



FTA Awards Nomination/Entry Form

Person who led this effort or project

Name Lindsey M. Stepp
Agency Name New Hampshire Department of Revenue Administration
Phone Number (603) 230-5010
Email Lindsey.M.Stepp@dra.nh.gov

About your program, idea, or project

Name your program, idea, or project: Meals & Rooms Tax Monitor forward audit program

What is the problem that you wanted to solve? New Hampshire’s restaurant industry was hit hard by the COVID-19 pandemic and stay-at-home orders. With less activity and revenues from Meals & Rooms Taxes and other audit and compliance limitations attributed to the pandemic, the New Hampshire Department of Revenue Administration (NHDRA) adjusted its auditing activities.

As restaurants began reopening in the summer of 2020, NHDRA needed to increase its auditing activities again to ensure compliance for this critical source of state revenue. NHDRA also recognized that many restaurants were still struggling, and a full-scale 12-month audit would be overwhelming for those that were just emerging from the most challenging business experiences of their lives.

NHDRA wanted to improve compliance with the state’s Meals & Rooms Tax obligation in a way that would be the least burdensome on taxpayers as possible, given the business

Who was involved in addressing the problem? This program was piloted by the NH Department of Revenue Administration’s in-state audit bureau in the Audit Division.

Commissioner Lindsey M. Stepp
Fred Coolbroth, Director, Audit Division
Karen Mudgett – Audit Manager
Cory Rayner, Assistant Audit Manager

How did they go about finding a solution? The Meals and Rooms Tax is filed and paid monthly. When conducting a standard audit, the auditor selects a tax period, usually 12-months, and audits what has already been filed in the selected timeframe. Because the pandemic significantly impacted revenues, less accurate data was available for a full-scale, 12-month audit. NHDRA devised a solution, called the “Monitor Forward Audit,” where the auditor selects a single tax period, which is one month,

establishes a metric to review, and then uses that metric to continue monitoring new tax periods as the taxpayer files. The auditor reviews the most recently completed month for a short period of time, usually three months. NHDRA developed the Monitor Forward Audit to ensure operators stayed in compliance despite the stress of the COVID-19 pandemic. Auditing is an important function of tax administration, as it serves a few purposes: it identifies taxpayers that have been filing returns inaccurately, and it helps operators fix mistakes going forward so they file correctly in the future.

Describe the outcome. What is the new idea, approach, program, or activity?

With a Monitor Forward Audit, rather than audit a full year, an auditor only reviews a single Meals & Rooms tax period for each operator. By auditing a single tax period, as opposed to a full year, it allows NHDRA to capture a more immediate and accurate picture of an operator's sales. The review process is more time efficient, and it is less stressful on both the auditor and operator when compared to doing a full audit. For this single period review, the auditor establishes a cash-to-credit ratio for the tax period. By nature of the tax, many of these businesses deal in cash. An important part of the Department's work is ensuring that cash transactions are properly reported on the tax return.

The cash-to-credit ratio is determined by reviewing gross receipt, expense, and credit card information. Even with detailed cash and credit card sale records, the ratio can be further substantiated by subtracting expenses from gross sales and then subtracting credit card sales. The accuracy of this ratio is important to the success of the audit program.

In addition to filing its monthly Meals & Rooms Tax return, the operator reports its gross sales directly to the auditor each month, along with substantiating documentation necessary for the auditor to analyze the cash-to-credit ratio, including monthly credit card statements and the annual federal form 1099-K.

What has changed since this was implemented? How have your operations improved? Include any data, analytics or metrics that would show the value of your program. Don't forget management advantages such as improved morale.

The program has been in operation for more than one year. It has been extremely successful thus far. NHDRA recently closed seven cases in the Monitor Forward inventory. In five of those cases, NHDRA did not identify compliance issues as part of the initial, single month review. In two cases, NHDRA saw a more than 25% increase in the operators' reported gross receipts when comparing their new filings to pre-pandemic amounts. For operators who were found not in compliance, Monitor Forward Audit gives them a pathway to help improve compliance moving forward, since the operator receives their audit from the tax period that immediately happened, thus allowing the operator to correct their mistakes in real-time.

While the Monitor Forward Audit will not replace traditional auditing, this program is another highly-effective and

accurate tool for NHDRA and auditors.

Is there any component of your program that makes it workable only in your state or city?

Another agency with a similar tax type or this kind of problem could adapt or adopt this idea.

Is this an in-house project, or did you partner with an outside vendor or service-provider?

We built on an existing relationship with a third-party vendor. (This would include development of a new idea or approach that works within a proprietary system that you use for many purposes.)

Additional information or comments about your usage of outside vendors or service providers.

The idea for the Monitor Forward Audit was initiated through conversations and collaboration with Nonie Manion, who works for our vendor, FAST Enterprises. NHDRA refined this idea to apply it to the New Hampshire Meals and Rooms Tax.

What comes next – will you be adding to your program, rolling it out more widely, trying additional approaches?

The Monitor Forward Audit works best with sales taxes, like New Hampshire's Meals and Rooms Tax. Given New Hampshire's unique tax structure without a broad-based sales tax, there aren't other tax types in the state that would work with this program. That said, the Monitor Forward Audit has been successful and NHDRA will continue to utilize it for the Meals and Rooms Tax.

Additional Optional Materials