penalties above \$15,000.00, please contact the Settlement Bureau and attempt to settle on the total of principal, interest, and penalty due.

Where can I find more information on business taxes?

You can visit our website at www.finance.lacity.org or you can contact the taxpayer liaison at finance.taxliaison@lacity.org

The logo for the Los Angeles Office of Finance is centered in a large, light blue circle. The text "los angeles" is in a bold, black, sans-serif font, stacked above "office of" which is in a smaller, white, sans-serif font. Below that, "finance" is in a bold, white, sans-serif font.

**los
angeles**
office of
finance



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finance.lacity.org

Note: This publication summarizes the Los Angeles Municipal Code (LAMC) and the policies of the Office of Finance in effect as of the date of printing. However, changes in LAMC and the policies of the Office of Finance may occur. If there is a conflict between the text in this publication and current LAMC and policies, the current LAMC and policies will always be controlling.