

THE GENETELLI CONSULTING GROUP
State and Local Tax Services
431 FIFTH AVENUE
NEW YORK, NY 10016

(212) 684-4111
FACSIMILE: (212) 213-1020
EMAIL: rgetelli@genetelli.com

Subject: New Jersey Audit Initiative Regarding Intercompany Transactions
Date: May 14, 2007

To Our Clients and Friends:

It is my understanding that the New Jersey Division of Taxation has implemented an audit initiative to more closely scrutinize intercompany transactions. In this regard, New Jersey has engaged an outside firm to review intercompany transactions with respect to the targeted companies. If an adjustment is deemed necessary, the propriety of a "Section 482 type" adjustment will be evaluated. If a "Section 482 type" adjustment is not feasible, consolidation will be considered to reflect true earnings.

It remains to be seen whether consolidation becomes a frequently utilized audit tool. In the past, the Division of Taxation indicated that consolidation would rarely be invoked. However, the audit initiative casts serious doubt on this.

In the current environment, taxpayers should develop and implement appropriate measures to credibly justify and defend filing positions taken regarding intercompany transactions. By taking action when appropriate, taxpayers can properly position themselves to withstand the close scrutiny being paid to intercompany transactions. Conversely, taxpayers that do not take the proper steps may experience a costly tax surprise.

If you have any questions regarding the New Jersey audit initiative, please do not hesitate to contact me.

Richard W. Genetelli
The Genetelli Consulting Group
State and Local Tax Consultants
431 Fifth Avenue, 3rd Floor
New York, NY 10016
Tel: (212) 684-4111
Fax: (212) 213-1020
<http://www.genetelli.com>