

Purpose: The goal of the early “no change” project is to:

1. develop procedures by which MTC’s staff can identify audit activities that present little or no potential return on investment;
2. create a system to communicate that knowledge to appropriate parties in a prompt and efficient manner; and
3. authorize the disengagement of resources so that efforts can be redeployed to pursuits that provide greater benefit to participating states and taxpayers.

Policy: After sufficient review and as soon as prudently possible, an MTC auditor should recommend a “no change” under the following conditions:

1. upon a determination that specific issues identified in the audit plan lack materiality;
2. upon a determination that all audit issues for one or more tax years for a particular state or states lack materiality; and
3. upon a determination that all audit issues involving the taxpayer for all years and all participating states lack materiality.

Criteria for early “no change” determination: Based upon the auditor’s initial review of the taxpayer’s records, an early “no change” determination may be made for one or more of the following reasons:

1. there is little likelihood of an error with respect to the issue(s) or return(s);
2. the potential assessment for a particular state for one or more of the tax years under audit would be less than \$1,000; (The auditor may use estimates to determine if a potential assessment meets this criterion.)
3. there is little likelihood of error with respect to any participating state; or
4. the amount of work needed to fully conclude an issue, tax year, state, or the entire audit outweighs the potential benefit to the state(s) or taxpayer(s).

Required documentation:

1. For an early no change determination with respect to a particular issue identified in the audit plan, the auditor must document the reason for the change in the audit workpapers and include a discussion in the general audit narrative.
2. For an early no change determination with respect to one or more tax years for the taxpayer, for a particular state or states, the auditor must document the reason for the change in the audit workpapers and include a discussion in the narrative reports for the affected state(s).
3. For an early determination that the audit should be closed without adjustments, the auditor shall document the reasons for closing the audit in the general narrative.

Notice procedures:

1. On completion of a joint audit, if an early “no change” determination has been made, written notice shall be given to the taxpayer concerning the issue(s) or return(s) for which a “no change” determination has been made. The notice may be given to the taxpayer at the same time as the audit schedules and audit adjustments are provided to the taxpayer. The notice shall describe the effect of the “no change” determination on

the audit status of the issue or tax return, including whether or not the issue or return remains open for subsequent review by a state or states (example: net operating loss that could be carried forward).

2. If an early “no change” determination is approved before completion of a joint audit, notice may be given to the taxpayer at any time.
3. For purposes of improving the audit nominating process, the Audit Director shall notify the Audit Committee of any determination that resulted in closure of an audit without adjustments.

Necessary approvals: The following levels of approval are necessary for an early “no change” determination to be made:

1. For an early “no change” determination with respect to a particular issue identified in the audit plan, the audit supervisor must approve the determination.
2. For an early “no change” determination with respect to one or more tax years for the taxpayer, for a particular state or states, the Audit Director must approve the determination.
3. For an early determination that the entire audit should be closed without adjustments, the participating states must approve the determination.

NOTE: The auditor, audit supervisor or Audit Director, in their discretion, may seek input from the affected states or the Audit Committee on an early “no change” determination.