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Closing an Audit**

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NOTE: (()) = Indicates confidential and/or proprietary information has been deleted.**

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7.1 INTRODUCTION

The objective of this section is to highlight the steps that are necessary to complete your audit. These are the recommended steps:

- Complete forms for processing notices
- Prepare Narrative Report
- Complete Adjustment Schedules
- Update the PASS Workpaper file
- Assemble the physical file
- Complete the other necessary PASS functions

The forms and templates that you need to complete are available in PASS. This section is arranged by the PASS Folders and other PASS functions and features.

When finalizing the case, you will also need to review each of the other PASS working paper folders to make sure you have properly recorded all information. Update any necessary items giving special consideration to the Index to Audit File, IDR Log, and AIPS Log. See MAP 6.13 Audit Working Papers for additional information on preparing the working paper file.

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7.2
ADMINISTRATION
FOLDER

The forms necessary to process your audit are the most common items that will be necessary to complete in the Administration Folder during the closing process. There are several common forms that may be necessary. See the list below and reference to the appropriate MAP section on how to complete them.

FORM	WHEN NEEDED	TO COMPLETE FORM SEE MAP	FOR ADDITIONAL INFORMATION SEE MAP
6430 Audit Report	All Cases	MAP 13.4.4 Audit Report, Form FTB 6430	
6830 NPA Worksheet	Corporation NPA, Claim Revised, Offset and Barred Offset	MAP 13.4.6 BCT NPA Worksheet for Corporations, Form FTB 6830 BCT	MAP 7.2.1 Minimum Adjustments on Notice of Proposed Assessments
6831B PAWS NPA worksheet	PIT NPA, Claim Revised, Offset and Barred Offset	MAP 13.4.7 PAWS Input Worksheet for PIT, Form FTB 6831B	MAP 7.2.1 Minimum Adjustments on Notice of Proposed Assessments
1542 NPACA Letter	Future Adjustment to Carryover Items	MAP 7.5.3 NPACA Letter (Notice of Proposed Adjustment Carryover Amounts)	
6638 Auditor's Recommendation – Formal Claim	Allowing or Denying Claim in Full	MAP 13.4.5 Auditor's Recommendation Formal Claims, Form FTB 6638	
6163 Abatement/Refund	Corporate Over Assessment > \$*****	MAP 13.4.2 Abatement Refund Memo (Form FTB 6163)	
6213A Accounting Instructions Corp.	To Make Account Adjustments for Corporations	MAP 13.4.3 Accounting Instructions/Corp	

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	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%;"></td> <td style="width: 25%;"></td> <td style="width: 25%;">(Form FTB 6213A)</td> <td style="width: 25%;"></td> </tr> <tr> <td>7011 Rush Tag</td> <td>When Routing Cases Requiring Special Attention</td> <td>MAP 13.4.12 Rush Action Slip (Form FTB 7011)</td> <td></td> </tr> </table> <p>The field offices are not required to complete Form 6213A.</p> <p>For Central Office Apportioning Corporation Auditors it is also necessary to create BETS NPA. See MAP 27.4.2 Create a Notice on BETS.</p> <p style="text-align: right;">Rev. 7/17</p>			(Form FTB 6213A)		7011 Rush Tag	When Routing Cases Requiring Special Attention	MAP 13.4.12 Rush Action Slip (Form FTB 7011)	
		(Form FTB 6213A)							
7011 Rush Tag	When Routing Cases Requiring Special Attention	MAP 13.4.12 Rush Action Slip (Form FTB 7011)							
<p>7.2.1 Minimum Adjustments on Notice of Proposed Assessments</p>	<p>NPAs will not usually be issued for less than \$***. This is a minimum and does not mean that every potential assessment over \$*** should be pursued. Adjustments greater than \$*** may not be cost effective depending on the circumstances of each case. See MAP 1.10 Resource Considerations. Consult your supervisor if in doubt about the cost effectiveness of a particular audit or adjustment.</p> <p>If the representative expects an adjustment, or if a year must be adjusted for continuity, an exception to the minimum may be warranted.</p> <p>This minimum adjustment requirement does not pertain to the Zero NPA procedures for tax credit adjustments. See MAP 7.5.2 No Change Issues for additional information.</p> <p style="text-align: right;">Rev. 7/17</p>								
<p>7.2.2 Limited Liability Fee NPA</p>	<p>To assess the LLC fee, prepare the NPA worksheet (Form FTB 6830-BCT) in the same manner as when you are assessing tax. Note these differences:</p>								

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	<ol style="list-style-type: none">1. Write on top of the BCT NPA worksheet: LLC Fee Adjustment. 2. Cross out Total Tax and Penalty and replace with LLC Fee. 3. Cross out \$0.00 and replace with fee amount. For example \$6,251.00. 4. Add an NPA paragraph stating what caused the fee adjustment. For example,<ul style="list-style-type: none">o The adjustment to XYZ Partnership had an impact on your Limited Liability Company fee. 5. Fill out the Notice Window in PASS with the Fee amount. <p style="text-align: right;">Rev. 7/17</p>
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7.2.3 Corporation Identification Numbers	<p>Corporation identification numbers beginning with 0, 1, 2, 3, or 4 are assigned to a corporation by the Secretary of State's office at the time of incorporation or qualification. The corporation has a filing requirement if they are incorporated in California, registered with the SOS, doing business in California or have income from California sources.</p> <p>Corporation identification numbers beginning with 8 or 9 are assigned to a corporation by the filing division or the filing enforcement program. The corporation identification numbers are assigned at the time the corporation files a return and an identification number is not assigned or is identified as having a potential filing requirement. These identification numbers do not signify whether a corporation is doing business or deriving income in California. The corporation will be classified as a Nonqualified franchise tax (NQFT) or Nonqualified income tax (NQIT) corporation in the Business Entity Tax System once the corporation has a filing requirement. The corporation identification number is not changed unless the corporation becomes qualified with the Secretary of State.</p>
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	<p>The corporate number remains unchanged in order to identify the corporation as being part of the filing enforcement program. The commencing tax will still be assessed using this identification number if a corporation is determined to be doing business in California. The classification will be NQFT. These cases may be referred to the filing enforcement auditor or may be examined upon audit of the return. It will be determined on a case by case basis.</p> <p>Corporations doing business in California and are not incorporated in the state or are not qualified by the Secretary of State are subject to the Franchise Tax. These corporations are identified as NQFT and file returns on a voluntary basis. The Business Entity Section, Inventory Control Unit, assigns them an identification number that begins with an 8 or 9.</p> <p>Corporations not incorporated in California and are not doing business in California, but are deriving income from California sources are identified as NQIT. These corporations file returns on a voluntary basis and the Business Entity Section, Inventory Control Unit, assigns them an identification that begins with 8 or 9.</p> <p>During the audit, if it is determined that a corporation has a filing requirement and an identification number has not been assigned, request an identification number prior to closing the case. Include the NQFT or NQIT number in the audit file.</p> <p>NQFT and NQIT corporation identification numbers are requested by completing the online form: BES ID Desk - Request Entity ID Number.</p> <p style="text-align: right;">Rev. 12/18</p>
7.3 REPORTS FOLDER	<p>One of the most commonly used templates in the PASS Reports Folder is the Narrative Report.</p> <p>Information provided in the Narrative Report is used by TRS, Legal, the Office of Tax Appeals, and courts as an initial evaluation of the sustainability of our position.</p> <p>Refer to MAP 7.3.1 Narrative Report 6431 (PIT, C Corp, PTE, & MSA) for template instructions.</p>

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**7.3.1 Narrative 6431
(PIT, C Corp, PTE and
MSA)**

The Narrative Report is a summary of the audit, and includes the taxpayer, representative(s), location of the audit, and related taxpayers' information (e.g., related California corporations, partners, members, shareholders, etc.).

This report also includes a summary of: the auditor's position, specific relevant records/facts, adjusted issue(s), the taxpayer's position, and the auditor's rebuttal.

A Narrative Report...

- Is **required** when there is an adjustment to the case, regardless of whether it is subject to TRS review.
 - If discontinuing a case, refer to MAP 7.15 Discontinued Issue(s)/Case.
 - When a Pass-Through Entity (PTE) audit results in an adjustment, a Narrative Report must be completed for each individual/entity impacted by the flow-through adjustment(s).
- Must **cross-reference** to related working papers, including cross-references to the taxpayer's agreement or disagreement.
- Does not replace effective working papers or schedules that are required for each audit. You must still keep clear and concise working papers that address the facts, law, analysis, and conclusion of all issues.
 - For PTE audits, refer to MAP 25.3.6 PASS Working Paper Location for Flow Through Audits, for a complete discussion of information required in the shareholder and partner case units.

Instructions to Complete Narrative Report 6431:

*****NOTE*****

Prior to February 2019 we used various workload-specific Narrative Report templates. Those templates have since been replaced with a single, universal template: **Narrative Report 6431**. The new template is to be used for all adjusted cases closed in February 2019 and thereafter.

The Narrative Report 6431 template is adaptable to each workload, allowing for the deletion of tables or sections that are not applicable to the audit cycle or workload.

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Statute of Limitations

Use drop down menus in the table to choose the form ID, the type of waiver, amended return designation, and type of amended return. Enter the controlling Statute of Limitations per audit cycle.

