AUDIT DIVISION STATISTICAL SUMMARY

The following information is based on 100% of the audits completed, taxpayers assisted and special projects conducted during Fiscal Year 2000, and addresses the requirements set forth by IC 6-8.1-14-4(2).

See Page 40 for an Index of exhibits and charts included.

Taxpayers Served In District Offices

Taxpayer assistance is available in all district offices. Each office has a taxpayer assistance supervisor and assistant taxpayer assistance supervisor who perform taxpayer service functions as well as other office support responsibilities. Some offices have a field investigator who supports taxpayer assistance. Field investigators also perform collection functions in their districts. Contract employees are available throughout the year to support taxpayer assistance.

The "Taxpayer Assistance Report" (Exhibit A) provides the number of taxpayers assisted (in person and by telephone) and the amount of money collected and assessed in each office. Exhibit A reveals during Fiscal Year 2000 district offices assisted 209,079 taxpayers in person and 316,190 taxpayers through telephone contact. Total taxpayers served by the district offices are 525,269. The district office in Clarksville served 28,417 taxpayers in person, the highest number of any district office. The Kokomo District Office served 26,038 taxpayers in person, the second highest total.

The Bloomington District Office served 41,212 taxpayers by telephone while the Terre Haute District Office served 39,012 taxpayers by telephone. This was the highest number of telephone contacts among the district offices, representing 13% and 12% respectively. The Bloomington District Office served a total of 62,590 taxpayers by telephone and walk-in assistance while Clarksville served 61,062 taxpayers by telephone and walk-in assistance.

"Taxpayer Assistance/Special Project Statistics" (Exhibit B) provides the number of hours devoted by field auditors in the district offices to assist taxpayers and conduct special projects. The exhibit reveals that 9,388 auditor hours were channeled in this direction.

Special Projects

The Audit Division during the 2000 fiscal year pursued one special project, Comply 2000. The Comply 2000 project commenced at the conclusion of Project Comply 1999 and was conducted statewide. These audits identified candidates that were usually small and would normally not meet the criteria for a regular audit examination. The results of Project Comply 2000 are:

Audits Completed	1,460
Assessments	$1,434,376
Refunds	$ (176,426)
Average Hours Per Audit	19.03

Gross Income Tax Violations

The most frequently violated gross income tax rule is 45 IAC 1.1-2-5, which defines taxability of gross receipts from services. Violations of this rule accounted for 59 or 14.50% of all violations of the gross income tax rules in the statistics. This was also the most frequently violated rule in the previous three studies, accounting for 17.42% in 1999, 12.03% in 1998 and 12.26% in 1997 fiscal years.

The second most frequently violated gross income tax rule is 45 IAC 1.1-3-3. This rule defines the interstate commerce exemption as applied to gross receipts. This rule was inappropriately applied according to regulations affording taxpayers more exclusions from gross receipts. 45 IAC 1.1-3-3 accounted for 42 or 10.32% of gross income tax rule violations. This specific rule has not previously appeared in the study.

Ranking third and accounting for 36 or 8.85% of the gross income tax rule violations is Rule 45 IAC 1.1-1-10. This rule defines receipts to mean the entire gross income or gross receipts received by a taxpayer, actually or constructively, without any deduction of any kind or nature. This regulation ranked as the second most violated regulation in the 1999 study with a 7.17% rate of error. The 1998 study revealed the third ranked rule to be 45 IAC 1.1-1-10 with an error rate of 6.39%.

Sales/Use Tax Violations

The current fiscal year and previous statistical studies reveal the three most violated sales and use tax rules are the same for Fiscal Years 2000, 1999 and 1998. The rules are shown below with their percentage of total violations for the three years.

		2000	1999	1998
#1	45 IAC 2.2-3-4	15.38%	15.64%	16.52%
#2	45 IAC 2.2-3-20	14.72%	14.62%	12.55%
#3	45 IAC 2.2-5-8	9.91%	9.48%	10.20%

Rule 45 IAC 2.2-3-4 imposes use tax on "tangible personal property, purchased in Indiana, or elsewhere in a retail transaction, and stored, used, or otherwise consumed in Indiana . . . unless the Indiana state gross retail tax (sales tax) has been collected at the point of purchase." This rule was violated 694 times in the 2000 fiscal year, 658 times during the 1999 fiscal year as opposed to 687 times for the 1998 fiscal year.

