

Multistate Tax Commission

Annual Report FY2005-06

Joe Huddleston, Executive Director



**To the Honorable Governors and State Legislators of Member States to the
Multistate Tax Commission**

As the Multistate Tax Commission approaches its fortieth anniversary, please remember that one of the principal purposes of the Commission has been to help bring greater equity, uniformity, and compatibility to the tax laws of the various states of this nation and their political subdivisions as those laws affect multistate and multinational businesses. Additionally, the Commission has provided both industry and states an organization within which to discuss and resolve their tax problems. The Commission has also assisted the states in encouraging multistate and multinational businesses to comply properly with state and local tax laws and, in turn, advocated improvements in laws, rules, and practices that make it easier and more convenient for those businesses to comply. Finally and fundamentally, the Commission has worked to help protect the tax sovereignty and jurisdiction of states under the U.S. Constitution so that the role of the states in our democratic systems of federalism remains vital and strong.

I submit to you the Annual Report of the Multistate Tax Commission, covering the Commission's activities for the fiscal year beginning July 1, 2005 and ending June 30, 2006.

Respectfully,

Joe Huddleston
Executive Director

Table of Contents

Overview of Actions Taken by Multistate Tax Commission	4
Report of the Executive Committee	5
Report of the Audit Committee	6
Report of the Litigation and Uniformity	8
Report of the Nexus Committee	10
Report of the Training Program	12
Financial Statements and Report of Independent Certified Public Accountants	14

Overview of Actions Taken by Multistate Tax Commission

The Commission held its Annual Business Meeting, as required by Article VI of the Multistate Tax Compact, on July 29, 2005, in Boise, Idaho.

The Commission took the following actions during July 1, 2005 – June 30, 2006:

- Approved the Commission Budget for 2005-2006.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Adopted an amendment to the Public Participation Policy
- Adopted Policy Statement 03-01, *Respecting Federalism*
- Amended Policy Statement 02-02, *Ensuring the Equity, Integrity and Viability of State Income Tax Systems.*
- Adopted Policy Resolution 05-01, *Resolution in Support of Telecommunications Tax Improvement.*
- Adopted Policy Resolution 05-02, *Resolution in Support of Expansion of Refund Offset Program.*
- Adopted Policy Resolution 05-03, *Resolution in Urging the Adoption and Use of the Alternative Dispute Resolution Program by Compact Member States.*
- Adopted Policy Resolution 05-04, *Resolution Regarding Tax Fairness in the Proposed Federal Extension of the "Internet Tax Nondiscrimination Act."*
- Adopted Policy Resolution 05-05, *Resolution on White Paper Entitled Sales and Use tax Compliance Agreements.*
- Repealed Resolution 01-08, *Resolution Regarding Tax Fairness in the Proposed Federal Extension of the "Internet Tax Nondiscrimination Act."*
- The Commission, as is its custom, also adopted a number of honorary resolutions recognizing individuals who made significant contributions to the work of the Commission throughout the year.
- Elected Joan Wagon, Secretary of Revenue, Kansas Department of Revenue, as Chair.
- Elected Dan Salomone, Commissioner, Minnesota Department of Revenue, as Vice Chair.
- Elected Jan Goodwin, Secretary, New Mexico Tax & Revenue Department, as Treasurer.
- Elected Dan Bucks, Director, Montana Department of Revenue; Will Bush, California Franchise Tax Board; Carole Keeton Strayhorn, Comptroller, Texas Comptroller of Public Accounts; and Cindi Yates, Director, Washington Department of Revenue, as at-large members of the Executive Committee.

The Commission did not accept any donation or grant, or borrow any services during the period of this report.

Executive Committee Report

The Executive Committee met four times during the period July 1, 2005, to June 30, 2006:

- July 27, 2005, in Boise, Idaho
- November 10, 2005, in Washington, D.C.
- March 20, 2006, via teleconference
- May 11-12, 2006, in Alexandria, Virginia

Through these meetings the committee provided oversight and direction to the activities of the Commission.

A written report of the Executive Committee actions during 2005-2006 was not compiled. The following are among the significant actions of the committee not inherent in the Overview of Actions Taken by Multistate Tax Commission:

- Approved Joe Huddleston as Executive Director of the Multistate Tax Commission effective August 1, 2005.
- Suspended the Combined Registration System project to allow time for the new Executive Director to assess the scope and direction of the project.
- Adopted the audited financial statements for FY2005.

The Executive Committee undertook additional actions during 2005-2006 that are recorded in the minutes of its meetings.

Audit Committee Report

Rich Schrader, Chair, MTC Audit Committee
Janielle Lipscomb, Vice Chair, MTC Audit Committee
Les Koenig, Director, MTC Joint Audit Program

The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2005-2006 fiscal year.