Note: Table may be revised to add/delete items as needed.

Total Tax Effect and Cumulative Flow-Through Adjustment

Complete both tables with the requested information.

Note: Positive amounts equal additional tax and (negative) amounts equal reduction in tax.

Taxpayer's Representatives

Complete the table with the representatives' information. Include the POA declaration number found within the TPF POA information.

Other Related Entities

Complete the table with entities' information that are related and/or impacted by the examination, including name, identification numbers (SSN, CCN, FEIN, etc.), ownership percentage, business activity, and method of filing.

If you have created a diagram of the relationships, have the Schedule R-7, etc., provide a cross-reference to these working papers.

If the taxpayer is a Water's-Edge filer, indicate the start date of the Water's-Edge election.

File Organization (For team audits)

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Provide a brief flowchart of the team audit to guide the reader.

BRIEF Summary of Audit (one paragraph or less per issue)

A brief statement of our position (FTB's story). No need to include specific citations.

If adjustment(s) is coming solely from a flow-through adjustment, refer to the primary entity with cross-references, and summarize the proposed adjustment(s) specific to the flow-through entity, and its effect on taxpayer.

Background Information [Optional]

Provide any material information not involving the substance of an audited issue. For example, an unaudited material issue, items requested that the taxpayer did not provide, etc.

For MSA cases:

- Indicate if the taxpayer was previously audited. If so, provide the audit recommendation and the status of those audits (e.g. in protest, appeal, litigation, etc.).
- Discuss the nature of the corporation's business both within and without California.
- Discuss any acquisitions and dispositions.

Taxpayer's Records Examined

Credible records examined, and facts relied on to come up with conclusion.

Adjusted Issues

Include any relevant information that is not already included in the **Total Tax Effect** or **Cumulative Flow-Through Adjustment** tables.

Taxpayer Position

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	<p>A brief statement of the taxpayer's response to our conclusion, including additional credible contemporaneous facts, law, and case authority.</p> <p><u>Auditor's Rebuttal</u></p> <p>A brief statement of the auditor's reaction to the taxpayer's response.</p> <p>In the event the taxpayer provides additional documentation and/or rebuts the legal arguments presented in the AIPS, you may need to issue a revised AIPS, or withdraw the one originally presented.</p> <p>If a revised AIPS is not issued, and the original AIPS is not withdrawn, then the taxpayer's response needs to be addressed in either, a subsequent correspondence, or in the closing letter.</p> <p><u>Unadjusted Issues</u></p> <p>Brief explanation required of any issue(s) that is audited, but not adjusted. For example, issues considered during the audit that were not fully developed, issues developed that resulted in an immaterial or no tax change, future audit issues, etc.</p> <p style="text-align: right;">Rev. 2/19</p>
<p>7.4 SCHEDULES</p>	<p>The Adjustment Schedules are the most common item that you will complete during the closing process in the Schedules Folder in PASS. You will prepare audit schedules to show the computations supporting any proposed adjustment. You will start with the amounts on the return followed by the applicable audit adjustments. Refer to the relevant documents and supporting schedules from which the figures were derived. The applicable section of the law or regulations may also be referenced. Thorough footnoting, when feasible and thorough cross-referencing of schedules is very important.</p> <p>The schedules should include:</p> <ul style="list-style-type: none">• The taxpayer's name in the header

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- The taxpayer's identification number (FEIN, CCN, SSN, etc.) in the header
- An appropriate title in the header (e.g., Adjustment Schedule, CA Depreciation Schedule, etc.)
- Taxable Years Ending
- Your name or initials, Payroll Unit Code (PUC), creation date, and schedule number in the upper right corner
- The name of the source document and possibly the date received and how verified
- Name and cross-referencing in accordance with MAP 28 Working Paper Procedures.

You can convert an existing schedule outside of PASS into a PASS schedule, or copy a PASS schedule from a different case unit to another case unit, using the save as destination function. See PASS HELP (keyword: Schedules) for instructions. When copying schedules to different case units, make sure you do not have confidential information of one taxpayer copied to another taxpayer's case unit, as some of the footnotes and links may also be copied.

Refer to the appropriate schedules below for the program you are in:

See MAP 7.4.1 Schedules for PIT Cases

See MAP 7.4.2 Schedules for PTE Cases

See MAP 7.4.3 Schedules for Non-Appportioning C-Corporation

See MAP 7.4.4 MSA Principal Schedules

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7.4.1 Schedules for PIT Cases

PASS contains templates that are replicas of FTB tax forms and worksheets. The instructions for completing the templates are included as the first worksheet in the PASS templates. You can use these templates for PIT cases:

PASS Template Name	Similar to FTB Form/Worksheet	Use
GTA- Schedule CA	Schedule CA (540) Schedule CA (540NR)	California adjustments to federal AGI
GTA- AMT Non or Part Year Residents GTA- AMT Resident	Schedule P (540NR) Schedule P (540)	Alternative Minimum Tax
GTA- Other State Tax Credit	Schedule S	Other State Tax Credit
GTA- Research Credit	FTB 3523	Research Credit
GTA- Exemption Credit Phase Out	Exemption Credit Phase Out Worksheet	Exemption credit allowed
GTA- Itemized Deduction Phase Out	Worksheet For Phase Out of Itemized Deduction	California itemized deduction adjustment

The GTA- Itemized Deduction Phase Out template starts with the total state itemized deduction amount. If your adjustment affects federal AGI, you may have to re-compute the federal itemized deduction first before transferring the amount on this schedule. Be sure to show in the worksheet how you arrived at the revised federal AGI. Itemized deductions that may be affected by the change in federal AGI are medical and dental expenses, charitable contribution, and miscellaneous itemized deductions. To add explanation, show computation, or include working paper referencing to this template, unprotect the worksheet first. For instructions to unprotect the worksheet and additional tips on completing this template refer to PASS TIPS.

In addition to the above templates, PASS contains two schedules that you can use to list your audit adjustments. These are **GTA-Resident and Non-Resident Tax Schedules** and **GTA Stand Alone Details of Adjustments**. Both templates have columns for your WP references. The template, **GTA-**

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	<p>Resident and Non-Resident Tax Schedule, shows the taxpayer's revised net tax liability. This template provides an option to generate a schedule for a resident or nonresident/part-year resident taxpayer. You can use the template, GTA Stand Alone Details of Adjustments, to list the adjustments and show the amounts per return and per audit. This schedule does not show the revised net tax liability. If you use only the GTA Stand Alone Details of Adjustment, you still need to provide the taxpayer a schedule of revised net tax liability.</p> <p>Finally, PASS provides access to Turbo Tax. The tax year version of the Turbo Tax is only available in the corresponding case unit year. So, you have to create the file in the case unit that you are adjusting. For example, you have to create a TurboTax file for tax year 2004 in the 2004 case unit. The tax return generated will show the revised tax, but not the net tax liability (additional tax due or overassessment). If you use Turbo Tax to compute the revised tax, provide the taxpayer a schedule of revised net tax liability, or explain in your closing letter how much is the additional tax or overassessment. If you provide the taxpayer a printout of the tax return generated from Turbo Tax you must explain to the taxpayer that it is an example of how the return should have been filed based on the audit adjustments. However, it is not meant for the taxpayer to file this return. You will make the tax adjustments using the appropriate notices.</p> <p style="text-align: right;">Rev. 7/17</p>
<p>7.4.2 Schedules for PTE Cases</p>	<p>PASS contains spreadsheets allowing adjustments to flow through from an entity to its owners. The entity for which a schedule is created drives the information needed to complete any given schedule. For example, when creating an S Corporation schedule, you need to enter the ownership percentages of the shareholders. The PASS spreadsheet schedules automatically calculate owner level adjustments for a pass-through entity. The name of the PASS Schedule is GTA-Corp/Partner Details of Adjustments.</p> <p>This PASS Spreadsheet can:</p> <ul style="list-style-type: none">• Be copied and pasted into multiple case units' Issue folders• Compute flow through adjustments for entity and owners• Compute owner-only adjustments with flow through adjustments

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- Allow comments
- Be customized

This PASS Spreadsheet cannot indicate if a figure is an estimate, itemized, etc., unless the user manually changes the color.

These are additional templates that you can use for pass-through entity cases:

PASS Template Name	Use
GTA- P/S Basis	Computes partners' outside basis
GTA- S Corp BIG	Computes S corporation's built-in gain
GTA- S Corp AAA Worksheet	Computes S corporation's accumulated adjustments account

Refer to the instructions within the templates to complete the schedules.

When making adjustments to individual shareholders or partners, use the templates available for PIT cases. See MAP 7.4.1 Schedules for PIT Cases.

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7.4.3 Schedules for Non-Appportioning C-Corporation Cases

You can use the template, **GTA Stand Alone Details of Adjustments**, to list the adjustments and show the amounts per return and per audit. However, this schedule does not show the revised net tax liability. You can use the template, **Blank Excel Document**, to customize a schedule showing the revised net tax liability.

