**Everything you need to know about corporate tax audits**

Your company has just received notification of a tax audit, and an inspector is due to take a close look at your accounts and tax returns in the near future. When it comes to tax audits, improvisation is not the key to success. In this guide, we'll take you through the corporate tax audit process in France, explaining in detail how it works. You'll also discover why it's essential to be well-prepared to avoid a [tax adjustement](https://www.sion-avocat.fr/en/tax-customs-law/id-2-tax-audit-adjustement-litigation), as well as the reasons why certain companies are targeted by such audits.

Ultimately, we will provide you with invaluable practical advice to ensure successful preparation for this **tax audit**.

**What is a corporate tax audit?**

Any company, large or small, as well as sole proprietorships, can be subject to an in-depth audit of its accounts. The aim of this procedure is

 to help the State prevent tax fraud and intervene where necessary. In this context, we will explore the underlying intentions of the tax authorities and explain how a corporate tax audit works.

**Purpose and definition of tax audits**

All companies are required to submit various tax returns to the tax authorities. These include VAT, corporation tax, income tax, CVAE and many others. The tax authorities have a duty (and the power) to carefully monitor the information provided in these declarations. As part of this monitoring, the Direction Générale des Finances Publiques (DGFIP) organizes audits, commonly known as tax inspections, with the aim of detecting any breaches of tax law. It then distinguishes between unintentional and deliberate infringements.

**The different types of tax audit**

The first scenario involves a document audit, a procedure that generally takes place discreetly, without the taxpayer being informed, especially if no irregularities are suspected.

With the advent of computerized accounting systems, there are now two coexisting tax audit methods. On the one hand, the inspector can physically visit the company's premises to carry out the audit, based on the documentation made available to him. On the other hand, he can conduct an accounting audit remotely from his office. Here are the details of these two approaches to corporate tax audits.

 **What is the limitation period for repossession**?

The provisions of the Livre des Procédures Fiscales, specifically articles L168 to L189, set out the time limits within which the French tax authorities may correct errors or omissions detected during a tax audit. This is commonly referred to as the limitation period.

It's important to note that this period varies according to the tax in question, whether it's VAT, local taxes, income tax, and so on. In the case of corporate income and sales taxes, the tax authorities can intervene up to three years in the past, i.e. up to the end of the third year following the tax year.

The tax authorities are also responsible for verifying the integrity of companies, particularly when they benefit from tax credits. In this respect, the examination of accounting records, a common practice, may also be subject to observation by Bercy and the tax department.

 **How does a corporate tax audit work**?

These audits are never a pleasant experience. However, gaining a thorough understanding of the steps and processes involved in an accounting audit can go a long way to helping you prepare, both practically and mentally.

**Before the inspection: notice of preparation and verification**

The dreaded registered letter has finally arrived, announcing the start of the audit of your accounts. It's important to note that the auditor must wait at least two working days after receiving this notice before he can begin his intervention. This minimum period gives you the opportunity to get organized and, if necessary, consult an advisor. Take advantage of this period to search for and carefully check all the documents relating to your bank accounts mentioned in the tax audit notice.

**Control work**

At your first meeting with the inspector, you'll receive a complete list of the supporting documents required, as well as a schedule detailing the days when he'll visit your company.

With the advance of digitalization, it is becoming increasingly common to have access to a secure platform where you can upload scanned documents and required files. In this way, the auditor can carry out part of his or her work from the office, and periodically visit the company to carry out checks or discuss the documents received.

At the end of the audits, the inspector holds a summary meeting to present his observations. This is an opportune time for you to provide additional information or raise objections, if you feel this is necessary. In some cases, it may be wise to wait before making final decisions.

**Proposed rectification and further proceedings**

If no infringements or omissions are found in relation to tax legislation, the tax audit ends. However, if irregularities are found, the company will receive a proposal for rectification. You then have 30 days to respond, with the option of requesting a further month if necessary. If you accept the proposed corrections, the tax authorities will send you a collection notice for payment of the additional tax due. In the event of a dispute, the tax authorities must examine and respond to your observations.

Why does a company undergo a tax audit?

On average, a company is subject to a tax audit every nine years, and this can even occur three years after the company has been wound up. But what are the factors and reasons that trigger a tax audit? That's what we'll be exploring in the next few paragraphs.

