
December 13, 2021

Performance Audit
Recommendations and
Corrective Actions for Audit:
18-06

DEPARTMENT OF TAXES
ABATEMENTS OF BUSINESS
TAX LIABILITIES

Reasons for Most Abatements Consistent
with Statute, Department Policy, or Rules;
Those with an Inconsistent Reason or
Lacking a Documented Reason Limit
Assurance of Fair and Equitable Treatment
for Taxpayers

Dated: April 9, 2018

Overview

The State Auditor's Office (SAO) makes recommendations designed to improve the operations of state government. For our work to produce benefits, auditees or the General Assembly must implement these recommendations, although we cannot require them to do so. Nevertheless, a measure of the quality and persuasiveness of our performance audits is the extent to which these recommendations are accepted and acted upon. The greater the number of recommendations that are implemented, the more benefit will be derived from our audit work.

In 2010, the SAO began to follow-up on the recommendations issued in our performance audits. Experience has shown that it takes time for some recommendations to be implemented. For this reason, we perform our follow-up activities one and three years after the calendar year in which the audit report is issued. Our annual performance reports summarize whether we are meeting our recommendation implementation targets.

<http://auditor.vermont.gov/about-us/strategic-plans-and-performance-reports>

This report addresses the requirements of Act 155 (2012) to post the results of our recommendation follow-up work on our website. The report does not include follow-up on recommendations issued as part of the state's financial statement audit and the federally mandated Single Audit, which are performed by a contractor. However, our current contract for this work requires the contractor to provide the results of its recommendation follow-up.

Audit Number & Name	Rec #	Recommendation	Follow-Up Date	Status	Review Comments	
18-6 Department of Taxes Abatements of Business Tax Liabilities	1	Develop and implement written guidance for Vermont Department of Taxes' (VDT) staff that establishes a standard methodology for documenting the reason(s) for abating tax liabilities, including when use of a reason code is sufficient, when it is necessary to add explanatory information in the VTax adjustment notes field and what that information should consist of, and to what extent external documentation is necessary.	2019	Partially Implemented	VDT reported working on a new version of the standard operating procedure (SOP) on abatements which will better describe when each reason code should be used and as part of this effort is also looking at which reason codes can be streamlined, merged, or eliminated. VDT indicated the revised SOP has not been implemented as it is in draft	
			2021	Implemented	VDT issued Standard Operating Procedure "Tax Liability Abatements and Write Offs" (SOP 2021-02) on September 8, 2021. The SOP establishes reason codes for abating and writing off tax liabilities, including when use of a reason code is sufficient, when it is necessary to add explanatory information in the VTax adjustment notes field, and when documentation should be appended.	
	2	Develop and document definitions for the reason codes.	2019	Partially Implemented	According to the department, the SOP on abatements is being amended to better describe when each reason code should be used and the department is also looking at which reason codes can be streamlined, merged, or eliminated.	
			2021	Implemented	Definitions of the reason codes for abatements and write-offs are documented in SOP 2021-02.	
	3	Consider whether VDT culpability for delays in resolution of taxpayer appeals should be explicitly addressed in the current SOP for abatements and write-offs and, if warranted, add guidance to the SOP for when it is appropriate and the amount of tax liabilities that may be abated for this reason.	2019	Implemented	VDT reported considering whether VDT culpability for delays in resolution of taxpayer appeals should be explicitly addressed in the SOP for abatements and write-offs, and determined it was not warranted to address it in the new version of the SOP.	
	No further follow-up is required because the recommendation was implemented.					
	4	Develop and implement procedures to document that VDT has conducted the evaluation of settlements required by VT Rules of Procedure CVR 10-060-028, Rule 4(b).	2019	Partially Implemented	According to the department, the General Counsel briefed attorneys on what information can and should be entered into the system related to VT Rules of Procedure CVR 10-060-028, Rule 4(b). However, the department indicated that some attorney/client communications and attorney work product are not entered into the system.	
			2021	Partially Implemented	VDT has not performed any further corrective action on this recommendation and indicated that some information cannot be entered in the VTax system because it is attorney work product subject to attorney/client communications. However, SAO did not recommend that the evaluation be documented in VTax. Rather, SAO recommended that VDT develop and implement procedures to ensure that the required evaluation of settlements is documented.	
	5	Determine which approval levels the department should use, VTax permissions or the thresholds established in SOP 2016-02, and implement a single set of approval levels for abatements.	2019	Partially Implemented	VDT has determined that the VTax thresholds are appropriate, and is working to incorporate them into a new version of the abatement SOP.	
			2021	Implemented	Per SOP 2021-02, VDT established a threshold of \$5,000 for abatement penalties requiring approval by supervisor, director, or other staff member granted security for approval who is not the original user inputting the request. Additionally, any abatement of tax or interest shall be approved by a supervisor or director who is not the original user inputting the request.	