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	<p>PASS also contains templates that are replicas of FTB tax forms and worksheets. The instructions for completing the templates are included as the first worksheet in the PASS templates.</p> <p>When making adjustments to individual shareholders, use the templates available for PIT cases. See MAP 7.4.1 Schedules for PIT Cases.</p> <p style="text-align: right;">Rev. 7/17</p>
7.4.4 MSA Principal Schedules	<p>All adjustments for MSA cases should be prepared using the MSA Principal Schedules in PASS. Begin with these main schedules and use any of the supporting schedules as needed.</p> <p>For help on completing the schedules, refer to the Principal Schedule Guide or the MSA User Guide.</p> <p style="text-align: right;">Rev. 7/17</p>
7.5 DRAFT CORRESPONDENCE AND SENT FOLDERS	<p>MAP 7.5.1 No Change Letters MAP 7.5.2 No Change Issues MAP 7.5.3 NPACA Letter (Notice of Proposed Adjusted Carryover Amount) MAP 7.5.4 PIT Overassessment, FTB PASS 5847 or 5847A</p> <p style="text-align: right;">Rev. 7/17</p>
7.5.1 No Change Letters	<p>It is the practice of the department to issue No Change letters on all completed audit years that do not result in additional tax, an overassessment, a decrease in a carryover amount or result in an increase in carryover amount. Send the No Change letters directly to the taxpayer. Send a copy of the letter to the representative if requested. You or Audit Business Support may issue the No Change letters. Refer to your specific unit procedures if a lead or supervisor review is required prior to issuance of the No Change letter.</p> <p>Issue No Change letters as long as there are no related case units with adjustments. If there are related case units with other than no change adjustments, Audit Business Support will issue the No Change letter.</p>

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	<p>If you issue the No Change letter, make sure that the Audit Report, FTB 6430, clearly indicates that the letter has already been issued. Make a comment in the Event Log.</p> <p>If Audit Business Support is to issue the letter, the Audit Report, FTB 6430, or Sticky Note must clearly indicate that the letter has NOT yet been issued. Make a comment in the Event Log.</p> <p>If you are issuing NPAs for audits of multiple tax years, you may inform the taxpayer of the years that are being accepted without any change. You may do this either through the No Change letter, or in a paragraph included on the NPAs that are issued.</p> <p>In the PASS Notice Window for the case unit the auditor will select No Change as the notice name in the Notice Detail Section. See MAP 25.5.1 Notice Window.</p> <p style="text-align: right;">Rev. 7/17</p>
7.5.2 No Change Issues	<p>If an issue is a No Change but there are other issues that are being adjusted, you should inform the taxpayer of the conclusion of that particular issue:</p> <ul style="list-style-type: none">• in a written correspondence, or• by withdrawing the AIPS, if it was already presented to the taxpayer (See MAP 6.10.6 Audit Issue Presentation Sheets (AIPS)) <p>An Audit Issue Section must still be maintained for any No Change issue, documenting all facts, law and analysis relating to the issue, as well as the reason for the No Change.</p> <p>If discontinuing a case, refer to MAP 7.15 Discontinued Issue(s)/Case.</p> <p style="text-align: right;">Rev. 6/18</p>
7.5.3 NPACA Letter (Notice of Proposed Adjusted Carryover Amounts)	<p>The NPACA letter is available in the Draft Correspondence Folder (NPACA Letter 1542). If your case is subject to TRS review, or if you are issuing other notices, leave the completed NPACA letter (that includes the Revenue Code) in the Draft Correspondence Folder. Otherwise, update the template with the appropriate protest date and mail it to the taxpayer. The protest date is 60 calendar days from the date of mailing the NPACA. If the 60th day falls on a weekend or holiday, the protest date is the following working day. Use the Dates Calculator to calculate the protest date. In some cases, your supervisor or lead may want to review your case first before you can send the notice to</p>

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	<p>the taxpayer.</p> <p>For more information and additional instructions to complete an NPACA, see MAP 7.7 NPACA (Notice of Proposed Adjustment Carryover Amounts).</p> <p style="text-align: right;">Rev. 6/18</p>
<p>7.5.4 PIT Overassessment, FTB PASS 5847 or 5847A</p>	<p>Form 6846 has been removed from the Administration Folder in PASS. Auditors should use either FTB 5847 or 5847A in the Draft Correspondence Folder in PASS for all O/A cases.</p> <p>For more information and additional instructions on PIT overassessment, see MAP 13.4.8 PIT Overassessment Procedures, FTB 5847 or 5847A.</p> <p style="text-align: right;">Rev. 7/17</p>
<p>7.6 OTHER PASS FUNCTIONS</p>	<p>There are various other PASS tasks that must be performed as part of the closing process. Some of the tasks need only be performed in the Primary Case Unit, while others may need to be performed in all case units within in a case.</p> <p>MAP 7.6.1 Primary Case Unit (or for All Cases Where Working Papers are Being Stored)</p> <p>MAP 7.6.2 All Case Units</p> <p style="text-align: right;">Rev. 7/17</p>
<p>7.6.1 Primary Case Unit (or for All Cases Where Working Papers Are Being Stored)</p>	<ul style="list-style-type: none"> • Update the Preliminary Analysis Folder with the Audit Program Worksheet if applicable. • Check that all letters in Draft Correspondence Folder are either being sent or are deleted. There should be nothing in this folder. (Except for No Change letters on Water's-Edge cases AND NPACA'S that are sent from Sacramento.) • Verify the Address Book has the most current information. Be sure to include mailing address information for notices.

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	<ul style="list-style-type: none">• Delete any remaining ticklers that will not be needed. <p style="text-align: right;">Rev. 7/17</p>
7.6.2 All Case Units	<ul style="list-style-type: none">• Add a manual event to cross reference case units to the primary case unit.• Add and complete the Notice Window with the appropriate information. See MAP 25.5.1 Notice Window.• Change status to Review.• Copy/Paste any letter, research, etc. that you want to save to your Bottom Drawer.• Transfer the Case/Case Units to the appropriate Group Work list:<ul style="list-style-type: none">○ All case types that meet TRS review criteria - Transfer the case to GTA TRS Incoming Review Cases, under PUC 346.○ Audit types cases that do not meet TRS review criteria - Transfer the case to Audit Support/GTA Review, under PUC 389.○ Claim type cases that do not meet TRS review criteria:<ul style="list-style-type: none">▪ With no other notices - Follow your local procedures.▪ Has other notices - Transfer the case to Audit Support/GTA Review▪ Has an increased refund - Transfer the case to 389 All Incoming Claims/o/as.• If the case is an electronic only file, use the EASN tool.• Return icons should be returned to file when transferring a case to your supervisor or another auditor. However, if the return icons are transferred to someone else, you must make sure that the recipient acknowledges receipt on the same day. This will eliminate the in-lieu generated in Data Services.• Discard items such as Sticky Note reminders; however, do not discard any item that may help the review of the case. <p style="text-align: right;">Rev. 11/18</p>

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7.7 NPACA (NOTICE OF PROPOSED ADJUSTMENT CARRYOVER AMOUNTS)

There are situations when the tax effect of an audit adjustment will occur in the future rather than the current audit cycle due to a reduction in carryover amounts. In such a situation, we must notify the taxpayer of the reduction in order to give them an opportunity to protest the adjustment currently if they choose. R&TC Section 19043.5 authorizes FTB to issue a Notice of Proposed Adjusted Carryover Amount (NPACA) when an examination results in a reduction of a taxpayer's reported carryover amount. NPACAs are treated as if they are proposed deficiency assessments (NPAs) and the taxpayer receives protest and appeal rights even though the exam does not result in any additional tax. Therefore, we must issue the NPACA prior to the expiration of the statute of limitations. We only issue an NPACA when the adjustment results in a reduction to a carryover amount, not an increase.

The taxpayer may choose to protest and appeal the NPACA currently, or wait until the revised carryover results in an NPA in some later year. The benefit of protesting an NPACA and appealing to the Office of Tax Appeals (OTA) currently is that the taxpayer timely receives a binding and conclusive determination regarding the carryover item. The OTA decision binds both FTB and the taxpayer to the amount of carryover adjustment with a few limited exceptions available in the statute. If the taxpayer does not follow the OTA decision in subsequent years, the FTB can issue a math error assessment to correct the carryover amount instead of an NPA.

The NPACA is a letter that contains the amount of the carryover reduction; the revised carryover amount; modified protest procedures; the protest deadline date, and a Revenue Code (this Revenue Code will be utilized by the taxpayer or representatives when protesting on-line). Auditors should clearly communicate the process and consequences of issuing NPACAs to taxpayers and their representatives since these notices are unique to California and there is no federal counterpart.

When to Issue the NPACA

- Issue an NPACA when an audit results in no additional tax, but **reduces** a carryover item. Refer to MAP 7.5.1 No Change Letters for guidance on what to do when a carryover item increases. Issue an NPACA when the RAR adjustments result in no additional California tax, but reduce a California carryover item.
- When an exam results in overassessment (OA) **and** reduces a California carryover item, issue the OA as an NPO. Issue an NPACA for any reduction in carryover items. For example, **if** the audit covers

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three years and all three years result in overassessment, and one or more years reduces a California carryover item, issue the overassessment as an NPO. Also issue an NPACA for any reduction in carryover items.

