**Project description: Early “No Change” Decision**

This project would involve development of a process and standards for an MTC auditor to make a “no change” determination for a state or states after commencement of an audit, but before the development of a complete audit report and without the need to prepare full audit schedules. The “no change” determination would end the audit process for the affected states.

*Problems:* When a large number of states participate in an audit, the MTC auditor must prepare a complete audit report for each participating state, even if the proposed adjustments are very small or no changes are proposed for one or more of the participating states. The current practice of preparing a complete audit report for each state regardless of the results of the audit adds a substantial amount of time to the audit process for little additional return. The auditor is not available to start a new audit until all reports are complete.

*Risks:* Auditors are delayed in starting new audits; states can lose years to statutes of limitation if cases wait in inventory too long. Auditors will not be able to maximize the value of their time, and the number of audits completed will be reduced. States and taxpayers spend more time reviewing audit workpapers that do not address material issues. One risk that the work team recognized for this kind of a project is that states may lose confidence in MTC audits if they don’t see completed work papers that explain an early “no change” determination.

*Issues for review:*
- Should the MTC Audit Program have minimum standards or criteria for completing full audit report for each state participating in an audit, even if there is very little or no change to the tax returns for a participating state?
- Do any states have legal constraints that must be considered in determining materiality or the documentation required for a tax audit?
- What standards should be applied to determine whether an MTC auditor can make, or recommend, a “no change” determination for a state during the course of an audit?
- Are there any existing MTC policies or procedures that would have to be changed if an early “no change” process is developed?
- If an early “no change” process is developed, should it be different in any way for Sales/Use tax from Income tax?
- Would a “no change” audit process affect state participation in audits? If so, how?
- What efficiencies (time or cost) could be obtained by using a no change process?

*Expected outcomes from the project:*
- Process by which MTC auditors can make an early “no change” determination and communicate that to participating states.
- Standards for making an early “no change” determination.

*Who should be involved:*
- MTC Audit staff
- Audit Committee members
- Taxpayer representative