



DEPARTMENT OF FINANCE  
AUDIT DIVISION

PP-2008-26  
9/9/08

## STATEMENT OF AUDIT PROCEDURE

### NYC CHANGES TO FEDERAL TAXABLE INCOME AFTER A FEDERAL AUDIT

#### I. BACKGROUND

The Administrative Code requires taxpayers to report changes to Federal Taxable Income that result from Internal Revenue Service audits ("Federal Changes"). The Department will often conduct an audit that covers the same tax periods. Taxpayers have questioned whether there are any limits on the Audit Division's ability to change federal taxable income after a Federal audit.

#### II. SCOPE

This Statement of Audit Procedure will apply to all audits conducted by the Audit Division that take place after a taxpayer has undergone a Federal audit for the same tax period.

#### III. PROCEDURE

When reviewing tax returns that were previously audited by the Internal Revenue Service, auditors considering a change to federal taxable income (an "above the line adjustment") will determine if the specific issue that forms the basis of the adjustment has been examined during the federal audit. If it is clear that the issue has been examined, the Department will not make an above the line adjustment.

The fact that the Internal Revenue Service did not change federal taxable income does not in and of itself indicate that any particular issue has been examined during the federal audit, and the Department may modify federal taxable income if appropriate.