- When an exam results in an NPA, do not issue a separate NPACA for any reduction in a carryover item for that same tax year. Describe the carryover in an NPA paragraph.
- When an exam of multiple years results in an adjustment to a carryover item in year one (or one or more of the early years within the current audit cycle) and in the subsequent years an NPA is being issued to reflect the carryover adjustment, which results in additional tax, a separate NPACA notice is not needed for year one. The carryover adjustment will be addressed in a paragraph, which will be included in the NPA issued for the subsequent year. Record an event indicating NPACA letter was not issued since the carryover was reflected in the NPA issued for the subsequent tax year, and complete the PASS Notice Window as though an NPACA was issued. Leave status on PASS Notice Window in Pending Release.
- When an exam of multiple years results in an NPA for year one (or one or more of the early years within the current audit cycle, or a combination of NPA and O/A for the earlier years within the current audit cycle) and an adjustment to a carryover item in subsequent year(s), issue an NPACA for the subsequent year within the current cycle if the tax effect of that adjusted carryover item will not be realized until a future year that is beyond the current audit cycle.
- When allowing a claim for refund in full, you must also issue an NPACA for any reduction in carryover items associated with that same tax year. See MAP 8.4.1 Quick Reference Table for Closing PIT Claims and see MAP 8.4.2 Quick Reference Table for Closing Corporation Claims. For MSA cases the NPACA must be issued by audit staff first, then forward the claim to B/E Audit Support to be processed. For all other cases, the letter will be issue by GTA Technical Resources.
- When a claim for refund is denied in whole or in part, issue an NPACA for any reduction in carryover items not associated with the issue on the claim. See MAP 8.4.1 Quick Reference Table for Closing PIT Claims and see MAP 8.4.2 Quick Reference Table for Closing Corporation Claims. Note that the NPACA protest period must expire before the claim denial is processed.
- If a taxpayer files a claim for refund because of a credit or loss issue and the claim issue is being denied in whole or in part, the denial

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letter gives the taxpayer appeal rights on the carryover item. It is not necessary to issue an NPACA.

- General Rule of Thumb – Issue when the audit result will not otherwise give the taxpayer protest or appeal rights, but the carryover amount is reduced, such as:
 - Claim allowed in full
 - No change to tax liability
 - Overassessment

When Not to Issue the NPACA

- Do **Not** issue when adjustment increases a carryover amount (See MAP 7.5.1 No Change Letters).
- Do **Not** issue a separate NPACA for a year in which the exam results in an NPA; do include a paragraph in the NPA describing the carryover change.
- Do **Not** issue an NPACA when the carryover is adjusted in a year early in the audit cycle and the carryover adjustment results in additional tax in a subsequent year for which an NPA is issued.
- Do **Not** issue an NPACA if a claim for refund is filed for a credit or loss issue and the claim is denied in whole or in part because the claim denial provides appeal rights on the carryover item.

How to Issue the NPACA

1. A template of the NPACA is on PASS (1542 NPACA Letter, in the Draft Correspondence Folder). Include the Revenue Code and an explanation regarding the carryover item reduction.

Multiple Years. When an examination results in an NPACA situation for more than one year, you have the following options:

- Issue a separate NPACA for each year in the appropriate case unit. The proper tax year should be in taxable year field. A single NPACA should not include multiple years in the taxable year field. Or,

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- Issue an NPACA on the final year of the cycle only. In this case, enter the final year of the audit in the taxable year field. For example, on a 3 year audit cycle if you adjusted the R&D credit carryover for the last 2 years or all 3 years, you can issue the NPACA for year 3 only. You do not need to issue an NPACA on year 1 and 2, as those years' adjustments are inherently incorporated into the year 3 NPACA and are properly explained in the paragraph(s). You may incorporate the carryover amounts of all years in the final year's PASS Notice Window.

Exception for offset cases. You are responsible for completing all the information on the NPACA letter (including the Revenue Code) except the mail date and protest date. Since all the notices associated with an offset case need to be sent at the same time, B/E Technical or Audit Business Support will be responsible for updating the mail date and protest date on the NPACA prior to mailing. B/E Technical Support or Audit Business Support will also add the comment to the entity's Taxpayer Folder.

Exception for cases with additional notices and NPACAs. You are responsible for completing all the information on the NPACA letter (including the Revenue Code) except the mail date and protest date.

An NPACA and an NOA on a protested NPACA are official notices from the Franchise Tax Board for which the taxpayer has specific protest and appeal rights under the Revenue and Taxation Code. To avoid any problems at the protest and appeal levels regarding proper notification and meeting of time frames for filing a protest or appeal, it is FTB's policy to mail all original notices to the **taxpayer**. This includes the original NPACA letter and an original Notice of Action on a protested NPACA, with a copy to the representative, if applicable.

Exceptions for Cases Subject to TRS Review. If the case is subject to TRS review, leave the completed NPACA letter (that includes the Revenue Code) in the Draft Correspondence Folder.

2. Update the PASS Notice Window as follows:

- **Notice type:** NPACA

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- **Issue:** Select the issue from the drop down list
 - **Credit C/O Amt:** Enter the amount of the disallowed credit carryover associated with the selected issue.
 - **Loss C/O Amt:** Enter the amount of the disallowed loss carryover or deductions associated with the selected issue.
3. Flag subsequent years for follow up using the Follow-up Flag in PASS (steps for adding the follow-up flag are located in PASS Help). Which years and how many subsequent years, will depend on the facts and circumstances of each case.
 4. Assemble and submit the case for review.
 5. For cases submitted to Technical Resource Section, follow normal procedures for routing NPACA cases. See MAP 7.8.4 Routing the Physical and Electronic Files.
 6. For cases submitted to Technical Resource Section: Upon final review of the case, the TRS reviewer will update the protest deadline date, release and mail the NPACA, and enter a comment on the entity's Taxpayer Folder. When an NPA and an NPACA are being issued at the same time, the reviewer will coordinate the mail date of the NPA and NPACA to ensure that both notices are mailed at the same time.
 7. For desk audit cases that are not submitted to Technical Resource Section: Upon review of the case, reviewer will note that the NPACA has been approved for mailing and will return the case back to auditor. The auditor will update the protest date on the NPACA letter and send the letter to the taxpayer. The auditor will also add a comment to the entity's Taxpayer Folder.
 8. The protest date is 60 days from the date of mailing the NPACA. If the 60th day falls on a weekend or holiday, the protest date is the following working day. The protest period can be computed by going to [Dates Calculator](#).

The comment in the entity's Taxpayer Folder should include the following information:

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Comment Subject: NPACA mailed on (enter mail date) for (enter year).

Comment Details: NPACA mailed on (enter mail date) with a protest period date of (enter protest date). The NPACA was issued to adjust the (description of the revised carryover amount for the affected year). The NPACA was issued by (name of auditor).

The information in the comment aids employees without access to PASS in providing customer service to taxpayers, as well as serving a historical purpose on the mainframe. The responsibility for adding the comment starts with auditors. If someone else mails the notice, then responsibility transfers to him or her to ensure the comment is added.

9. Place a copy of the NPACA on top of the case file. This accurately identifies the case as an NPACA case, before it is sent to the MSA retention wall. This ensures that the person handling cases on the retention wall can easily see the mail date. (For cases in desk audit, the case will be returned to the reviewer.)
10. If case results in issuing only an NPACA, the final reviewer will transfer the PASS case to the MSA Retention Wall work list and route the physical file to the owner of the work list.
11. If a case results in issuing both NPACAs and NPAs, treat the case file no different than if it only contained NPAs. Follow usual review and routing procedures.
12. If the NPACA is returned as **Returned Mail**, the NPACA will be routed to maker (Desk Audit Staff) and to the reviewer (for cases submitted to Technical Resource). The maker or reviewer will attempt to find a valid address and resend the NPACA. If a valid address is not available, an event will be recorded in the PASS case unit and the case will be returned to files.

Protest Action

- Upon completion of the protest, the NPACA NOA letter (that includes the Revenue Code) will be issued through PASS, FTB 1542a.
- Enter a comment in the entity's Taxpayer Folder, regarding the action taken at protest (affirm, revise, or withdraw).
- Refer to Protest Guide Section0054.

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7.8 PHYSICAL FILE	MAP 7.8.1 Assemble the Physical File MAP 7.8.2 Exhibits MAP 7.8.3 Tax Returns MAP 7.8.4 Routing the Physical and Electronic Files MAP 7.8.5 Preserving Audit Files <p style="text-align: right;">Rev. 7/17</p>
7.8.1 Assemble the Physical File	<p>The procedures to follow to assemble the physical file for TRS review will depend on the Program you are in.</p> <p>PIT, PTE and Non-Appportioning C Corp Procedures</p> <p>Usually, we do not print a complete copy of the electronic file when the case is closed. All information is available online. Attach the physical file to the tax return for the most recent audited year. If that year has amended returns, the physical file should be attached to the most recent amended return. Assemble the physical file in the following order:</p> <ul style="list-style-type: none">• Audit Report – Form FTB 6430. See MAP 13.4.4 Audit Report, Form FTB 6430 for completing this form.• Rush tag if needed – See MAP 13.4.12 Rush Action Slip (Form FTB 7011). Attach to the Audit Report – (Form FTB 6430).• PAWS/BETS Batch Control Worksheet – Form FTB 6148. Optional for Field Auditors. If using it must have the Statute of Limitations date written and circled in red in the notes section.• Any forms to issue notices – See MAP 13 Forms on how to complete the forms.• Any correspondence sent outside of PASS.• Index to Audit File (9923)

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- All received correspondence and documentation. Attach to the back of the return for PIT only. If a corporation, place the correspondence in the corporation folder.
- Tax Returns – Initial and date the upper right hand corner of the tax returns audited.

