



TAX EXECUTIVES INSTITUTE, INC.

State and Local Tax Policy Statement Reporting Federal Income Tax Changes

Nearly all States require taxpayers to report changes resulting from federal income tax examinations to State tax authorities. Similarly, States require taxpayers to file amended state income tax returns reflecting changes reported on amended federal income tax returns. The purpose of these requirements is to assure States collect the revenues to which they are entitled. States diverge, however, regarding (1) the time to report the changes, (2) the specific events or actions triggering the reporting requirement, and (3) the form or format required to report the federal adjustments.

Tax Executives Institute, Inc. ("TEI") supports States' adoption of uniform procedures to report federal income tax changes. Multiple and diverse reporting requirements create needless confusion and complexity for multistate taxpayers. The burden of complying with these different rules to report the same information in different formats to different States is inefficient, costly, and wasteful. TEI recommends States adopt these guidelines and procedures to provide taxpayers with certainty and consistency:

- Taxpayers should be provided 180 days to report federal income tax changes to state tax authorities (and to report state changes to municipal tax authorities).
- This 180-day period should commence upon:
 - The date of a final determination. "Final Determination" shall mean and be deemed to occur when the last of any of the following events has occurred with respect to a taxpayer's federal taxable year. For entities filing unitary or other types of combined or consolidated returns, Final Determination shall be based upon the occurrence of the last of such events for all members of the group:
 - The taxpayer: (i) has final adjustments to its federal taxable income resulting from an examination by the IRS pursuant to Section 7601 of the IRC, including any requisite review by the Joint Committee on Taxation pursuant to Section 6405 of the IRC; and (ii) has not filed a petition for redetermination with the United States Tax Court pursuant to Sections 6213 or 6226 of the IRC or a claim for refund with a district court or the United States Court of Federal Claims pursuant to Sections

- 6226 or 7422 of the IRC, and the time for the taxpayer to timely file such a petition for redetermination or such a claim for refund has lapsed under the applicable statute;
- The taxpayer and the IRS have executed the forms necessary for the relevant tax period so as to establish finality under Section 7121(b) the IRC;
 - The time for the IRS to make an assessment for the relevant tax period has expired pursuant to Section 6501 of the IRC; or
 - A judgment from a United States court, or any other court of original jurisdiction to which the United States has submitted to personal jurisdiction regarding a taxpayer's tax issues, has become final under Section 2412(d)(2)(G) of Title 26 of the United States Code.
- Filing a Federal Form 1120X that changes state taxable income or state tax attributes.
- States should adopt or accept a uniform form or forms similar to the Federal Form 1120X to report federal income tax changes to the State. Such report shall serve as the taxpayer's means to report additional state tax due, report a claim for refund or credit of state tax, and make other adjustments (including net operating losses) as a result of the taxpayer's federal taxable income. A proposed model report for reporting such changes is attached.
 - States should provide taxpayers with the option to notify the State that the adjustments to the taxpayer's federal taxable income result in a *de minimis* state tax liability or refund in lieu of filing a report of their federal adjustments. Taxpayers shall provide the State with such notice within one hundred eighty (180) days following the date of the Final Determination, at which time the State may opt to request additional information regarding the federal changes and their impact on the taxpayer's state tax liability.
 - Taxpayers should be permitted to make estimated payments to the State for tax the taxpayer determines may ultimately be owed as a result of a pending IRS audit, prior to a Final Determination for a tax year, without filing a report of federal adjustments with the State. The estimated state tax payments shall be credited against any tax liability ultimately found to be due to State ("Final State Tax Liability") and limit the accrual of further statutory interest on that amount. If the estimated state tax payments exceed the Final State Tax Liability and statutory interest ultimately determined to be due on that amount, or the IRS ultimately does not make any adjustments to the taxpayer's federal taxable income, the taxpayer shall be entitled to a refund

or credit for the excess, provided the taxpayer timely files a report of federal adjustments or claim for refund or credit of state tax.

- Unless otherwise agreed to by the taxpayer and the State, any adjustments by the State or by the taxpayer made after the expiration of the State's normal statute of limitations for assessment and refund shall be limited to changes to the taxpayer's state tax liability arising directly from adjustments to the taxpayer's federal taxable income for that tax year.

Approved: January 23, 2017

Proposed Model Report of Federal Audit Changes developed by Tax Executives Institute

*****ENTER DATA IN SHADED CELLS ONLY. NONSHADED CELLS ARE FORMULA DRIVEN*****

Name of Taxpayer
 FEIN
 Federal RAR Signed
 Amended Return Due Date

Jurisdiction

	For Tax Period Ended xx/xx/xx		
	Last Reported	Fed RAR	State Amended
Federal Taxable Income of Filing Entity or Entities for State Purposes	0	0	0
Additions:			
Federal NOL Deduction	0	0	0
State and Local Interest	0	0	0
Depreciation	0	0	0
State and Local Taxes	0	0	0
Foreign Taxes	0	0	0
Related Party Expenses	0	0	0
Other	0	0	0
Other	0	0	0
Total Additions	0	0	0
Subtractions:			
Foreign Dividends	0	0	0
Subpart F Income	0	0	0
Foreign Dividend Gross-up	0	0	0
Foreign Source Income	0	0	0
Depreciation	0	0	0
US Treasury Interest	0	0	0
State and Local Tax Refunds	0	0	0
Other	0	0	0
Other	0	0	0
Total Subtractions	0	0	0
Modified Federal Taxable Income	0	0	0
Net Nonbusiness Income/(Loss) - Total	0		0
Apportionable Income	0	0	0
Apportionment Factor	0.0000%	0.0000%	0.0000%
State Apportioned Income	0	0	0
Net Nonbusiness Income/(Loss) - State	0		0
Total Income Before NOL	0	0	0
State NOL Deduction (enter as positive)	0		0
State Income Subject to Tax	0	0	0
State Tax Rate	0.00%	0.00%	0.00%
State Tax Before Credits	0	-	0
Minimum Tax (if applicable)	0		0
State Tax	0		0
State Credits (enter as positive)	0		0
Income Tax After Credits	0		0
Additional Tax Due/(Refund)			0