Rule 45 IAC 2.2-3-20 states that if the seller of tangible personal property for storage, use, or consumption in Indiana fails to collect the appropriate tax, the purchaser of such property must remit use tax directly to the Department. This rule accounted for 664 violations in the 2000 fiscal year, 615 violations for the 1999 fiscal year while 522 violations occurred for the 1998 fiscal year.

The third most violated sales and use tax rule is 45 IAC 2.2-5-8. This rule clarifies the sales and use tax by providing examples of taxable and nontaxable sales of manufacturing machinery, tools, and equipment used in direct production and other activities. The failure of taxpayers to comply with this rule accounts for 447 of the 2000 fiscal year violations and 399 of the 1999 fiscal year violations. This rule accounted for 424 violations during the 1998 fiscal year.

Corporate Adjusted Gross Income Tax Violations

Corporate taxpayers violated adjusted gross income Rule 45 IAC 3.1-1-97 more than any other rule. This rule addresses the returns and reports that must be filed by adjusted gross income tax withholding agents. Violations (273) of this rule accounted for 22.00% of the total violations. This was also the most violated rule in the 1999 study accounting for 21.78% of the total violations while the 1998 study revealed 20.92% of the violations.

Rule 45 IAC 3.1-1-8 was the second most frequently violated rule under this study. This rule states that "taxable income" as defined in the Internal Revenue Code is modified in several ways to arrive at Indiana adjusted gross income. These violations (223) account for 17.97% of the total violations in 2000. The 1999 review showed a 15.37% violation rate while 1998 violations represented 16.58% of the rule.

The third most frequently violated rule is 45 IAC 3.1-1-9. This rule deals with the adoption of modifications as defined in the Internal Revenue Code. More specifically, it allows a net operating loss as a deduction in computing Indiana Adjusted Gross Income (IRS Code Section 172). This rule accounts for 107 or 8.62% of the violations of adjusted gross income tax rules. The 1999 and 1998 violations for this rule also ranked third with 8.19% and 7.07% respectively.

Amounts of Tax Assessed

Exhibits C, D and E display the amount of assessments (refunds) and violations of the gross income tax, sales tax and adjusted gross income tax administrative rules, respectively. "Total assessments" for any tax type represent gross assessments less amounts refunded.

The amount assessed or refunded for each of the most frequent violations and the percentage of the amount to total net assessments are presented below:

Gross Income Tax—Exhibit C:

	Amount Assessed	Percentage of All Assessments
45 IAC 1.1-2-5	$1,874,214	22.50%
45 IAC 1.1-3-3	$ (87,225)	(1.05%)
45 IAC 1.1-1-10	$ 154,984	1.86%

Sales/Use Tax—Exhibit D:

	Amount Assessed	Percentage of All Assessments
45 IAC 2.2-3-4	$2,656,169	9.97%
45 IAC 2.2-3-20	$8,712,268	32.69%
45 IAC 2.2-5-8	$4,275,461	16.04%

Corporate Adjusted Gross Income Tax—Exhibit E:

	Amount Assessed	Percentage of All Assessments
45 IAC 3.1-1-97	$ 540,963	4.70%
45 IAC 3.1-1-8	$ 7,541,437	65.51%
45 IAC 3.1-1-9	$(5,595,392)	(48.60%)

Industry /Business Most Frequently In Violation

Gross Income Tax:

For the eighth consecutive time, taxpayers engaged in manufacturing most frequently violated the gross income tax rules. This group committed 149 violations or 36.61% of the total violations. The gross income tax rule most frequently violated by this group of taxpayers was 45 IAC 1.1-3-3. This rule defines the interstate commerce exemption.

The second largest number of gross income tax violations was committed by taxpayers in the wholesale industry. This group committed 103 infractions or 25.31% of the total violations. The service industry ranked second in the 1995 and 1999 studies. Wholesalers and retailers were the second most frequent violators of these rules in the 1994,1996, 1997 and 1998 studies. The wholesale industry most violated rule for 2000 was 45 IAC 1.1-3-11, which defines taxation of special corporations.