MSA Procedures

Before sending the case to TRS for review, assemble the file as follows:

- Pink Rush Tag (Notifies anyone handling the case that it is a priority)
- Notices. See MAP 13.4 Closing Forms for instructions to complete forms.
- Abatement/Refund Memo (Form 6163), if needed. See MAP 13.4.2 Abatement Refund Memo (Form FTB 6163) for instructions to complete this form.
- NPAs and/or O/As (Form FTB 6830) Formal Claim (Form FTB 6638)
- Audit Report Cover Sheet (Form 6430)
- Narrative Report
- AIPS (If referenced in the narrative)
- Printed Schedules (Final Copy)
- Index to Audit File (9923)
- Physical Working Paper File

The auditor has the discretion on how to assemble the rest of the file and what items to print.

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7.8.2 Exhibits	<p>Subsequent to the implementation of the standardized working paper naming and numbering system (as outlined in MAP 28 Working Paper Procedures), exhibits are no longer a part of the physical audit file.</p> <p>All documents included in the physical audit file would be placed and numbered according to the guidelines in MAP 28.</p> <p style="text-align: right;">Rev. 7/17</p>
7.8.3 Tax Returns	<p>Electronically Filed Returns (ELF)</p> <p>If a return was filed electronically, it will be retained for the standard period. See MAP 7.8.5 Preserving Audit Files. It is not necessary to print the return.</p> <p>Reference Returns</p> <p>Tax returns associated with the audit for years or entities that we did not audit and where we did not create a case unit are called Reference Returns. These returns will be retained for the standard period. See MAP 7.8.5 Preserving Audit Files.</p> <p>Taxpayer's Copy of Returns</p> <p>If the auditor used the taxpayer's copy of tax returns at audit, write COPY across the tax returns and assemble the file per MAP 7.8.1 Assemble the Physical File.</p> <p style="text-align: right;">Rev. 7/17</p>
7.8.4 Routing the Physical and Electronic Files	<p>The procedures to route the physical and electronic file for TRS review will depend on the Program you are in.</p> <p>See MAP 7.8.4.1 PIT, PTE and Non-Appportioning C Corp Procedures</p>

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	<p>See MAP 7.8.4.2 MSA Procedures</p> <p>See MAP 7.8.4.3 PIT/Corp Mixed Files</p> <p style="text-align: right;">Rev. 7/17</p>
7.8.4.1 PIT and PTE Procedures	<p>Field Office PASS Cases</p> <p>To transfer a case to Central Office for processing or review, assemble the physical file according to the specific instructions (see MAP 7.8.1 Assemble the Physical File). Email the GTA Review group to notify Audit Business Support of the physical file's pending transfer.</p> <p>Complete a packing slip for every package sent to Central Office.</p> <p>Be sure to include a list of all cases included in the package and the delivery company's tracking number.</p> <ul style="list-style-type: none">• Attach one copy of the packing slip in the package on top of the batch of files.• Email the list of cases and tracking numbers to GTA Review mail ID.• Indicate the unit each file or separate batch of files should be transferred (i.e., ABS, TRS, Data Storage). <p>You do not need to send cases using an overnight service unless they are sensitive or high priority because of close Statute of Limitation. However, using regular ground service may delay the receipt by two or three days. Do not send no-change overnight.</p> <p>Use one of the approved courier services (Federal Express, UPS, or Golden State Overnight) for all cases. The United States Postal Service, USPS, is no longer an approved courier for Confidential Return/Document delivery. Which service is used depends on your office. The important thing is that it has a</p>

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tracking system in the event cases are lost or misrouted. Send the physical files to the GTA Review address available at the link below:

GTA Review

Do **not** address packages to the attention of Receiving. If you have cases to send to Audit Business Support and other cases/returns for someplace else (i.e., surveys need to go to Data Services and Storage Section) in one package, send them to the street address above and Audit Business Support will sort them and route them to the appropriate places.

When sending any returns through courier service, include a transmittal letter specifying how many cases/returns are in the package.

Transfer the electronic file as follows:

- Non-review cases with notices to the **Audit Support/GTA Review** group work list. You need to change the case status to **Review** before doing so.
- TRS Review cases to **GTA TRS Incoming Review Cases** group work list.

If the case includes a Statute of Limitations waiver, attach the original waiver to the face of the return to which it applies. Remember to submit all cases to review no later than six months before the SOL expires. Remember to close the case on any non-PASS inventory systems.

You can track parcels shipped by overnight mail service through the service's web site, or have the Shipping Desk in Service and Supply track the parcel for you [916.845.3245]. The overnight mail service has a number of drop boxes. To find the nearest drop box, access their website. Enter your address and their search engine will locate the nearest drop box, list the pick up time, and show you a map. If you choose to use a drop box, contact our Shipping Desk to request the necessary shipping material.

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	<p>Central Office Cases</p> <p>Generally, you should route all files, physical and electronic, through Audit Business Support (Mail Stop F340).</p> <p>You should transfer the physical file when you transfer the electronic file. Failing to do so may cause lost files, expired statutes, unprocessed assessments, etc. Email the GTA Review group to let Audit Business Support know that the physical file's transfer is pending.</p> <p style="text-align: right;">Rev. 7/17</p>
<p>7.8.4.2 MSA Procedures</p>	<p>Generally, you should route all physical files to the MSA Technical Resources Section at MS F350. You should transfer the physical file when you transfer the electronic file. Failing to do so may cause lost files, expired statutes, unprocessed assessments, etc. Transfer the electronic file to the Group Work list entitled MSA TRS New Incoming Review Cases. You need to change the case status to Review before doing so.</p> <p style="text-align: right;">Rev. 7/17</p>
<p>7.8.4.3 PIT/Corp Mixed Files</p>	<p>PIT and PTE Procedures</p> <p>A Personal Income Tax/Corporation mixed file includes notices for related PIT and corporation taxpayers and generally involves income and deductions transferred from a PIT account to a corporation account, or vice versa. These cases require special handling.</p> <p>Occasionally, the file consists only of Notices of Proposed Assessment. However, the majority include Notices of Proposed Assessment for one taxpayer and overassessments for the other. Over-assessments for mixed files are issued as Notice of Proposed Overassessments, since we do not generally issue refunds until the related assessment is either paid or final.</p>

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Identify PIT/Corporation Mixed files by checking the **MIXED FILE** box on the PAWS/CLAWS Batch Control Worksheet and/or including the words **MIXED FILE** on the Audit Report – Form FTB 6430.

All Notices of Proposed Overassessment should inform the taxpayer that we do not issue refunds until the related Notices of Proposed Assessment are paid or final.

MSA Procedures

When the audit case includes both corporation returns and affiliated PIT returns, TRS will complete its review of the corporate taxpayers and then forward the entire case to the inventory control desk in Business Entities Support for mixed files (NPAs and overassessments, claims, etc.) only for final processing of the audit case. If only NPAs are being issued, the file is sent to Business Entities for processing.

Before any completed review case leaves TRS, the Technical Resources Control Technician should assemble it as follows:

- The number of notices must be entered on each form FTB 6830BCT by classification, e.g., NPA, O/A, N/A, etc.
- The form FTB 6830BCT with supporting schedules to be mailed are placed on top of the folder with the latest return or other document with the correct name and address of the corporation under the NPA worksheet. The audit report and working papers are placed inside the folder. All other returns are placed inside the folder in chronological order with the latest year on top.
- Related PIT returns and audit report for the PIT account are placed behind the corporate folder. This group will be forwarded to PIT Audit to complete the processing.
- The route slip, form FTB 7000, is placed as the first document on top of all other documents with routing instructions clearly marked.