Audit Number & Name	Rec #	Recommendation	Follow-Up Date	Status	Review Comments
18-6 Department of Taxes Abatements of Business Tax Liabilities	6	Develop written guidance that explains which adjustments to tax liabilities are not traditional abatements or write-offs but will be recorded as such in the VTax adjustment module. Specify which, if any, existing reason code may be used just for these transactions or add another reason code for this purpose.	2019	Partially Implemented	According to VDT, the revised SOP will clarify converted adjustments, which is one of the three types of adjustments identified during the audit that were recorded as abatements even though they were not abatements.
			2021	Implemented	SOP 2021-02 specifies which reasons are to be used for abatements and which are applicable for write-offs.
	7	Assess the significance of abatements for nonresident withholding (NRW) related to businesses with nonresident owners that are corporations. Document the assessment and decide whether to configure VTax to delay billing to allow	2019	Implemented	VDT determined that due to the complex nature of these transactions, it is not worth automating a billing delay for these entities. VDT asserts these are abatements of NRW liabilities and can be treated as such.
					No further follow-up is required because the recommendation was implemented.
	8	Develop and implement written guidance for VDT staff that requires the following: - timely recording of abatements; and - abatements recorded in VTax reflect the amount of tax, interest, and penalty that VDT agreed to abate and that if payments are received in advance, that VTax users must specifically force the abatement or write-off onto the "paid" transactions.	2019	Partially Implemented	VDT indicated that the policy for the allocation order of payments has been amended to be tax, interest, penalty, and fees for all payments received on or after January 1, 2019 which it reported would resolve the issue identified during the audit - that amounts recorded in VTax for abatements did not equal the amounts VDT agreed with taxpayers would be abated. Additionally, VDT reported they will clarify in the new version of the abatement SOP when manual intervention is needed to ensure the abatement amounts recorded in VTax equal the amounts VDT has agreed to abate.
			2021	Implemented	SOP 2021-02 includes procedures to ensure that abatement amounts recorded in VTax equal the amounts VDT has agreed to abate. These procedure state that department staff need to apply abatements and writeoffs to the accounts timely and review them to ensure the tax, penalty, and interest amounts agreed to be paid by the taxpayer or abated by VDT are appropriately applied to the remaining amounts shown in VTax so that the reports run in VTax are accurate.
	9	Develop and implement an audit manual that addresses determination of audit scope, supervisory review, audit termination, and circumstances, if any, that require senior official involvement.	2019	Implemented	VDT reports having compiled a set of Audit Best Practice & Resource Guides and that VTax has been programmed to manage audits with supervisory approval required at specific stages of the audit. In addition, VDT has issued several audit procedures, including one which documents the expectation that audits will be limited to the original designated periods/tax types and not expanded without approval and another which addresses informing supervisors and senior tax department officials of circumstances arising during audits.
					No further follow-up is required because the recommendation was implemented.
	10	Develop and implement a conflict of interest policy for the Vermont Tax Advisory Board.	2019	Implemented	VDT has implemented a conflict of interest policy for the Tax Advisory Board and the Tax Technical Working Group.
			No further follow-up is required because the recommendation was implemented.		