



*Unemployment Insurance
Agency*

Tax Audits and Investigations

UIA Audits / Investigations

- The U.S. Department of Labor **requires** UIA 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 law.
- Employers are **required** by law to comply with an audit/investigation request from the agency just as they are required to comply with requests from other taxing authorities.

Selection Process for UIA Tax Audits / Investigations

UIA tax audits/investigations are based on:

- Random selection by county or zip code
- Account referrals

Purpose of UIA Tax Audits / Investigations

- Verification of wages
- Compliance with rulings
- Secure delinquent tax reports

Auditor Receives Assignment

- Auditor contacts employer either by phone or letter to schedule an appointment.
- Form UI 1039 is provided and lists the records to be reviewed.

Confirming Identity of UIA Tax Auditor / Investigator

- UIA auditor/investigators wear picture identification and carry a badge to identify themselves.
- If you or your representative have concerns after reviewing the auditor's credentials, you may contact UIA's Field Audit Section at (313) 456-2171 for verification.

Pre-Audit Interview

- Purpose of the audit
- Records to be examined
- Audit process
- Answers to any preliminary questions

Four (4) Parts of the Audit Process

- Verification of entity & ownership
- Verification of payroll documents
- Status of possible unreported wages
- Audit/Investigation findings and results

Verification of Entity & Ownership

- Business and mailing address
- Entity type
- Ownership
- FEIN

Verification of Payroll Documents

- Federal Forms 940 and 941
- Payroll records
- W-2's, W-3's
- Federal income tax returns
- Supporting documentation for any exempt services (Sec. 43) or exempt payroll (Sec. 44)

Status of Possible Unreported Wages

- Check register
- General ledger
- Federal income tax return

Supporting Evidence for Subcontracted Services

- Invoices
- Business cards
- Federal Income Tax Schedule C
- Website
- Advertising
- Business telephone listings

Determining Whether Certain Payments for Services are Taxable by UIA

- You may consider an individual to be an independent contractor or sales agent, but UIA may consider their compensation to be taxable wages based on the law and court decisions.
- The auditor will apply the law and court decisions when making an adjustment for these services and explain the reasoning behind the decision.
- Employers have the right to request a written determination from the Tax Office and have appeal rights for this determination.
- Any other payments issued to employees and not reported as payroll are reviewed for wage status.

Audit / Investigation Findings and Results

- Upon completion of the full audit, the auditor will discuss the results with you or your designated representative in a post-audit interview.
- The auditor will complete the report and submit to the Tax Office for posting on the employer's account.
- The auditor will request that any balance due, including interest and penalties, if applicable, be paid upon completion of the audit/investigation.

How Many Years can the Audit / Investigation Cover?

- The audit/investigation will start with the most recently completed calendar year, or with the year(s) specified on the *Notice of Michigan Unemployment Insurance Agency Tax Audit* letter sent prior to the audit.
- 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 along with the current year.
- In cases of fraud, the three year limit is extended to six years.