

Meeting Notes – No Change project team – 12-21-12 teleconference – 8 am PST

I. **Welcome and Introductions** – attending: Frank Hales, JA Cline, Steve Yang, Cathy Felix, Larry Shinder, Elizabeth Harchenko (facilitator).

II. **Public Comment Period:** No public comment was offered.

III. **Project Review**

A. Project time line – the team reviewed the project time line and agreed that it was reasonable.

B. Project description – the team reviewed the project description and work plan and agreed that it covered all necessary steps. Specific discussion:

Who will be the users/customers of the new process? States participating in the audit program; MTC audit staff; taxpayers; and practitioners

How would you like to find out from those users/customers the qualities of an early “no change” process that would be valuable or useful to them?

- From the States:
  - Ask the states whether any others use a “no change” process; ask for examples.
  - Describe the project at a high level (does the state use a cut off procedure, or have a process for early termination of an audit).
  - If a state has a cut off procedure, what thresholds are they using to implement.
  - Seek feedback from the states based on a concrete process proposal.
  
- From the MTC Audit staff:

Have our team members from the MTC audit staff poll their peers:

  - How often do you find that an audit or issue is immaterial after an audit has been opened?
  - What criteria should the project team consider for making an early determination that an issue is immaterial or that no change is likely?
  - Should possible success on appeal be considered as one of the criteria for recommending no adjustment?
  - Are any states that you have worked with reluctant to accept a recommendation that an issue is immaterial or that there is no change on an audit?
  - What reasons do the states give if they are reluctant to accept an early cut off recommendation?
  - Where would this kind of process fit into the audit process?
  - Are there significant differences in the way audits are done (sales/income) that would drive value differently, or require a different procedure for developing and making a recommendation that work on an audit or issue be ended early?

- From Taxpayers and practitioners:  
Have taxpayers and practitioners comment on draft procedures following state input. Possible questions:
  - Is there any concern about potential future audits by individual states if a state or issue is dropped from the initial plan?
  - Would taxpayers ask for an early close – what information would states want from a taxpayer to accept suggestion for an early close on an issue or for a particular state?
  - For sales tax – use of electronic audit tools is becoming more common; sampling audits are most common. How might this affect the use of an early determination or the way it would be made?

If MTC had an early “no change” process, how would the project team want to evaluate its effectiveness in meeting the needs of the users/customers? (Defer to next conversation).

Next steps: Solicit from states whether they have any no change or early cut-off processes in place.

Scope of the process: can this be issue specific rather than state specific (eliminate non-material issues early and focus on material issues for a state or states)? Let the immaterial issues go, may need to give states sufficient info to follow up if they want to.

The scope of the process could include three different scenarios: no change for entire audit; no change for specific states; no change for specific non-material issues. Procedures could be somewhat different for each of these. Also, the level of review may need to be different if an entire audit will be dropped; as opposed to a single state or issue. The auditor will need to have back up information to justify the determination. The proposed process will have to address how the “no change” recommendation is accepted. The process will need to have a feedback loop with review criteria.

The group deferred review of the sample documents from Louisiana until we know whether other states have similar processes.

IV. Schedule next meeting - Thursday, 1/24/13 11 am EST.

V. Assignments and next steps – feedback on the call format: continue to send materials and issues ahead of time so that team members can get their thoughts together.

EH: assignments – Get contact info for taxpayers and practitioners. Contact states about existing procedures; provide questions to MTC Audit staff for in-house discussion. Make necessary changes to project plan.

VI. Adjournment – 9:40 am PST