

Q How many years can the audit/investigation cover?

A In most cases, the audit/investigation will start with the most recently completed calendar year, or with the year(s) specified by the auditor on the *Notice of Michigan Unemployment Insurance Agency Tax Audit* letter. If an adjustment to taxable wages is found for that year, previous or subsequent years may be audited. An audit can cover up to three previously completed calendar years, plus the current year. In cases of fraud, the three year limit is extended to six years.

Q How long will the audit/investigation take?

A Most random audits can be completed in a short period. Audit/Investigation times can vary greatly depending on the size and complexity of the employer and the auditor's access to the required records. In some circumstances, audits/investigations may require return visits by the auditor.

Q Where will the audit/investigation take place?

A Generally, the auditor will try to schedule the audit/investigation at the site where the records are located or are readily available. This may be your place of business or the office of your accountant or attorney. If your business is located outside the state of Michigan, you are required to produce your records for review in Michigan. Regardless of where the audit/investigation is conducted, the auditor may visit the place of business to verify the business operation, if it's in Michigan.

Q Must I be available at the time of the audit/investigation?

A You may designate an individual to provide the records to the auditor. However, this person must have the knowledge to answer any questions the auditor may have regarding the records, and be authorized to act on your behalf. This allows for less confusion and misunderstanding regarding the audit/investigation results. The authorized representative should have a power-of-attorney to discuss your tax matters. In addition, a separate interview with the owner or corporate officer may be necessary.

Q What if I don't have any employees?

A The records may still have to be reviewed to verify this fact.

Q When will I be advised of the audit/investigation results?

A Upon completion of the full audit, the auditor will discuss the results with you or your designated representative in a post-audit interview. Following the post-audit interview, the UIA auditor may provide a letter explaining that, based on a review of the audit/investigation, the Agency may make adjustments involving one or more UIA account(s). These adjustments will be issued as a written Determination. The letter will also explain the right to protest/appeal the Determination in accordance with the MES Act.

Q What happens if I owe additional taxes? What if I can't pay them?

A The auditor will request that any balance due, including interest and penalties, if applicable, be paid upon completion of the audit/investigation. If you are unable to pay the full amount due, the auditor will direct you to your UIA Tax Team to arrange a payment agreement.

Q Will the taxes I pay to the Internal Revenue Service be affected by the audit/investigation?

A Possibly. Under certain circumstances, the Internal Revenue Service will be notified if you fail to report wages to the UIA. Additionally, the amount of credit for payment of your Federal 940 or FUTA may be affected.

Q If I appeal the Determination resulting from the audit/investigation, does the interest on the additional tax due stop until the matter is resolved?

A No. The only way for interest to stop accruing is to pay the entire balance due, including interest, under protest. If a ruling is made in your favor, this money will be credited to your account (or refunded, if you request).

If you have any further questions, contact the auditor at the telephone number shown on the Notice of Michigan Unemployment Insurance Agency Tax Audit letter.

Jennifer M. Granholm, Governor
State of Michigan



Keith W. Cooley, Director
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**UNEMPLOYMENT
INSURANCE AGENCY**

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Q & A Regarding Tax Audits/ Investigations

State of Michigan
Department of Labor & Economic Growth
Unemployment Insurance Agency

Questions & Answers Regarding Tax Audits/Investigations

Q Why does the UIA conduct audits/investigations?

A UIA is required by the U.S. Department of Labor to conduct tax audits/investigations. Section 9 of the Michigan Employment Security (MES) Act gives the Agency the authority to audit/review the books and records of employers to ensure compliance with the tax requirements of the Act. Employers are required, by law, to comply with an audit/investigation request from the Agency just as they are required to comply with similar requests from other taxing authorities.

Q Why was I selected for a UIA tax audit/investigation?

A UIA tax audits/investigations are based on a computer-generated sampling, or employer account referrals.

Q What is the purpose of the audit/investigation?

A The Agency may audit/investigate for verification of wages and compliance with rulings issued by the Agency and may be used for securing delinquent tax returns, the filing of claims for bankruptcy or other circumstances that may arise in the normal course of business. The auditor will explain the purpose for the audit/investigation at the time the appointment is confirmed.

