

Sales Tax Compliance Assurance Review (ST-CAR) Program Outline

Purpose: The ST-CAR program is a voluntary program to help improve sales tax collection compliance and administration by employing a real-time review and audit techniques and resolution tools for sales tax.

The ST-CAR program will involve the Multistate Tax Commission (“Commission”) and a taxpayer working together collaboratively to achieve greater compliance by identifying and resolving issues early (*i.e.*, in “real time”) as part of a compliance review to ensure an acceptable level of assurance regarding the accuracy of the taxpayer’s collection to substantially shorten or alleviate audits on a go-forward basis. The ST-CAR program would enable the Commission and taxpayers to:

- Ease taxpayer’s information gather based on information being provided within days of filing.
- Review/audit more quickly, ensuring greater data accuracy and understanding of that data for review.
- Resolve issues before they compound, resulting in lower interest (and penalties) for taxpayers and greater collections for states.
- Ensure states obtain the most accurate amount of sales tax on a more timely basis.
- Enable the Commission and taxpayers to better manage new sales tax laws and regulation.
- Ensure greater accuracy moving forward, saving time and resources that would have been expended on audits.
- Free up state audit resources to focus on noncompliance in other areas.

Process:

Step 1 – Acceptance into the Program:

- **Qualification:** The following businesses are eligible to apply to the MTC for acceptance into the ST-CAR program:
 - Retailers with more than \$[] million in annual receipts nationally or more than [] retail locations nationally;
 - Taxpayer must have a dedicated sales tax specialists in-house to manage and assist with ST-CAR review; and,
 - Taxpayer must be in good standing with sales tax compliance in all relevant states.
- **How to apply:** Eligible taxpayers must submit a letter to the Audit Committee of the MTC, requesting consideration for the ST-CAR program, which includes a statement regarding the taxpayer’s eligibility, outline of issues for review, overview of in-house resources available to work on audit, and any other information considered relevant to the Audit Committee’s review.
- **MTC Audit Committee Review (“Audit Committee”):** The Audit Committee will consider submissions at the next meeting of the Audit Committee meeting, evaluating the submission based on MTC staff availability and criteria set forth in the [Taxpayer-Initiated Join Audit](#) program.

Step 2 – Initial Pre-Audit Conferences and Agreement: Understanding the taxpayer’s record keeping system from the initial transaction through to the preparation of summary financial records and tax returns is critical for determining the most efficient and effective audit procedures. Identifying how source records are stored including sales invoices, exemption certificates, and purchase invoices is key for evaluating how fieldwork could contribute to the timely completion of an audit.

Thus, after being accepted into the SR-CAR program, the MTC auditor, audit supervisor and Audit Program Director (hereinafter referred to collectively or as a group as “MTC Audit Staff”) and taxpayer will have a pre-audit conference, which may include a series of meetings, to determine the scope of the audit, the states involved, the process for the audit and to allow the MTC Audit Staff to obtain an understanding of the taxpayer’s business and internal sales tax process.

These initial meetings (or conference call) should include, but is not limited to, the following matters/issues:

- Scope of review:
 - States participating, including assurance states will honor terms of the ST-CAR Agreement (“Participating States”)
 - Identification of specific issues/items subject to review

- Specific audit process issues:
 - Specific period for review (*i.e.*, six to 12 months)
 - Cadence for review (*i.e.*, monthly or bi-monthly)
 - Format and process for review meetings
 - Follow-up period and review expectations
 - Procedures for obtaining documentation (*i.e.*, correspondence format and document production)

- Taxpayer operations overview to provide MTC Audit Staff an understanding of taxpayer operations related to the taxpayer’s general business activities, sales, purchases, sales/use tax collection, use tax accrual, and tax reporting and remittance procedures.
 - Examples of inquiries include, but are not limited to, the following:
 - Date of Fiscal Year End
 - Reporting Procedures
 - The names, official titles, or in the case of outside representatives, the professional status and authorization of all persons involved in the audit.
 - Types of Business Operations and Locations (distribution centers, showrooms, administrative offices, ecommerce, etc.)
 - Types of Customers (individuals, retailers, manufacturers, construction contractors, property managers, government, non-profit entities, etc.)
 - Sales Process (describe the flow of transactions from beginning to end, including tax collection, reporting, and remittance)

