

To: MTC Compliance Work Team  
From: Elizabeth Harchenko  
Date: April 24, 2012  
Re: Summary of report to Steering Committee and Feedback

This memo contains the report I provided to the MTC Strategic Planning Steering Committee from your March 26 teleconference. At the end of the memo, I have described the Steering Committee's request for you to design a project and to help them prioritize the list of strategies that you developed during your meeting in March.

Greg Matson is going to be scheduling a teleconference for all of us during the first week of May. Please review this memo and think about the assignments so that we can have as productive a meeting as we did in March!

## **REPORT TO STEERING COMMITTEE**

### **Background**

The Compliance Work Team met by teleconference on March 26. The discussion was lively and detailed. The summary provided in this memo touches the highlights only – the group covered a LOT of ground. Also, the MTC Audit Committee has done a bit of planning since the environmental scan meetings in July. The Audit Committee approved a set of recommendations in October 2011. I have folded those recommendations into this report as additional project opportunities to be considered for further planning work.

### **Steering Committee Action Needed**

At your next meeting, on April 18, we will discuss this information and I will ask you to decide on one or two project ideas to send back to the Compliance team so that they can develop specific measures, identify how to develop the baseline data, and to flesh out the project plan. There is a lot of material here, and I hope that you will have time to consider it, and perhaps discuss it with your own agency compliance staff before our next teleconference.

**Compliance Goal** - Our goal is to develop timely and effective strategies to address new compliance challenges. Achievement of the MTC's compliance goals will be reflected by:

- Greater voluntary compliance by taxpayers with state and local tax laws.
- Earlier identification of compliance challenges by the states and MTC staff.
- Prompt development of strategies to address new compliance challenges by the states and MTC staff.

### **Summary of Compliance Team Discussion**

Preliminary discussion touched on a number of concerns:

- Compliance is affected by the effectiveness of state audit work as well as MTC work
- Compliance is affected by taxpayer attitude and behavior
- "Gray areas" will continue to evolve. "Gray areas" include:
  - Issues where the states' rules are unclear or inconsistent
  - Issues where the law is not fully developed or is changing
  - Issues where the law and facts are complex
  - Issues that arise from new business practices or models

- Issues where there is substantial disagreement between states and taxpayers on the legal standard to be applied, or how a particular standard applies to a given set of facts
- Training and skill development for both MTC and State auditors is critical
- Information exchange and communication need improvement
- Taxpayer education is needed for some issues: nexus standards, NOL rules
- Tension between Voluntary Disclosure program and enforcement work
- State engagement in the audit and nexus programs affects the strength of both

I asked the team to identify any other high level outcomes that would indicate that we are moving in the right direction on this goal. No additional high level outcomes were identified.

We moved to a discussion of possible measures of effectiveness in achieving our goal.

The examples I gave the team were:

- total days to complete an audit;
- hours per state spent on audits;
- Number of taxpayers using voluntary compliance services.

Other possible measures identified by the Compliance team were:

- Percent of audits with repeat findings on the same issues in later years (whether conducted by the states or by the MTC)
- Increase in penetration of the nexus program in the taxpayer community (number of taxpayers participating each year)
- Continuing filing compliance by taxpayers who voluntarily disclosed through MTC
- Assessment dollars
- numbers of audits performed
- numbers of returns filed
- number of states participating in each audit
- Reduce the time from identification of an issue, development of a solution, and implementing the solution
- Number of material issues per audit (fewer would indicate greater compliance)
- Number of new audit candidates identified by the states

Finally, we talked about possible strategies for achieving the goal. In your planning work, you had identified the following possible strategies for the compliance goal:

- Review and evaluate effectiveness of voluntary compliance programs and enforcement programs in order to strengthen these programs.
- Identify potential synergies of compliance strategies.
- Promote voluntary compliance programs differently and to a broader audience.
- Consider deeper research and analysis of enforcement program results (quantitative and qualitative) to enhance our use of what we learn.
- Consider how technology can help enhance effectiveness and efficiency of compliance programs.
- Evaluate communication practices for opportunities to better support compliance programs.
- Evaluate training and education programs.

In addition to the strategies identified by the Steering Committee, the Compliance team suggested:

- Technology: make electronic work papers and back up documents available to the states and to auditors; improve the secure e-mail system (Also recommended by Audit Committee)
- Create an electronic case management system to monitor audit status (Audit Committee)
- Communication – increase frequency and quantity of information sharing between the states and MTC staff during audits
- Allow MTC staff to develop a trouble shooting role, rather than being a “go between” for states and taxpayers.
- Develop a uniform form for taxpayer disclosure of ATATs for state specific issues.
- Develop training on issues that are new to states that have just changed their laws to move to combined reporting (example – tax havens).
- Look for synergies between audit/nexus programs.
- When taxpayers file voluntary disclosures – identify industry issues for audit program.
- Find more ways to engage non-active states in compliance programs.
- Continue to look for the best balance between seeking engagement and trust from industry and getting things done
- Revise standards for audit selection to include input from audit staff; assessment of cost/benefit and materiality of potential adjustments for all potentially participating states; standards for audits in which MTC auditor should do second cycle. (Also recommended by Audit Committee)
- Prepare audit manuals for complex and emerging audit issues, such as bank/brokerage, entertainment industry, net operating losses, interest on U.S. obligations.
- Consider providing a manual to taxpayers for added guidance, for example how to handle NOLs correctly.
- Develop audit procedures checklist to share with taxpayers at the beginning of an audit (Audit Committee)
- Reorganize and increase information in the audit package reported back to the states
- Develop feedback mechanisms for states to apply lessons learned from audits as they develop regulations and audit standards and procedures.
- Training: MTC offer specialized training on complex industry groups such as banks and brokerage or entertainment industry.
- Identify skill sets and knowledge base needed to replace MTC and state auditors as they retire.
- Continue to assist states in improving the effectiveness of their own audit programs

## **ASSIGNMENTS FOR OUR NEXT TELECONFERENCE**

First Assignment: The Steering Committee asks that you design a project to answer this question – *Would the audit program generate more value for the states if the number of audits performed each year was increased significantly?*

The project will need to include the following elements:

- A definition of “value to the states” (this could be total dollars proposed for assessment; number of taxpayers audited; number of issues identified and resolved; or any other specific and measurable indicator that the states are getting increased value from the program)
- A description of how to measure “value” as you define it, including what data will be needed and how it should be collected

- A set of measurable objectives for the project: for each value measure, what quantifiable change do you want to measure to show that “value” is increasing?
- A description of how the project will be conducted – what activities are involved; who should be involved; how long the project must last in order to develop meaningful information.
- A description of any possible risks or barriers to successful completion of the project.
- A time line for the project, including check in points with progress goals so that any adjustments to the plan can be made if needed.

Second Assignment:

The Steering Committee asks that you review the strategies identified by the Steering Committee, the Audit Committee and yourselves and put them into three groups:

- HIGH Impact – this group of strategies would have a significant positive impact on compliance if implemented
- MODERATE Impact – this group of strategies would have a moderate positive impact on compliance if implemented
- LOW Impact - – this group of strategies would have a low impact on compliance if implemented

Within each of the three groups, we will also identify whether the strategy would be EASY or HARD to implement (in terms of planning and resources needed to implement)

I have attached an Excel matrix that you can use to fulfill this part of your assignment. The instructions are in the Excel document.