Early “No Change” Audit Procedure
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Purpose: The goals of the early “no change” process are to:

1. Develop procedures by which MTC’s staff can identify audit activities that present little or no potential benefit to participating states or taxpayers;
2. Create a system to communicate that information to appropriate parties in a prompt and efficient manner; and
3. Authorize the disengagement of resources so that efforts can be redeployed to pursuits that provide greater benefit to participating states and taxpayers.

Policy: After sufficient review and as soon as prudently possible, an MTC auditor should recommend a “no change” under any of the following conditions:

1. Upon a determination that specific issues identified in the audit plan lack materiality;
2. Upon a determination that all audit issues for one or more tax years for a particular state or states lack materiality; or
3. Upon a determination that all audit issues involving the taxpayer for all years and all participating states lack materiality.

Criteria for early “no change” determination: Based upon the auditor’s initial review of the taxpayer’s records, an early “no change” determination may be made for one or more of the following reasons:

1. There is little likelihood of an error with respect to the issue(s) or return(s);
2. The potential assessment or refund for a particular state for one or more of the tax years under audit would be less than $1,000 when there is no material adjustment that would affect other years included in the audit; (The auditor may use estimates to determine if a potential assessment meets this criterion.)
3. There is little likelihood of error with respect to any participating state; or
4. The amount of work needed to fully conclude an issue, tax year, state, or the entire audit outweighs the potential benefit to the state(s) or taxpayer(s).

Required documentation:

1. For an early “no change” determination with respect to a particular issue identified in the audit plan, the auditor must document the reason for the determination in the audit workpapers and include a discussion in the audit narrative.
2. For an early “no change” determination with respect to one or more tax years for the taxpayer, for a particular state or states, the auditor must document the reason for the determination in the audit workpapers and include a discussion in the audit narrative.
3. For an early determination that the audit should be closed without adjustments, the auditor shall document the reasons for closing the audit in a report to the participating states.
**Necessary approvals:** The following levels of approval are necessary for an early “no change” determination to be made:

1. For an early “no change” determination with respect to a particular issue identified in the audit plan, the audit supervisor must approve the determination.
2. For an early “no change” determination with respect to one or more tax years for the taxpayer, for a particular state or states, the Audit Director must approve the determination.
3. For an early determination that the entire audit should be closed without adjustments, the participating states must approve the determination.

**NOTE:** The auditor, audit supervisor or Audit Director, in their discretion, may seek input from the affected states or the Audit Committee on any early “no change” determination.

**Notice procedures:**

1. If an early “no change” determination has been made, written notice shall be given to the taxpayer concerning the issue(s) or return(s) for which a “no change” determination has been made. The notice shall describe the nature and effect of the “no change” determination on the audit status of the issue or tax return, including whether or not the issue or return remains open for subsequent review by a state or states (example: net operating loss that could be carried forward).
2. If an early “no change” determination affects a potential refund of taxes paid, the auditor shall notify the taxpayer of the nature of the potential refund and whether it will be necessary for the taxpayer to file amended returns in the affected states.
3. If an early “no change” determination is approved before completion of a joint audit, notice may be given to the taxpayer before conclusion of the audit. The written notice must be given to the taxpayer no later than the time the audit schedules and audit adjustments are provided to the taxpayer.
4. For purposes of improving the audit nominating process, the Audit Director shall notify the Audit Committee of any determination that resulted in closure of an audit without adjustments.