

Disclaimer: This document offers some possibilities for an early “no change” determination process. I have tried to take into account the discussion by the project team, the data we have so far, comments from other states, and my own thoughts. Not everything is reflected here. This draft is intended to push the discussion to the next level so that you can further explore what might be possible. Feel free to question, offer alternatives, adapt or adjust. The immediate goal is for you to produce a version 1.0 to share with the Audit Committee, and for you to identify the questions you want the states to answer before you further refine your thinking. I have not attempted to address the role of technology – that will come later once a conclusion is reached about what the process will be. So “fire away!”

Desired Process Outcomes: (from the project description)

- 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.

Possible MTC Joint Audit Early “No Change” Procedure (same procedure for both income and sales tax except where noted)

Purpose: The purpose for an early “no change” determination process is to optimize the use of the MTC’s joint audit resources. MTC auditors can benefit the greatest number of states, and be most productive, when they are able to focus their time on issues of significance in an audit.

Policy: Before issuing a final report in a joint audit, an MTC auditor may recommend an early “no change” determination as provided in this procedure.

Application: This policy applies to the following situations:

- The auditor determines, after sufficient review, that no change should be made with respect to a particular issue identified in the audit plan for a particular state or states.
- The auditor determines, after sufficient review, that no change should be made with respect to one or more tax years for the taxpayer, for a particular state or states.
- The auditor determines, after sufficient review, that the audit should be closed without adjustments.

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

- For an early “no change” determination with respect to a particular issue identified in the audit plan, the audit supervisor must approve the determination.
- 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.
- For an early determination that the entire audit should be closed without adjustments, the participating states must approve the determination.

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.

Criteria for early “no change” determination: An early “no change” determination may be made for one or more of the following reasons:

- Based on the auditor’s review of materials available, there is little likelihood of error with respect to the issue(s) or return(s)
- The potential assessment would be less than \$xxx for a particular state for one or more of the tax years under audit. The auditor may use estimates to determine whether a determination meets this criterion.
- There would be no other benefit to the state(s) or to the taxpayer(s) involved by proceeding with the audit
- 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:

- 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.
- 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).
- 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:

- 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).
- If an early “no change” determination is approved before completion of a joint audit, notice may be given to the taxpayer at any time.
- 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.