

Income Tax Audit Nominations

[Discussion Draft v 1.5 2-26-13]

Goals for the audit nominating process:

1. Maximize the MTC's unique joint audit expertise
2. Use the MTC's audit resources, both people and budget, to maximum benefit for the states
3. Choose audit candidates that have significant common audit issues that affect multiple states
4. Maximize the return on the investment of audit resources

The following criteria should be considered when nominating audit candidates for MTC joint income tax audits:

1. Consolidated federal income per line 28 should exceed \$250,000,000
2. Taxpayer has substantial business activities in a number of states so that the apportionment factors are more than de minimis in most states where the taxpayer files returns
3. There would be a good chance nexus may be established in states where taxpayer is not filing
4. Proper combined reporting is an issue where states require it
5. The taxpayer reports large intercompany transactions
6. Apportionment factors fluctuate from year to year
7. A significant questionable non-business position is taken by taxpayer
8. The business is a large and fast growing company, and likely has insufficient compliance capabilities
9. A taxpayer who has undergone a major reorganization or recent major acquisitions or dispositions
10. A taxpayer that has a captive REIT or special purpose entities (example: LLCs)
11. A taxpayer in certain service oriented industries that have produced significant past audit results (for example: financial, telecommunications, entertainment)

Obviously no company will meet all of the above criteria. However, nominated companies should meet criteria #1 and #2 in all cases, unless an explanation is provided why an exception should be made, and at least one of the other criteria listed above.

Step 1

INCOME TAX NOMINATION

The MTC Joint Audit Program needs to add candidates to the income tax audit inventory. Please submit up to two (2) nominations no later than ____ [date] _____. In addition to checking the applicable boxes below, you must describe the reasons for each nomination or it will not be included on the inventory ballot. Please note that you are not required to make a nomination at this time. You may submit a nomination at any time, but if it is received after the deadline above it will be included in the next audit nomination process.

The nominations received by the due date will be submitted to the states together with a list of the audits that are currently in our inventory that have not been started. The vote results will be discussed with the Audit Committee at its meeting on ____ [date] ____.

State _____

Company _____

FEIN _____

Description of company business (to help put the specific information into context) _____

Check all boxes that apply.

<input type="checkbox"/>	*Consolidated federal income line 28 exceeds \$250,000,000.
<input type="checkbox"/>	*Company has significant business activities in a number of MTC states.
<input type="checkbox"/>	**Company is a non-filer in our state but has potential for nexus.
<input type="checkbox"/>	**Proper combined reporting is an issue in our state.
<input type="checkbox"/>	**Company reports large intercompany transactions.
<input type="checkbox"/>	**Company's apportionment factors fluctuate from year to year.
<input type="checkbox"/>	**Questionable non-business position taken by company.
<input type="checkbox"/>	**Company has undergone a major reorganization or recent major acquisition or disposition.
<input type="checkbox"/>	**This is a fast growing company.
<input type="checkbox"/>	**Company has a captive REIT or special purpose entities.
<input type="checkbox"/>	Company is in certain industries where audit results were productive (financials, telecommunications, entertainment).
<input type="checkbox"/>	**Other, please specify

* REQUIRED, unless it is explained in the Comments section below why the company should be nominated without meeting one of these criteria.

** For each of these criteria, describe facts that support your conclusion in the Comments section.

Comments

Note: This form will be distributed to all states along with the ballots for income tax inventory votes.

Step 2

Income Tax Nomination Ballot

To: State of _____

The states have submitted the nominations listed below for the current nomination cycle. This list includes any companies in our current income tax inventory for which the audit has not been started. For each company, the reasons for the nomination are indicated on the attached sheets. Please return your ballot no later than _____ [date] _____.

Taxpayer name: _____

Audit Director's comments: _____

Vote: ___ 1- This taxpayer is a Priority Audit for our state

Vote: ___ 2- Our state would participate in an audit of this company

Vote: ___ 3- Our state would not likely participate in an audit of this company

This taxpayer IS___ IS NOT___ filing in our state

___ We believe this taxpayer may have nexus in our state because _____

Taxpayer name: _____

Audit Director's comments: _____

Vote: ___ 1- This taxpayer is a Priority Audit for our state

Vote: ___ 2- Our state would participate in an audit of this company

Vote: ___ 3- Our state would not likely participate in an audit of this company

This taxpayer IS___ IS NOT___ filing in our state

___ We believe this taxpayer may have nexus in our state because _____