Reasons for an internal tax audit

Internal tax audits are generally triggered for no particular reason. The tax authorities constantly monitor the consistency of the various returns they receive. When it detects anomalies, it can investigate further by carrying out an internal audit. If necessary, this internal control can lead to an external tax audit. This happens when inconsistencies are detected in the amounts declared.

For example, in a sole proprietorship subject to income tax, the profit declared in the annual accounts is directly linked to the income of the manager's tax household, which also includes the income of the spouse. Let's assume that an internal audit reveals an inconsistency between the profit of the company subject to income tax and the income tax return of the taxpayer's household. Another form of inconsistency could be a discrepancy between the company's annual sales and VAT returns.

Reasons for an external tax audit

An internal audit may trigger a more in-depth external tax audit. There are various reasons why a company may be subject to an external tax audit, including :

* **Directives from the Ministry of Finance**: In some cases, the tax authorities receive national or local directives from the Ministry of Finance, prompting them to check certain specific sectors of activity, such as catering or construction.
* **International operations**: Companies that carry out commercial and financial operations with foreign countries, particularly those with low-tax regimes, can attract the attention of the tax authorities.
* **Insufficient inventory turnover**: An inventory turnover that is too low may raise doubts in the eyes of the tax authorities, who may believe that it is intended to undervalue the stock, thereby artificially reducing taxable income.
* **Auditing a business partner**: If a company's VAT accounts are materially misstated, the tax authorities may decide to audit the company's customers or suppliers.
* **Whistle-blowing**: Complaints from a disgruntled customer, competitor or aggrieved employee can also trigger a tax audit, in the case of labor practices deemed illegal.
* **Previous tax audit**: A previous tax audit may give rise to a second audit to check whether the company has corrected the anomalies identified during the previous audit.
* **Divergent accounting ratios**: The tax authorities may be alerted by significant discrepancies between a company's sales, profits and intermediate management balances in relation to the averages for its sector of activity.
* **Inconsistency between sales and VAT declarations**: An obvious inconsistency between declared sales and the various VAT declarations can also trigger an external tax audit.

Why should you prepare for a tax audit?

The rectification proposal prepared by the inspector brings together all the anomalies he has identified during his examination of the accounting documents. Lack of communication or misinterpretation can result in additional financial costs, and in some cases, penalties for gross negligence. The more you prepare in advance of the audit, the greater your chances of reducing the amount of any tax reassessment.

Preparation, to show your serenity!

Answering questions from the tax authorities, some of which can be highly specialized, can be stressful. However, your demeanor, composure and willingness to actively collaborate are considerable assets. By carefully anticipating the audit, you can approach the situation in a more relaxed way, helping to create a favorable environment with your interlocutor.

Anticipation, to prepare answers to your questions

As you review the documents required by the inspector, take the time to examine them yourself with fresh eyes. As a CFO with expertise in corporate accounting and taxation, it's a good idea to enlist the help of your chief accountant. Work together to anticipate potential questions and prepare answers. If a document is missing, be sure to prepare a response or continue your research before the inspector arrives.

Auditing to correct errors

Preparing for a corporate tax audit is an ongoing, year-round process, provided you have a well-established organization and procedures tested by internal control. Your in-depth understanding of tax regulations also helps you avoid potential pitfalls. You can take advantage of balance sheet closures, internal audit files and statutory audits to review and improve your processes. Today, the [right to error](https://www.sion-avocat.fr/en/legal-news/id-26-what-is-the-room-for-error-tax-matters) established by the tax authorities enables you to detect and rectify anomalies in your declarations.

Avoid major risks and tax adjustments

Preparing for a corporate tax audit aims to reduce the risk of a tax reassessment. The aim is to prevent the rejection of accounts and minimize penalties for gross negligence.

**Accounting rejection**

The tax authorities may refuse to accept your accounts if they do not meet the principle of probative value. This is the case if your accounts contain a number of serious and indisputable irregularities, or if they are deemed to be insincere, i.e. not a true reflection of your actual results. This is a particularly worrying situation for a company, as in such cases the tax authorities themselves undertake to recalculate taxable profits.