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7.8.5 Preserving Audit Files	<p>The standard retention period for individual and business entity taxpayer information is *****.</p> <p>The standard retention period for PASS audit cases is ** *****.</p> <p>For more information, see FTB Policy 8802 – Data Retention and General Procedure Manual 8803 – Data Retention.</p> <p style="text-align: right;">Rev. 7/17</p>
7.9 REVIEW	<p>There are two types of review that can take place, informal and formal.</p> <p>Informal Review</p> <p>At any stage in an audit, you may request that your supervisor/lead review a letter, a working paper or entire case. This is considered an informal review in PASS and the case status does not change. If the reviewer recommends changes, he or she tells you and enters them in the Event Log.</p> <p>When the audit is complete the supervisor/lead will conduct a review. They are responsible for the quality of the audit and will indicate concurrence of the audit proposals by initialing the audit file. If as a result of the supervisor/lead review there are changes to the auditor's report, you must notify the representative of the revision and provide revised schedules to the taxpayer.</p> <p>Formal Review</p> <p>When a case is completed, you transfer the electronic and physical files to your reviewer for Formal Review.</p> <p>The Formal Review process may be conducted by your lead or supervisor. For cases meeting certain criteria, TRS also conducts an End Review before releasing any notices.</p> <p>TRS's End Review process includes the review of significant technical issues and review of the procedures required to issue the appropriate notices.</p>

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	<p>Cases with the following Review Criteria may be assigned to a TRS member for End Review:</p> <ul style="list-style-type: none">• MSA cases with \geq \$***** net tax change• GTA cases with \geq \$***** net tax change• GTA RAR cases \geq \$***** net tax change• Any case with the EZ credit – regardless of net tax change amount. <p>If your case requires TRS End Review, you must submit the completed case to TRS at least six months before the Statute of Limitations expires. Sufficient time is necessary to review the case fully and to contact the taxpayer with any issues.</p> <p>For additional information, see MAP 14 Technical Resource Review.</p> <p style="text-align: right;">Rev. 7/17</p>
<p>7.9.1 Receipt of Audit Cases in TRS</p>	<p>As the audit cases are received, the Technical Resources Control Technician will log in the original returns on PASS. The cover sheet, form FTB 6430, will also be date-stamped at the same time to show date of receipt.</p> <p style="text-align: right;">Rev. 7/17</p>
<p>7.9.2 Audit Cases Needing Corrections</p>	<p>The auditor is responsible for the mathematical and technical accuracy of the audit case. Cases containing errors of either nature may be returned to you for correction.</p> <p>Sometimes, a reviewer finds that you have not considered enough facts, or that you should further explore some aspect of the case. When the audit is completed, you should tell the taxpayer or representative that a subsequent review might disclose the need for further development or changes to issues already agreed upon. You are responsible for the accuracy of the audit case</p>

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	<p>and any resulting corrections and must tell the taxpayer or representative if the reviewer recommended any changes.</p> <p style="text-align: right;">Rev. 7/17</p>
<p>7.9.3 Forms Processing</p>	<p>Review is responsible for the accuracy of the forms to permit in house processing. Upon final review and approval, which will cover policy, technical issues, and any processing requirements, the Technical Resources Control Technician will route the file to the proper unit or section for disposition in accordance with the audit recommendation. The routing will include Claims Control Desk for overassessments, Business Entities Support-Typing on BETS processing for deficiencies, Business Entities Support for combined deficiencies and overassessments, and Business Entities Support for appropriate interest computations.</p> <p>Items that need to be clarified are as follows:</p> <ul style="list-style-type: none">• Suspended corporations – Add NPA Paragraph 54477 to all NPA deficiency notices. Refunds will not be issued. See MAP 13.4 Closing Forms.• Dissolved or merged corporations – must establish an active assumer for assessment purposes. Verify NPA heading for correct assumer/transferee name and address.• Ensure payments received have posted correctly. Enter appropriate payment paragraph on NPA worksheet.• When a Walker letter (see MAP 7.11 Walker Letter Situations) has been issued, the statement Do Not issue no change letter should be written above the tax years on the audit report cover sheet, form FTB 6430.• Ensure that the proper audit issue codes have been entered on the NPA worksheet. <p style="text-align: right;">Rev. 7/17</p>

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7.9.4 Review Notes	<p>The review notes should provide a better understanding of the case at the next level (i.e., Review, Protest, and Appeals). All review notes should stay with the case.</p> <p style="text-align: right;">Rev. 7/17</p>
7.10 PAYMENTS AND DEPOSITS	<p>Let taxpayers know the approximate time before they get the Notices of Proposed Assessment. It will normally take two to four months. Give them the chance to pay proposed assessments at the audit's close.</p> <p>Following are the payment options available to taxpayers when they pay:</p> <ul style="list-style-type: none">• <u>Web Pay</u>• Check (see MAP 7.10.2 Check Payments Received at Audit – Field Offices)• <u>Pay-by-Phone</u>• Credit Card (see MAP 7.10.3 Paying by Credit Cards – PIT Taxpayers)• EFT (see MAP 7.10.1.1 Bank and Corporation Taxpayers) <p>See MAP 7.10.1 Payments Received at Audit – Electronic Payments for payment options for taxpayers subject to mandatory electronic payments.</p> <p>Process completed audits promptly. If there is a delay in processing, tell the taxpayer about the delay and note it in the event log.</p> <p style="text-align: right;">Rev. 7/17</p>
7.10.1 Payments Received at Audit - Electronic Payments	<p>California law requires bank and corporation taxpayers, as well as individual taxpayers and group nonresident/composite return filers, to make all payments electronically if they meet certain criteria. Taxpayers subject to the mandatory electronic payment requirements must also pay their NPA electronically. Do not accept a check from these taxpayers; advise them to remit payments electronically.</p>

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	<ul style="list-style-type: none"> • For bank and corporation taxpayers, refer to MAP 7.10.1.1 Bank and Corporation Taxpayers. • For individual taxpayers and group nonresident/composite return filers, refer to MAP 7.10.1.2 Individual Taxpayers and Group Nonresident/Composite Return Filers. <p>MAP 7.10.1.1 Bank and Corporation Taxpayers</p> <p>MAP 7.10.1.2 Individual Taxpayers, Including Group Nonresident/Composite Return Filers</p> <p style="text-align: right;">Rev. 7/17</p>
<p>7.10.1.1 Bank and Corporation Taxpayers</p>	<p>Bank and corporation taxpayers, who meet the following criteria, must make all payments by Electronic Funds Transfer (EFT):</p> <ul style="list-style-type: none"> • Any taxpayer with any estimated tax payment or extension payment exceeding \$20,000. • Any taxpayer whose total tax liability exceeds \$80,000 for any taxable year. <p>Once a taxpayer is declared a mandatory EFT participant, it must remit all corporate income and franchise tax payments through EFT regardless of the type of payment, the amount of payment, or the taxable year to which the payment applies. If the taxpayer remits payment by other means, we will assess a penalty equal to ten percent of the amount paid. Our system will assess the penalty automatically.</p> <p>EFT Status Code in BETS</p> <p>To determine if a bank and corporation taxpayer must remit payments electronically, check the EFT Status Code field in either of the following BETS conversations:</p>

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	<ul style="list-style-type: none">• ****: The EFT Status Code displayed will indicate if the taxpayer EFT requirement is Mandatory, Voluntary, or Waived.• ****: The EFT Status Code displayed will indicate the taxpayer's EFT requirement using a numeric code of 0, 1 or 2. The numeric codes are defined as follows: 1 = Mandatory 2 = Voluntary 0 = Waived EFT Code Advise the taxpayers to use Tax Code 02512 when remitting an EFT payment. This will ensure the payment will post properly in BETS. <p style="text-align: right;">Rev. 7/17</p>
7.10.1.2 Individual Taxpayers, Including Group Nonresident/Composite Return Filers	<p>Individual taxpayers and group nonresident/composite return filers must remit all future payments electronically (e-pay) once they:</p> <ul style="list-style-type: none">• Make an estimated tax or extension payment (by check or electronic method) over \$20,000 for a taxable year beginning on or after January 1, 2009; OR• File an original return with a tax liability over \$80,000 for a taxable year beginning on or after January 1, 2009. <p>Once a taxpayer meets the mandatory e-pay threshold, all subsequent payments must be remitted electronically regardless of type, amount or tax year. We will assess a penalty equal to one percent of the amount paid, unless the taxpayer's failure to pay electronically was due to reasonable cause and not willful neglect. Our system will assess the penalty automatically.</p>

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e-Pay Indicator in TI

Before providing an estimate to or requesting a payment from taxpayers, verify in the Taxpayer Information System (TI) whether the taxpayers are subject to mandatory e-pay.

1. In Taxpayer Information System (TI), input the following information:

a. **TP ID:** taxpayer's identification number

- PIT = social security number
- Group nonresidents = business entity's FEIN

b. **COMMAND:** **

2. Press *****.

3. You will see screen ******, which looks like the screen print below.

4. Look at the code in the **MANDATORY E-PAY/DATE** field.

Taxpayer Information Display

*****	TAXPAYER INFORMATION DISPLAY	****	12/01/09
TAXPAYER SSAN :	XXX-XX-XXXX	TAXPAYER STATUS :	
TAXPAYER ID :	XXX-XX-XXXX		
FTB ID :			
		MANDATORY E-PAY/DATE :	
		ACCOUNT RESOLUTION DATA	
		EMPLOYEE NAME :	
TELPEPHONE :		UNIT/TELEPHONE :	
ADDRESS DATA :		ASSIGNED UNTIL DATE:	
DATE :			
SOURCE :		STUDY CODES :	
STATUS :			
MAIL FORMS :		AGENCY OFFSET DATA :	
COMMENT DATA :		TP LIAB/PEN DATA :	
LIEN DATA :		HOMEOWNER DATA :	
POA DATA :		MILITARY DATA :	

- "M" means taxpayer is subject to mandatory e-payments.
- "W" means FTB has waived the mandatory e-payments.

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- Blank means the taxpayer never met the mandatory e-pay requirement.
- The date is the effective date of the "M" or "W" indicator. A "W" indicator can subsequently be changed to "M" if a new qualifying payment posts.