Q How will I know the person conducting the audit/investigation is from the UIA?

A A UIA auditor/investigator is required to wear picture identification and carry a badge to identify himself/herself as a UIA auditor. If you or your representative still have concerns after viewing the auditor's credentials, you may contact the UIA's Field Audit Section at (313) 456-2170 for additional verification.

Q What records will be reviewed?

A The following books and records, if maintained, must be made available to the UIA auditor:

- Forms UIA 1020, Employer's Quarterly Tax Reports, and Forms UIA 1017, Wage Detail Reports.
 - Michigan Sales and Withholding Tax Reports (monthly, quarterly or annual return).
 - Federal Form 940, Annual Federal Unemployment Tax Report.
 - Federal Forms 941, Employer's Quarterly FICA & Withholding Tax Reports.
 - Employer's Federal Income Tax Returns, Federal Schedule C for Sole Proprietors, Federal Form 1065 for Partnerships or Federal Form 1120/1120S for Corporations, LLCs and LLPs.
 - Federal Forms W-2, Employee's Wage and Tax Statements, and Federal Forms W-3, Transmittal of Wage and Tax Statements (W-2 Summary).
 - Federal Forms 1099 and Federal Forms 1096, Annual Summary and Transmittal of U.S. Information Returns (1099 Summary).
 - Michigan Annual Corporation Return (corporations only).
 - Employee's Individual Earnings Records, along with any monthly, quarterly and year-to-date summaries that are maintained regarding these records.
 - Check Register and Cash Disbursement Records, both for general and payroll accounts.
 - Receipts and Invoices for disbursements from the general account.
 - Check stubs and/or canceled checks.
 - General Ledger, General Journal and the list of accounts for these records.
 - Petty cash records.
 - Financial Statements (Profit and Loss, Income Statement, Balance Sheets, etc.).
 - Master Vendor Files.
 - Time cards.
 - Proof of Workers' Compensation Insurance.
- Note: R 421.190 of the Michigan Administrative Code requires employee leasing companies (ELCs, also sometimes known as professional employer organizations) to provide certain additional information as follows:
- Completed Form UIA 1045, Status Questionnaire for Employee Leasing Companies.
 - Completed Form UIA 1045-A, Disclosure Statement for Employee Leasing/Client Companies with Common Officers/Ownership/Family Members.
 - Lists of client entities by year (must include: full legal name, business address, Federal Employer Identification Number, contact name and phone number, and current or previous UIA account numbers, if known).
 - Signed copies of the employee leasing contracts between the employee leasing company and each client entity.

- Lists, by client entity name and Federal Employer Identification Number (FEIN), of the employees leased to each client entity (with employees' names and social security numbers).

Q Why is the auditor examining records other than the payroll records?

A The auditor reviews records other than the payroll records to trace the payment of wages from the source of original entry to the individual payroll records, and to look for taxable wages that may have been misclassified as non-taxable payments. The auditor also reviews some non-payroll records to ensure that liability has been established properly and that the tax rate is accurate. Section 9 of the MES Act authorizes the UIA to verify that all taxable wages have been reported properly and to impose legal remedies for failing to produce the requested documents.

Q What will the auditor be looking for?

A The auditor will be verifying that your liability has been properly established, that all wages taxable under the MES Act were properly reported, and that the tax rate is accurate. The auditor will also be reviewing the records for casual and sub-contract labor, independent contract labor, certain sales commissions, corporate officer remuneration, etc., that may be taxable under the MES Act.

Q What if we paid for services of individuals we do not consider to be our employees? Will we have to pay taxes on their earnings?

A The most frequent question arising from a UIA audit is whether certain wages paid by the employer are taxable for UIA purposes. You may consider an individual to be an independent contractor or sales agent, but the UIA may consider their earnings to be taxable wages, based on the law and on court decisions. The auditor will apply the law and court decisions in making an adjustment for these services and will fully explain to you the reason behind this decision. If you do not agree with the auditor's decision, you have the right to request that a written Determination be made by the UIA. You further have the right to appeal this Determination, first through the administrative appeal process, then through the court system.

