

Potential Projects not discussed in Grand Rapids

(Submitted by Compliance team members after 8/3/12)

1. Study audit efficiency data to determine minimum, maximum and optimum number of states to participate in an audit.

There is a minimum # of states required for a sales/use tax audit to be assigned. Is this based on current data? Is there a standard for income tax? Separate analysis would be needed for sales/use tax and income tax. There may be a point of diminishing returns when a large number of states participate; especially if there are other complicating factors, such as combined/separate reporting, or significant factor differences.

2. Increase audit participation.

Look at states that are participating in the Audit Program, but that join fewer than X% of the audits each year. Look at states that have withdrawn from Audit Program. Determine cause for low participation or withdrawal. Are causes related to nominating process? Are causes related to other issues? Look for relationships between states' votes during nominating process (Priority; will participate; will not participate) and actual participation when audit is assigned. Determine whether changes to program would increase participation. Determine whether changes to voting criteria would better predict actual participation.

3. Limited Scope Audits.

Study the potential productivity gain and efficiency potential of selecting some audits for a "limited scope" audit (audit only for selected issues). Develop standards and procedures for limited scope audits.

4. Second cycle audits by MTC.

Some audits take a long time to complete and taxpayer has continued to file returns in the meantime. Current practice appears to be that "second cycle" (tax years that follow a group of years audited by MTC) audits are left to the states to initiate. If there is a high likelihood that material issues will be involved in the second cycle, consider having the MTC auditor initiate a process to add second cycle years to the audit to pick up material issues for the participating audit states.

5. Study potential for using electronic tools to increase audit efficiency.

- Determine whether state electronic return data could be used to populate MTC audit workpapers directly (rather than printed and transmitted by the states to MTC).
- Determine whether MTC audit reports can be transmitted as data files rather than pdf files.
- Determine whether states can obtain MTC audit schedules in formats that are easier to convert to states' assessment formats.
- Determine whether model formats for tax return schedules or assessments could be developed by the states.

6. Study potential for a joint audit protest process.

Determine whether MTC ADR process could be expanded or adapted for taxpayers to protest state assessments based on MTC audit recommendations.

7. Training for state auditors on cutting edge or emerging audit issues.

- Pass-through entities
- Net operating losses
- Applying MTC model regulations
- Section 482/Section 18 adjustments
- Financial Institutions
- How to develop and provide – education round tables; canned programs; jointly with state staff.

8. Sharing information beyond the Audit Program.

Determine whether the MTC audit program should exchange information (audit issues, audit leads) with other MTC states that do not participate in the audit program. Determine whether the MTC should share information (audit issues, audit leads) with non-MTC states.

9. Specialized MTC Training Manuals

MTC develop specialized manuals with state-by-state treatment of complex topics (e.g., net operating losses).

PARKING LOT: the items below are not a separate project, but work that we will need to do to evaluate the effectiveness and value of a project that is activated.

Potential measures for audit program efficiency:

Develop new or different measures of audit program efficiency.

Current measures:

- Number of audits completed per year
- Assessment \$\$ recommended per year
- Average hours per state per audit

Potential future measures:

- Number of individual state audits completed per year
- Number of audit years completed per year