Standard NPA Paragraphs

If taxpayers are subject to mandatory e-pay but do not remit payment before the case is closed, add a paragraph in the NPA/NOA worksheet explaining the taxpayers' payment options. The standard paragraphs available are:

- 03700 - Mandatory e-pay (PIT)
- 03725 – Mandatory e-pay (group nonresidents)

Payment Options – Personal Income Taxpayers Subject to Mandatory e-Pay

If the PIT taxpayers are subject to mandatory e-pay, advise the taxpayers to remit payment using any of these methods:

- Web Pay (use payment type "Tax Deposit")
- Pay-by-Phone

Payment Options – Group Nonresidents Subject to Mandatory e-Pay

If the group nonresident taxpayers are subject to mandatory e-pay, advise the taxpayers to remit payment using Web Pay (use payment type "Tax Deposit").

For more information on group nonresident return filers, see FTB Publication 1067.

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	<p>For more information on payment options, go to www.ftb.ca.gov/pay/index.html</p> <p style="text-align: right;">Rev. 7/17</p>
<p>7.10.2 Check Payments Received at Audit</p>	<p>Taxpayers submitting check payment before an NPA is issued should be advised by the auditor to include the following information on the check:</p> <ul style="list-style-type: none">• "For Pending NPA"• Taxable year(s) for which payment pertains <p>At the time an auditor is informed that a taxpayer is submitting a check payment before an NPA is issued, the auditor should record a comment in the entity's Taxpayer Folder indicating that (1) a check is expected for a pending NPA, and (2) the account must be suppressed as soon as the check is received.</p> <p>Taxpayers that are subject to the mandatory electronic payment requirements must also make NPA payments electronically. Do not accept a check from these taxpayers; advise them to remit payment electronically. For additional information, see MAP 7.10.1 Payments Received at Audit – Electronic Payments.</p> <p>When check payments are received at audit they must be processed.</p> <p>Check Payments Received in a Field Office</p> <p>When you receive a check payment in the field, prepare the remittance forms, FTB 6352 (Corp.) and FTB 6350 (PIT), in duplicate. Give the original form, and the remittance, to the field office Audit Support for routing to Central Office:</p> <p>Branch Mail</p> <p>Mail Stop L-160</p>

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Staple the duplicate copy of the form to the front of the Audit Report – Form FTB 6430 to alert the Review staff that the assessment has been paid. These forms are not required for Electronic Fund Transfer (EFT) payments. Make a comment in the Event Log and on the taxpayer's TI/BETS account that we have received the payment, and to which tax years the payment applies.

Check Payments Received at Central Office

When you receive a check payment at Central Office, the check must be hand-delivered to an Audit Business Support Messenger.

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7.10.3 Paying Credit Cards - PIT Taxpayers

PIT taxpayers can pay by credit card prior to the NPA being issued. Refer the taxpayer to the FTB Public Website www.ftb.ca.gov/pay/credit-card.html

Once the taxpayer pays, send an email to the IVS Payment Validation Unit contact, with the following information:

- Taxpayer name
- Taxpayer SSN
- Tax year for payment
- Amount paid
- Date paid
- An explanation that payment should be put into suspense pending NPA being issued and going final.

Also, make a comment in TI that there is no current liability and include the information from the email above.

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7.10.4 Tax Deposits and Cash Bonds	<p>Taxpayers can no longer make payments as a cash bond. However, they can make payments as a tax deposit. Please see FTB Notice 2005-6 for details on how to process these payments.</p> <p style="text-align: right;">Rev. 7/17</p>
7.11 WALKER LETTER SITUATIONS	<p>A Walker letter is used in situations in which a possible refund exists after the auditor performs preliminary combination tests based on unity. Since one of the department's primary responsibilities is to perform audits on an equitable basis, the Walker letter is a vehicle to officially notify the taxpayer that a possible refund exists based on preliminary audit work. Use good judgment in determining whether the refund potential is reasonable. When notifying the taxpayer, it is important to stress that only preliminary audit work has been performed and that it is the taxpayer's responsibility to file a claim for refund and provide documentation necessary to develop the facts.</p> <p>Revenue Agent's Report (RAR) Considerations</p> <p>In the case of a Walker letter situation with an RAR, process the RAR regardless of the disposition of the case. For example, forward the RAR to the RAR Unit in Central Office for processing in the following situations:</p> <ul style="list-style-type: none">• The representative chooses to pursue the refund.• The representative chooses not to pursue the refund.• The auditor proposes adjustments based upon other significant items besides the method of reporting.• The returns are accepted as filed. <p>See the following samples of Walker letters. These are examples only. Each case must have a letter designed to cover the situation.</p> <p>Example 1 - Partial Combination</p> <p>Example 2 - Worldwide Combination</p>

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Example 1

Date

Corporate Name

Corporate Address

Attention:

Taxable Years:

Based on preliminary audit work, it appears that the following companies* may be unitary. If they were included as a part of your unitary business for the years shown above, it might result in a change of the corporation's California franchise tax paid for those years:

Other wording such as **worldwide combination** or **total combination** or **all subsidiaries** may be used.

It appears that extensive work would be required to develop the facts to support a change of these taxes. Due to staff limitations, I am not able to make an exact determination.

If the company desires to pursue a possible refund, a claim for refund, with complete supporting detail, should be prepared and submitted to me for each year that is not barred by the statute of limitations. I will review the information and advise you of the result. Additional audit work may be required, and may result in allowing or disallowing the claim, or in proposing additional tax.

If I do not receive a statement of the corporation's position within 20 days, I will base my audit on available information and recommend whatever tax change is indicated.

If the corporation does not wish to claim a refund resulting from a combined report, the Franchise Tax Board may make adjustments necessary to properly reflect the California income in any future years.

Auditor

Telephone number

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CAUTION: This is a model letter only. It should be written to meet the situation in each case. Time allowed for reply should be extended as required.

Example 2

Date

Corporate Name

Corporate Address

Attention:

Taxable Years:

Based on preliminary audit work, it appears that the corporation and its subsidiaries may be unitary. If they were combined (on a worldwide basis) for the years shown above, it might result in a change of their California franchise tax for those years.

It appears that extensive work would be required to develop the facts necessary to support a change of these taxes. Due to staff limitations, I am not able to make an exact determination.

If the company desires to pursue a possible refund for the years indicated above, a claim for refund, with complete supporting detail, should be prepared and submitted to me for each year that is not barred by the statute of limitations. I will review the information, and advise you of the result. Additional audit work may be required and may result in allowing or disallowing the claim or in proposing additional tax.

If I do not receive a statement of the corporation's position within 20 days, I will base my audit on (a domestic combination, or other basis) only and recommend whatever tax change is indicated. If the corporation does not wish to pursue a tax change for these years, the Franchise Tax Board may make any adjustments necessary to properly reflect the California income in any future years.

Auditor

Telephone number

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7.12 FOLLOW UP AUDIT ISSUES	<p>Audit adjustments often carry over to future tax years. PASS lets you set up a follow up flag on a case unit for a future year. You can also put a Tickler on the case unit asking that the case unit be transferred back to you after the review and notice processes have finished (see MAP 25.4.8 Ticklers and see MAP 25.5.3 Follow up Flag Procedures for more information).</p> <p style="text-align: right;">Rev. 7/17</p>
7.13 SUSPENDED OR FORFEITED CORPORATIONS	<p>A corporation may lose various rights if it is not in good standing with the FTB or the Secretary of State (SOS). Suspended or forfeited corporations are not able to file protests, appeals, or claims for refund, nor are they entitled to receive refunds (R&TC Section 23301, R&TC Section 23301.5 and R&TC Section 23301.6). It is important to identify potential problems early in the audit in order to give the taxpayer the opportunity to revive and get into good standing before the audit is completed.</p> <p>Check the status of a corporation by:</p> <ul style="list-style-type: none">• Looking at BETS ****, or• Using the BE Status Macro. This tool allows the auditor to quickly view the status of a corporation and that of all its related entities. Visit the TRS website for instructions on how to use the BE Status Macro. <p>After identifying a suspended/forfeited corporation, determine why the corporation was placed in that status. If the suspension/forfeiture is in error, help the taxpayer return to good standing.</p> <p>Contact the TRS Collection Liaison to learn why the corporation is suspended/forfeited. The Collection Liaison will relay the auditor's request to BE Collections to request their help in obtaining the requested information and returning a corporation to good standing if the suspension/forfeiture is in error. If the liaisons in BE Collections wish to work directly with you, they can do so after you have initially gone through the Collection Liaison in TRS.</p>

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If it is determined that a corporation was properly placed in suspended or forfeited status, prepare a separate NPA worksheet. If you determine that a suspend/forfeited corporation has an overassessment, the overassessment can be offset against a balance due. However, any excess cannot be refunded. You and your supervisor need to determine, on a case-by-case basis, how to apply the over assessment. It can be to a balance due in another year for that entity, or to another entity in the combined group within the same year.

You or the reviewer will need to add a comment to the **event log** in PASS informing Technical Support how to process the offset. In addition, include a paragraph informing the taxpayer of the following:

- The entity suspended
- An offset was done
- That the corporation will need to be restored to good standing before the expiration of the SOL before the excess, if any, can be refunded.

Inform the taxpayer that in order for suspended/forfeited corporations to have protest rights or receive a refund, an application for revivor for each suspended/forfeited corporation needs to be filed (FTB 3557).

