AUDIT OF CAPITAL ACQUISITIONS - 113

GENERAL – 113.1

A. Capital acquisitions consist of fixed assets such as machinery, factory equipment, delivery equipment, office furniture and equipment, counters, signage, shelves, display cases, leasehold improvements etc. Generally, items in this category are subject to depreciation.

B. The type of fixed assets in a particular business can be ascertained from the vendor's records, such as chart of accounts, general ledger, purchase and general journals, cash disbursement books, voucher registers, Federal and New York State income tax returns and depreciation schedules.

C. Generally, all capital asset transactions during the audit period should be reviewed in detail. However, when auditing a large vendor, the Auditor may decide to limit the detailed review of these transactions to high dollar items where a complete examination of all asset acquisitions may be too voluminous and time consuming. Also in the case of a large vendor, a statistical sampling of all asset transactions or just low value acquisitions may be performed (see C.A.A.T Manual). Any deviation from a detailed audit must be discussed with the Team Leader and justified in the Audit Report narrative. (See Field Audit Guidelines Section 204 - Test Periods).

AUDIT PROCEDURE - 113.2

A. The auditor should review the chart of accounts with the vendor to identify those accounts which have taxable activity. This should include a review of all long term liability accounts to determine proper recording of asset purchases.

B. The general ledger entries should be analyzed to identify the transactions which must be examined. This may be simplified by obtaining a computer printout or similar summary listing from the vendor. In audits of small vendors, this information is usually readily obtainable from the depreciation schedules of the Income Tax returns. If possible a reconciliation of asset totals from the general ledger to depreciation schedules of the Federal Income Tax returns should be done.

C. Based on the information obtained from the vendor, the Auditor should examine the related invoices to determine proper payment or accrual of tax on capital asset acquisitions. The propriety of account coding and classification should be verified and transactions coded for tax accrual should be traced to the accrual account and to the sales tax return worksheets.

D. The Auditor should also spot check entries in accounts which are presumed to be nontaxable to verify the accuracy of codings and classifications. If any significant errors of a taxable nature are found, it may be necessary to expand the examination of asset acquisitions to include these accounts.

E. Where the vendor's operations cover several locations and a large geographic area and equipment is routinely transferred between locations, the equipment inventory procedures should be analyzed to determine that the correct use tax has been remitted.

AUDIT OF CAPITAL ACQUISITIONS - 113

F. The Auditor must record or enter in workpapers all purchase invoices that are found to be subject to additional tax or credit, listing the supplier's name, invoice date and number, description of the item, gross invoice amount, taxable amount, tax paid, if any, and location. The Sales Tax Audit Application will automatically determine the appropriate tax rate and tax due.

G. The Auditor must review the listing of proposed taxable asset acquisitions with the vendor and make any necessary adjustments where the vendor demonstrates coding or classification errors or furnishes other evidence of nontaxability. A summary schedule of additional tax or credit on asset purchases must be made to support the audit adjustment.

H. Asset transfers between related corporations done by journal entry should be examined. If the balances of asset accounts at the close of the year vs. the beginning of the year are different, the vendor should explain the difference.

I. Leasehold improvements should be examined in conjunction with the vendor's lease to determine if the leasehold improvement is a capital improvement or taxable due to the fact the item must be removed upon termination of the lease (see TSB-H81 (9) S and TSB-H81 (9.1) S, Flahs of Syracuse; Supermarket General Corp., Pathmark Stores, ALJ,DTA 819768,June 9, 2005; Supermarket General Corp., Pathmark Stores, Tribunal, DTA 819768, November 9, 2006).

SALE OF FIXED ASSETS - 113.3

A. The audit of the fixed asset accounts may disclose credit entries. These entries normally represent sales or other dispositions of fixed assets. When credit entries are found, the Auditor should trace the transactions through the accounting records to insure that the proper amount of tax has been collected and remitted on these transactions or that a properly completed exemption certificate is on file. A review of the Federal Income Tax returns should be done to verify the sale of assets. If the Auditor finds that the proper tax has not been remitted, details of the transaction must be recorded in the workpapers for audit adjustment. The Sales Tax Audit Application will automatically determine the appropriate tax rate and additional tax due.

PREPARATION OF VENDEE INFORMATION REPORTS (AU-253.1)- 113.4

A. *Vendee Information Reports*, Form AU-253.1 must be prepared where, during the Auditor's examination of vendor's purchases of asset acquisitions, suppliers of taxable goods are encountered and no tax or the incorrect jurisdictional rate has been charged (see Field Audit Guideline Section 108.8 – Audit Program/Vendee Information).