**Deliberate failure to act or proven bad faith**

Notification of the tax reassessment generally includes late penalties and, depending on the seriousness of the offence, surcharges may also apply, particularly in cases of deliberate non-compliance. To minimize these high fines, it is essential to ensure that you do not repeat the same errors that were reported during the previous tax audit.

How to prepare for a tax audit

In practical terms, here are a few things you can do to increase your chances of success when a tax audit comes your way.

Daily accounting work

A successful tax audit is more like a long-distance race than a sprint. The authenticity, reliability and compliance of your accounting with tax obligations require professional work. Companies with effective internal controls and competent accounting staff tend to be more successful in this exercise.

One of the responsibilities of the CFO of an SME is to organize his or her departments in such a way as to minimize tax adjustments. Careful management of receipts and invoices, regular review and updating of reliable audit trails, verification of the FEC (file of accounting entries), appropriate document monitoring, and heeding the warnings of chartered accountants and statutory auditors are all measures that contribute to this success.

Examination of the notice of audit

The first step is to check that the notice received contains all the compulsory information as defined in the BOFIP. Failure to do so could invalidate the procedure. It is also essential to ensure that the taxpayer's charter is included in the letter.

The decision to work with a tax expert

Ask yourself: given your knowledge of your company, its vulnerabilities and potential shortcomings, as well as its sector of activity, is it appropriate to call on external advice? You can appoint a chartered accountant or a tax expert to respond to the auditor, acting in place of the manager, from the first visit to the final interview.

Selecting and appointing contact persons

The decision as to which of the company's contacts will respond to the inspectors rests with the manager. He or she may choose to do this himself or herself, but this entails the risk of not being able to deal independently with the specific questions that may arise. Alternatively, in addition to the above-mentioned advisors, one or more members of the company's team can be appointed.

Our recommendation is to limit the number of people authorized to respond to inspectors. In addition to the CEO, you can appoint the Chief Financial Officer (CFO) and/or the head of accounts. The rest of the finance team can take care of document preparation without having to meet the inspectors directly. This approach ensures better control of all information, both written and oral, communicated during the audit.

Prepare the requested information

Adopt a methodical approach when preparing and handing over data to controllers. Never provide original documents. Respond to requests without adding unnecessary information. For each year audited, keep an exact copy of the documents submitted. Take note of the auditors' comments, as they may be useful at a later date.

If some information is missing, consider negotiating an extension. In the case of permanently lost documents, be honest. If it really has happened, you may well point out that invoices from the 2000s were lost in a fire in your old offices, for example.

Preparing to welcome controllers

Plan in advance where you will receive the inspectors. It's vital not to set them up in a dark basement space. On the other hand, leaving them the company's large meeting room for days on end isn't an ideal solution either. The chosen location should offer a good balance between comfort and functionality, accessible but not immediately adjacent to the accounting department, nor completely exposed in the reception area.

Maintain a cordial attitude

Throughout the tax audit, maintain a positive, proactive attitude. The inspectors are there to do their job, and the relationship must remain professional. The outcome of the audit depends in part on the quality of the contact you maintain with them, even when communicating by e-mail or working remotely.

A corporate tax audit is one of the tasks that a Chief Financial Officer (CFO) may encounter several times in the course of his or her career. By acting professionally throughout the year, and preparing the audit thoroughly before the auditor arrives, finance departments increase their chances of avoiding a substantial tax reassessment.

What are the consequences for the manager in the event of a tax reassessment?

The assets of a company subject to corporate income tax and those of its director are not merged. Consequently, in the event of a tax reassessment, only the interests of the company are affected. However, if the tax audit reveals tax fraud, the director's liability may be called into question. In this case, he or she may be held jointly and severally liable, under criminal law, for the taxes and penalties resulting from the tax reassessment.

Calling on the services of a tax lawyer for a corporate tax audit

Present from start to finish of the tax audit, the [tax lawyer](https://www.sion-avocat.fr/en/legal-news/id-14-what-is-a-tax-lawyer) appointed for this task assists the company director in his interactions with the tax administrator. His role as an advisor specialized in tax law is of crucial importance, enabling him to interact with the tax expert appointed by the State. This professional and friendly approach, reinforced by the presence of a tax lawyer, helps minimize potential consequences and facilitates the management of the tax audit.

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