Audit Committee

The MTC Audit Committee met three times during the fiscal year. During the Annual Meeting in July, 2005 the Audit Committee reviewed the past year MTC audit activity.

During the November, 2005 meeting, Income and Sales Tax Nomination Forms were distributed at this meeting to start the annual selection process.

During the March meeting, the Audit Committee reviewed the status of all audits in progress. The Committee also provided guidance on several key issues in several audits. The Audit Committee selected 2 supplemental income tax audits for the MTC Audit Program's Inventory.

The Audit Committee also met numerous times by teleconference to discuss several audits where cutting edge issues were pertinent and follow up on several audits that were protested.

Lastly, the Audit Committee reviewed the MTC Audit Program's audit activity at each meeting and offered advice on many complex audit issues that were found in various audits.

In March, Alaska was welcomed into the MTC Audit Program as a participant in the income tax portion of the program.

Audit Program

PRODUCTIVITY

The Audit Staff completed 6 sales tax audits for the fiscal year end 6/30/06. There are currently 22 sales tax audits in progress. The Audit Staff completed 9 income tax audits during this fiscal

year. There are currently 19 income tax audits in progress.

The MTC Audit Program has increased the productivity of its audit work by over 45% since 1990, as measured by the number of staff hours per audit per state. In 1990, an MTC audit required 129 hours of staff time per audit per state. In 2006, that number was only 70. That represents improved efficiency for both states and taxpayers, who also benefit when tax auditors spend less time completing an audit.

Please note in interpreting the enclosed charts on productivity that declining numbers represent improvement.

STAFFING

The MTC Audit Program hired one sales tax auditor this year. One sales tax auditors resigned this year.

AUTOMATION

The MTC is pursuing electronic records in every audit that is commencing. The MTC Sales Tax Auditors request electronic records when an audit begins. Several taxpayers have been cooperative in supplying the records. However, many taxpayers are still reluctant to supply electronic records. Every effort is made to assure the taxpayer that electronic records will be held in all confidentiality.

Note: Declining numbers on the following charts represent improvement

**MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/90 - 6/06**

Income Tax	6/90	6/91	6/92	6/93	6/94	6/95	6/96	6/97	6/98	6/99	6/00	6/01	6/02	6/03	6/04	6/05	6/06
Total Audits	4	9	7	12	9	9	9	10	9	7	10	8	7	8	7	7	9
Total States Audited	37	95	75	132	93	99	111	152	120	186	251	131	166	165	266	196	175
Total Hours	7211	12646	11148	11208	9016	9284	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514
Average Hours Per State	195	133	148	85	97	94	68	81	83	55	52	66	57	64	45	64	72
Sales Tax Total Audits	9	8	9	14	13	15	13	14	10	16	11	14	13	11	10	11	6
Total States Audited	88	79	104	146	140	152	123	143	97	184	102	158	159	145	154	160	77
Total Hours	8866	7069	12209	14323	6818	8009	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946
Average Hours Per State	101	89	117	98	49	53	79	79	80	40	89	75	56	61	71	38	64
Total Both Taxes Total Audits	13	17	16	26	22	24	22	24	19	23	21	22	20	19	17	18	15
Total States Audited	125	174	179	278	233	251	234	295	217	370	353	289	325	310	420	336	252
Total Hours	16077	19715	23357	25531	15834	17293	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460
Average Hours Per State	129	113	130	92	68	69	74	80	82	48	63	71	56	62	55	56	70

Litigation & Uniformity Report

Support for Two MTC Standing Committees

The legal division staffs two MTC Standing Committees: Litigation and Uniformity. During fiscal year 2006, our work for the Litigation Committee included a complete overhaul of our meeting format. We moved from short summary discussions of recent U.S. Supreme Court and key state tax cases to more in-depth presentations and discussions of current important legal topics affecting multiple states. Our recent meetings, for example, included presentations on real estate investment trusts, intangible holding company nexus and expense add-back issues, emerging nexus jurisprudence, UDITPA sales factor problems and more. The change has been very well received by our membership.

Our work for the Uniformity Committee during fiscal year 2006 included development of the following uniformity projects through committee education, meeting and teleconference staffing, model statute and regulation drafting, serving as public hearing officer and/or drafting hearing officer reports:

- Proposed Model Statute Requiring Add-back of Certain Intangible and Interest Expenses (now before the Full Commission)
- Proposed Model Statute on Reportable Transactions and State Filing Positions (now before the Full Commission)
- Proposed Model Statute for Tax Avoidance Transaction Voluntary Compliance Program (now before the Full Commission)
- Proposed Amendments to MTC Regulation Regarding "On Behalf Of" Language (approved for Public Hearing)
- Proposed Model Regulation for Telecommunications Sales Factor Apportionment (under development at the Uniformity Committee)
- Proposed Model Statutes for Regulated Investment Companies and Real Estate Investment Trusts (under development at the Uniformity Committee)