- Types of Exempt Sales (use based or entity-based exemptions and specific types of labor, services, products, customers etc.)
 - Exemption Certificate Recordkeeping (acceptance, verification, and retention)
 - Purchases Process (describe the flow of transactions from beginning to end, including use tax accrual, reporting, and remittance)
 - Types of Exempt Purchases
 - Taxability Matrixes
 - Tax Return Reporting and Remittance Processes
 - Taxpayer Known Errors (prior audit issues, overpayments, underpayments, etc.)
- MTC Audit Staff and taxpayer will agree upon a target error rate

Audit plan, including specific scope of issues, time frame and process for review, should be memorialized in an agreement signed by MTC Audit Staff and the taxpayer (the “Agreement”).

Step 3 – The Audit: ST-CARs will be conducted for six to 12 months, on a prospective basis. Although MTC Audit Staff and taxpayer will agree to a specific process for the audit, the following is provided as a model for the ST-CAR information sharing and review cadence:

- 10 days after the prior months close, the taxpayer will provide the agreed upon information to the MTC Audit Staff.
- MTC Audit Staff will have 15 days to review the information provided.
- Following the MTC Audit Staff review, MTC Audit Staff and the taxpayer will meet to discuss the auditor’s findings and issues to be addressed.
- The taxpayer will be responsible for implementing such issues to be addressed within 45 days.
- This process will repeat for at least a six-month period.
- If at the end of the six-month review period the agreed upon target error rate has been achieved, the ST-CAR will cease and MTC Audit Staff and the taxpayer will begin working on Steps 4 and 5.
- If at the end of the six-month review period the agreed upon target error rate has not been achieved, the ST-CAR process will continue for another three to six months.
- If at the end of a full 12-month review period, the agreed upon target error rate has not been achieved, and MTC Audit Staff and the taxpayer will begin working on Steps 4 and 5.

Note: Stratified random sampling will be used as the method to sample the prior month. MTC Audit Staff will use their sampling software to conduct the audit. Stratified random sampling increases sampling efficiency because the weighted sum of the stratum deviations is less than the standard deviation of the entire population. The Commission and taxpayer will work to identify separate population to sample, as needed.

Step 4 – Agreed Upon Error Rate: MTC Audit Staff and the taxpayer will resolve errors as they are found each month. If the target error rate, agreed to in the Agreement is achieved, that error rate will be the proposed error rate to be applied to future periods as provided in the Agreement. If upon completion of a full 12-month review period, the target error rate is not achieved, MTC

Audit Staff and the taxpayer will work together agree on an error rate that can be used to apply to future period as provided in the Agreement.

MTC Audit Staff and the taxpayer will memorialize the findings/results and agreed upon error rate in writing (“ST-CAR Findings”).

Step 5 – State Acknowledgement of ST-CAR Findings and Participating State Closing Agreements: Once the MTC Audit Staff and the taxpayer have agreed upon an error rate and the ST-CAR Findings are finalized, MTC Audit Staff and the taxpayer will work with the Participating States to obtain closing agreements with the taxpayer. Participating State closing agreements may include states agreement to forgo audit of the ST-CAR review period and future periods and the taxpayer’s use of agreed upon error rate as basis for monthly prepayments for future periods.

Although the goal is that the Participating States will following the ST-CAR Findings and agree to a uniform closing agreement, there may be circumstances where individual Participating States and the taxpayer agree to additional or alternative terms.

Step 6 – Post-ST-CAR Debrief: To ensure the success of the ST-CAR program for the participating taxpayer and other taxpayers, MTC Audit Staff and the taxpayer should engage in a series of post review meetings/discussions to determine the overall effectiveness of the ST-CAR program. Specifically, MTC Audit Staff and the taxpayer should meet to discuss the process, pros and cons, and other feedback at the following times:

- Within one month of the ST-CAR Findings being finalized;
- Within three months of the Participating State closing agreements being finalized; and
- Any other time as needed or as agreed to at the request of either MTC Audit Staff or the taxpayer.