
A Guide to Connecticut Unemployment Insurance Tax Audits

Why does the Department of Labor audit employers' Unemployment Insurance records?

The state and federal governments want to ensure compliance with Unemployment Compensation law. Sections 31-245, 31-254 and 31-271 of Connecticut General Statutes Chapter 567 provide authority to audit employer records. The state labor commissioner, who also serves as the administrator of Unemployment Insurance, has power to require employers to allow review of their records.

What determines who is audited?

The reason may be one of several. To ensure that the system works well, the UI administrator must sample employer compliance, often by size or type of business. Random chance also plays a role.

What do auditors look for?

They seek confirmation that all wages have been reported correctly and all taxable wages have been computed correctly. The auditors make their findings using legal and administrative guidelines.

What if I paid people not on my payroll for services and don't regard the payment as wages, but the auditor disagrees. Can I be held liable?

Yes. Employers may pay for services from people they believe to be independent contractors, not subject to Unemployment Insurance law. If an audit finds these people are in fact employees for whom UI payment should have been made, the employer is held responsible. Other common mistakes involve failure to report payment for casual and contract labor, commissions and remuneration of corporate officers.

What if the business has no employees?

The UI administrator may want to audit to confirm the fact.

How far back will the audit reach?

A normal audit is for the most recent calendar year. If a longer period will be covered, the auditor explains why. The maximum time for which records must be available is 4 four calendar years.

What records will be needed?

Payroll and cash disbursement records, including magnetic media files, state and federal payroll tax returns, Internal Revenue Service W-2 and 1099 forms, business income tax returns, general ledgers, and invoices.

How long will the audit take?

That depends on the number of employees, the condition of the records and any irregularities found. Some audits take four to five hours. Others take longer. The auditor can best answer this question, so feel free to ask.

Where will the audit take place?

Wherever the records are available within the state. Often this is the employer's office, but sometimes it is an accountant's office. An employer may prefer to bring the records to the UI auditor's office.

Should the employer's accountant be present?

If the accountant has a firmer understanding of the business records than the employer and can better explain them, it would be wise. That is the employer's option.

How does an employer learn results of an audit?

When the audit is complete, the outcome is explained in an exit interview with the employer or employer's representative.

What if the employer is found to owe taxes but is unable to pay?

Any tax and interest due must be paid. If the entire amount cannot be paid immediately, the auditor usually can arrange a plan of payment. A penalty is charged, however, on taxes not paid within 30 days of the due date.

If additional UI taxes are owed to the state, will more money also be owed to the IRS and DRS?

It is the employer's responsibility to contact other agencies to determine if additional taxes owed.

What if the employer disagrees with the auditor's findings?

An informal hearing may be requested. After the hearing the employer is sent a notice to which an appeal to a referee may be filed within 21 days according to Section 31-237j.

The employer may appeal an adverse referee's decision to the Board of Review within 21 days according to Section 31-249.

After the Board's decision, if taxes are still owed, the employer is sent an assessment notice to which an appeal to Superior Court may be filed within 30 days. Section 31-270 provides that the amount the UI administrator says is owed is final if no appeal is filed.

Does an appeal stop interest from accruing?

No. Interest charges stop only when the amount the UI administrator believes owed is paid. If an employer who has paid the additional tax prevails in the court appeal, the money is refunded.

More questions?

One of the Field Audit offices below will have an answer:

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