Corporations that are suspended or forfeited by the SOS are also treated in the same manner as corporations that are suspended or forfeited by the Franchise Tax Board (FTB). The FTB will usually suspend a corporation, instead of forfeit, for reasons stated in the code sections above. The SOS will either suspend or forfeit a corporation for reasons stated in R&TC Section 23302. You can identify the status of a corporation on BETS, **** (FTB Account Status or SOS Status Code).

Prepare an intrastate apportionment schedule to determine the separate tax liability of the suspended or forfeited corporation.

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7.14 JEOPARDY ASSESSMENTS

We issue a jeopardy assessment when it is determined that tax collection will be jeopardized by delay. Our Chief Counsel must approve all jeopardy assessments in writing. R&TC Sections 19081 – 19083 provide for the issuance of a jeopardy assessment, which is immediately due and payable, and provide rights for the taxpayer.

Collection proceedings may begin at once. See GPM 1420, for more information.

Audit Staff

- Designate the case as a priority on PASS.
- Complete the Corporation NPA Worksheet – Form FTB 6830-BCT, and/or the PAWS Input Worksheet – Form FTB 6831-B. For instructions, see MAP 13.4.6 BCT NPA Worksheet for Corporations, FTB 6830 BCT and MAP 13.4.7 PAWS Input Worksheet for PIT, FTB 6831B.
- Attach a detailed justification for the jeopardy.
- Have the supervisor and program manager review/approve the Notice of Proposed Assessment worksheets.
- When approved, email the following information to the appropriate designee in Legal for approval:
 - User Requesting Assessment
 - Supervisor Approval
 - Taxpayer (Entity) Name
 - Account Number/TPID Number
 - Tax Years to be assessed
 - Basis of Assessment
 - Tax by Year
 - Total liability, includes tax, penalty, and interest
 - Reason case is a Jeopardy
- Supporting documentation must detail that the taxpayer meets one of the criteria as listed in Treas. Reg. Section 1.6851-1. A statement like **the taxpayer appears to be leaving the state** is not enough. Documentation must support the assertion that Jeopardy exists.

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- Prepare a Rush Action Slip – Form FTB 7011. Attach the Rush Action Slip to the top of the physical file. See MAP 13.4.12 Rush Action Slip (FTB Form 7011), for more information.
- Tell the Technical Resource Section about the jeopardy assessment. All jeopardy assessments go through the Technical Resource Section. **DO NOT ROUTE THE CASE TO AUDIT BUSINESS SUPPORT.**
- Prepare a Tickler to help the Technical Resource staff identify the case as a jeopardy assessment (see MAP 25.4.8 Ticklers for additional information).
- Route the audit file to the Technical Resource Section. For MSA Cases follow normal procedures for routing cases. For PIT and C Corp route the physical file to:

GTA TECHNICAL RESOURCE SECTION

MAIL STOP F350

ATTN: JEOPARDY ASSESSMENT UNIT

- Transfer the electronic file to the appropriate Technical Resource group work list. For more information, see MAP 25.5.5 Transferring Case Units Between PUCS.

TRS Review

- Review the audit file.
- FAX the approved Corporation NPA Worksheet – Form FTB 6830-BCT, and/or the PAWS Input Worksheet – Form FTB 6831-B, the document with the legal department's approval, and the justification for the jeopardy assessment to the Business Transfers Jeopardy Assessment Desk.
- Complete and route the case according to standard procedures.

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7.15 DISCONTINUED ISSUE(S)/CASE	<p>During the course of an audit, after reviewing information provided by the taxpayer, an auditor may determine that an issue or case no longer justifies the resources required. In these situations, auditors are encouraged to receive approval to discontinue work and suspend development of the issue/case from his or her supervisor and other relevant parties (program manager, TRS, and Legal).</p> <p>When discontinuing an issue/case, the auditor and supervisor should discuss the possible effects or impacts to prior/future cycles and to similarly situated taxpayers (e.g., a pass through entity with multiple owners).</p> <p>When an issue/case is discontinued, one of two audit determinations is reached: (1) the audit results in a no change determination or (2) there is no determination, because not enough information has been evaluated to reach a conclusion.</p> <p>For these determinations there is standardized language for discontinuing the issue/case.</p> <p>MAP 7.15.1 No Change Determination Standardized Language MAP 7.15.2 No Determination Standardized Language MAP 7.15.3 No Determination Exit Letters</p> <p style="text-align: right;">Rev. 6/18</p>
7.15.1 No Change Determination Standardized Language	<p>While completing the closing procedures for the no change determination, enter the following standardized language in the respective areas:</p> <p>NOTE: The exact language should be adapted to the relevant needs of each issue/case.</p> <p>PASS Sticky Note</p> <p>"A no change determination was made. The supervisor and auditor agreed to discontinue the issue(s)/case due to workload prioritization and operational needs."</p>

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Narrative Report

- Under Summary of Audit, "The audit examination of TYE(s) ___ (and ___) was discontinued due to workload prioritization and operational needs. The issue(s) examined include:

TYE	Issue	AIS #
-----	-------	-------

- Although the issue(s) was / were not fully developed, sufficient audit steps were taken to lead to a no change determination. Auditor and supervisor are in agreement with the no change determination. Refer to relevant AIS for details".
- No additional standardized language or information is necessary unless relevant to subsequent viewers, future tax years, and/or any tax years currently under protest.

Audit Issue Section (AIS)

- Under Summary Explanation of Item as Reported, "With supervisor approval, after initiating the audit process, it was determined that a no change determination is appropriate for this issue. Development and documentation of the issue ceased upon reaching this conclusion."

"In summary..." Provide a brief explanation of the circumstances leading to the no change determination and any information relevant to subsequent viewers, future tax years, and/or any tax years currently under protest.

- Discontinue all work on the AIS that isn't relevant to subsequent viewers including cross referencing, reconciliations, analysis, and related workpapers.

NOTE: There are scenarios where a case has multiple issues, but only one issue is discontinued with a no change determination. Use the standardized language above for the AIS of the discontinued issue(s). The other issues must be fully developed if they result in an adjustment.

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**7.15.2 No
Determination
Standardized
Language**

While completing the closing procedures when no determination is reached, enter the following standardized language in the respective areas:

NOTE: The exact language should be adapted to the relevant needs of each issue/case.

PASS Sticky Note

"No determination was reached. The supervisor and auditor agreed to discontinue the case due to workload prioritization and operational needs."

Narrative Report

- Under Summary of Audit, "The audit examination of TYE(s) ___ (and ___) was discontinued due to workload prioritization and other operational needs. The issues examined include:

TYE	Issue	AIS #

- No determination was reached regarding whether the taxpayer's reporting position is correct. Auditor and supervisor are in agreement with no determination reached. Refer to relevant AIS for details".
- No additional standardized language or information is necessary unless relevant to subsequent viewers, future tax years, and/or any tax years currently under protest.

Audit Issue Section (AIS)

- Under Summary Explanation of Item as Reported, "With supervisor approval and due to workload prioritization and operational needs, the audit has been discontinued for the tax years without making a determination about whether the reporting position is correct.

"In summary..." Provide a brief explanation of circumstances and any information relevant to subsequent viewers, future tax years, and/or any years under current protest.

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	<ul style="list-style-type: none">• Discontinue all work on the AIS that isn't relevant to subsequent viewers including cross referencing, reconciliations, analysis, and related workpapers. <p>NOTE: There are scenarios where a case has multiple issues, but only one issue is discontinued with no determination. Use the standardized language above for the AIS of the discontinued issue(s). The other issues must be fully developed if they result in an adjustment.</p> <p>PASS Notice Window</p> <p>Enter the following:</p> <ul style="list-style-type: none">• Name - No Determination• Status - Released• Mail Date - Enter the date the No Determination Letter was mailed <p>Processing Procedures</p> <p>No determination cases should be processed the same as no change cases.</p> <p style="text-align: right;">Rev. 1/19</p>
7.15.3 No Determination Exit Letters	<p>When no determination is reached, the auditor must issue an exit letter. The exit letter communicates to the taxpayers that we are discontinuing our examination of the issue(s)/case with no determination reached.</p> <p>If the auditor reaches a no change determination, the no change letter should be issued, refer to MAP 7.5.1 No Change Letters.</p> <p>Exit Letter Situations</p> <p>There are two types of exit letters: (1) the entire case is being discontinued, or (2) the examination of one or more audit issues is being discontinued, while the other issues continue to be developed. Before issuing a no determination exit letter, discuss the situation with a lead and/or supervisor.</p>

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When notifying the taxpayer about exiting a case entirely or discontinuing examination of an issue, it is important to stress that only preliminary audit work has been performed.

PASS template letters, Exit an Entire Audit (AUD 1522) and Exit Audit Issue (AUD 1523), provide suggested language for these situations. The exact language should be adapted to the relevant needs of each case/issue, including modifying the language, as needed, for carryovers or claims.

NOTE:

- Contact and inform the Protest Section of the exit letter or no change letter, if the taxpayer has tax years under protest.
- Contacting the taxpayer to request the preliminary information necessary to perform scoping test checks, is not an audit. The information gathered is to determine whether to pursue an audit, therefore do not send an exit letter. Refer to MAP 5.1.7 Request Preliminary Information.

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