Sales and Use Tax:

For the 2000 reporting period, the service industry replaced the wholesaler/retailers as the industry with the most frequent violations. The service industry accounted for 1437 violations or 31.86% of the total sales and use tax violations. The most frequently violated rule by the service industry was 45 IAC 2.2-3-20, which deals with remitting use tax.

Wholesalers and retailers were the second most frequent violators of the sales and use tax rules. There were 1397 violations committed by this group representing 30.97% of the total violations. The rule most frequently violated by wholesalers and retailers was 45 IAC 2.2-3-4, which clarifies the use tax due on tangible personal property. The previous eight years statistics showed wholesalers and retailers were the most frequent violators of the sales and use tax rules.

Adjusted Gross Income Tax:

Service providers with 403 infractions, were the most frequent violators of adjusted gross income tax rules. This figure represents 32.47% of the total adjusted gross income tax violations.

Manufacturers were the second most frequent violators of the adjusted gross income tax rules. They committed 330 infractions or 26.59% of the adjusted gross income tax violations.

The service industry most violated rule 45 IAC 3.1-1-97. This regulation addresses returns and reports of withholding agents under adjusted gross income tax. The rule most violated by the manufacturers was 45 IAC 3.1-1-8. It deals with IRS Code modifications to arrive at Indiana adjusted gross income.

Special Tax Violations

Exhibit G provides the number of special tax rule violations and the amount of special tax assessments and refunds.

Article VIII (citation R800 on exhibit) of the International Fuel Tax Agreement (IFTA) was the most frequently violated special tax item in the study. It specifies the taxable event is the consumption of motor fuels in the propulsion of qualified motor vehicles, except fuel consumed that is exempt from taxation by a jurisdiction. All motor fuel acquired that is normally subject to consumption tax is taxable unless proof to the contrary is provided by the licensee. Article VIII was violated 170 times and yielded $286,760 in net assessments for the State of Indiana. This represents 26.28% of total violations.

The exhibit also reveals that Article X (citation R1000 on exhibit) of the International Fuel Tax Agreement (IFTA) was the second most frequently violated section of the special tax statutes. This Article discusses how taxpayers can obtain credit for tax paid on purchases of fuel. It also lists the records needed to substantiate the refund request. This article was violated 159 times accounting for 24.57% of the total violations. These violations resulted in refunds of $(78,057).

The taxpayer group most frequently in violation of the special tax statutes and IFTA Articles was the transportation industry. This group committed 244 violations accounting for 37.71% of the total infractions. Article VIII of the International Fuel Tax Agreement was most frequently violated by the transportation industry.

Miscellaneous Taxes and Penalties

Exhibit F provides the number of violations and assessment amounts of the following:

Financial Institutions Tax
Penalty and Interest Assessments
Food and Beverage Tax
Innkeeper's Tax

A review of this exhibit reveals that 45 IAC 15-9-2 was violated 30 times. This regulation defines the statute of limitations as it applies to refunds. These violations yielded $(124,770) in net refunds.

The 13 violations of IC 6-8.1-4-2 yielded a total of $(261,184) in refunds. This code section addresses access to accounting records of a business and the use of sampling techniques for auditing purposes.

Number of Years in the Audit Period

The audit period was three years.

Use of Professional Tax Preparation Assistance

The services of professional prepares were used in the preparation of 75.50% of the corporate income tax returns and 11% of the sales tax returns. These findings remain consistent with the previous years' reports.

Filing of Appropriate Tax Returns

Rule 45 IAC 3.1-1-92 (Exhibit E) requires qualifying corporations to make estimated tax payments. Taxpayers in violation of this rule either failed to file estimated income tax returns or failed to remit the appropriate amount of tax. For the fiscal year ending in 2000, the study indicates 15 violations of this rule, resulting in assessments in the amount of $923,515 and refunds totaling $(10,223).

Indiana Code 6-8.1-10-2.1 (Exhibit F) revealed no violations during the 2000 study period. This section specifies the penalty to be imposed if a taxpayer fails to file an appropriate return or pay the full amount of tax due. Violations of this section in the 1999 study were zero while the 1998 report showed 1 violation.