

Sales & Use Tax Bulletin 2017-01

Issued April 10, 2017

Revised: March 5, 2021

Review of Large and Complex Refund Requests

To improve overall tax compliance and to improve the efficiency of reviewing these requests, large refund requests may be addressed through the field audit process.

There are several advantages for both taxpayers and the Department in addressing refund requests through a field audit:

- Overpayments established would offset any audit liability, potentially reducing the amount of interest and penalty due if a follow-up audit were conducted after a refund was granted.
- Furthermore, when an audit finds a net credit, interest will be calculated from the date of overpayment to the date of the audit report. In contrast, interest on a refund granted on appeal can only be granted starting 60 days after the petition is filed.
- A field audit can involve a stratified random sample of liabilities and overpayments, including overpayments to third parties, to limit the number of transactions required to be reviewed at all appellate levels.
- Through a field audit, areas of liabilities and overpayments would be specifically identified and discussed with the taxpayer, so that the taxpayer can take corrective action to improve compliance.
- A taxpayer can provide on-site evidence to the auditor, allowing an informed decision regarding the proper application of sales and use tax.
- Consolidating the liability and overpayment issues into a field audit would allow the appellate process to handle both issues simultaneously.

If a large refund request results in an audit being issued, the taxpayer will have the option to continue pursuing the refund through the appeal process or withdrawing the petition for refund and allowing the overpayments to be addressed in the audit. The audit will generally encompass the periods statutorily open to audit which is the three prior years plus the current year. An audit may extend to additional periods if the taxpayer agrees to a waiver of the statute of limitations on assessments. The taxpayer's due process rights for that period are fully preserved through the field audit process. Any refunds not granted in the audit for the audit period may be raised in a refund petition within six months of the mailing date of the notice of assessment, or within three years of actual payment of the tax, whichever is later, under 72 P.S. § 10003.1(b).

The decision to conduct a field audit will be at the discretion of the Department, but in general, refund petitions requesting in excess of \$100,000, or multiple petitions in one year exceeding that threshold in the aggregate, are more likely to be referred for a field audit.