

## **Sales 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 sales tax audits:

1. Taxpayers with substantial physical presence in several MTC states
2. Taxpayers with nexus issues
3. Taxpayers that require a heavy reliance on promotional items involving tangible personal property for marketing their products
4. Taxpayers who sell to end users, who would not be expected to claim a large number of exempt sales, but show large deductions (\$250,000 or more) for exempt sales on their tax returns
5. Taxpayers that have had a history of poor or non-compliance in previous audits
6. Taxpayers in the health care, retail or technology industries, including consumer electronics companies

Obviously no company will meet all of the above criteria. However, nominated companies should meet criteria # 1 in all cases, unless an explanation is provided why an exception should be made, and at least one of the other criteria listed above. In addition, please avoid nominating audit candidates with the following characteristics:

- A large taxpayer with multiple operating divisions reporting combined bases under a single sales and use tax return.
- A taxpayer that requires special auditing techniques or that will require examination of a very large volume of records.
- A manufacturer or wholesaler whose products are sold for resale and who has minimal physical presence in the states.

**Step 1**

**SALES TAX NOMINATION**

The MTC Joint Audit Program needs to add candidates to the sales 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"/>	* Company has significant physical presence in several MTC states
<input type="checkbox"/>	Company is a non-filer in our state but has potential for nexus
<input type="checkbox"/>	Company relies on promotional TTP for marketing its product
<input type="checkbox"/>	Company claims large number (\$250,000 monthly or more) of exempt sales to end users
<input type="checkbox"/>	Company has a history of non-compliance in our state
<input type="checkbox"/>	Company is in an industry where audit results were productive (healthcare, retail, consumer electronics or technology)
<input type="checkbox"/>	Other, please specify in comments section

\* **REQUIRED**, unless it is explained in the Comments section below why the company should be nominated without meeting this criterion.

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

Comments:

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

**Step 2**

**Sales 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 sales 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 \_\_\_\_\_.

**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 \_\_\_\_\_

\_\_\_\_\_