- Proposed Model Amendments to UDITPA Section 17 (under development at the Uniformity Committee)
- Proposed Model Regulation Regarding Hotel Intermediaries (under development at the Uniformity Committee)
- Proposed Model Regulation Regarding Statistical Sampling (under development at the Uniformity Committee)
- Possible Project Regarding §1031 Deferred Gains on Sales of Real Property (under consideration for adoption as a Uniformity Committee Project)

Support for Individual Member States

During fiscal year 2006, the legal division filed amicus briefs in two state Supreme Court cases, *Microsoft Corporation v. Franchise Tax Board* and *General Motors v. Franchise Tax Board*. A member of the legal division participated in oral arguments before the California Supreme Court as amicus in the *General Motors* case. In addition, legal staff continues to provide information and analysis to attorneys in several member states on issues currently under litigation in their states. A new service we have begun providing is coordination and assistance for attorneys in multiple states that are litigating issues arising from MTC audits.

A member of the legal division served as an instructor for the MTC's Corporate Income Tax course provided to state tax administrators, auditors, attorneys, policy analysts and taxpayer assistance personnel in Montpelier, Vermont and in Helena, Montana.

Legal division members also assisted our states by participating in meetings in states that are considering legislation to adopt MTC model uniformity proposals, including presentation of testimony to the New Mexico Legislature.

Service to the Public and Other Organizations

Legal division members made several presentations at various conferences, including a presentation on MTC activities at the Council on State Taxation annual conference, a similar presentation to the Tax Executives Institute, a presentation on needed changes to UDITPA at the Federation of Tax Administrator's Annual Conference and more. MTC legal staff continues to provide support to the states as they work towards bringing up the Streamlined Sales Tax System, by attending meetings and participating in teleconferences. We also assisted the U.S. Department of State, Office of Foreign Missions in developing a program designed to help diplomats meet their sales tax obligations on purchases made in the U.S.

Support of Commission Administration and Other Commission Functions

The legal staff continues to assist the Audit Program with on-going audits, such as working to obtain nexus information associated with the audit of a technology company and providing legal analysis regarding nexus issues associated with the audit of a bank. In addition, the legal division assists in addressing legal issues that arise in the course of Commission administration. The legal division put together the Commission's fiscal year 2005 annual report, which is submitted to our member states' legislatures and governors' offices. Legal also division continues to provide significant support for the annual meeting, including staffing the resolutions committee, making presentations at the annual seminar, preparing the executive and full commission meeting materials (including the artwork), and taking executive committee and business meeting minutes.

Nexus Committee Report

Joseph Thomas, MTC Nexus Committee Chair

Lee Evans, MTC Nexus Committee Vice chair

Sheldon H. Laskin, Director, MTC Nexus Program Director

This report summarizes the activities of the MTC Nexus Committee and the Nexus Program for the period July 1, 2005 through June 30, 2006.

Nexus Committee

The MTC Nexus Committee met in Boise, ID, Washington, DC and Nashville, TN during the fiscal year. In addition, the Committee met a number of times by teleconference.

During the year, the Committee reviewed the status of a number of nexus audits of major retailers. A major nexus audit was concluded during the year.

The Committee reviewed the voluntary disclosure program and decided to eliminate estimated future returns from the voluntary disclosure reports. Instead, the Committee is exploring implementing a "feedback loop", whereby member states can report actual voluntary disclosure collections to Program staff. This information will be used both for internal tracking of the program and for marketing purposes to potential additional member states. A final decision on the "feedback loop" will be made at the Committee meeting in Topeka on August 15, 2006.

Nexus Program

VOLUNTARY DISCLOSURES

During FY 2006, the National Nexus Program executed contracts with 65 taxpayers, resulting in 363 separate agreements with member states. These agreements resulted in \$7,002,945 in back taxes collected. Additional revenue will be realized as future payments

are collected pursuant to the terms of the agreements. Also, during the fiscal year, the Nexus Program opened 79 new voluntary disclosure cases, representing 811 separate potential contracts. The following chart compares the results in FY 2005 to those of FY 2006.

	FY 2006	FY 2005	Percentage Change
Number of taxpayers concluding agreements	65	60	8.3%
Number of executed contracts	363	416	-12.7%
Back taxes collected	\$7,002,945	\$3,929,957	78.2%
New cases opened	79	69	14.5%
Number of potential contracts under new cases	811	736	10.2%

VOLUNTARY DISCLOSURE MARKETING

During FY 2006, as many as 15 member states distributed 9,331 MTC voluntary disclosure brochures to taxpayers making voluntary disclosures in each state. This was a significant increase as compared to FY 2005, when thirteen member states distributed 5,934 MTC voluntary disclosure brochures, an increase of two participating states and 3,397 brochures. During the fiscal year, the Voluntary Disclosure Program's ad on Google was viewed 259,117 times with 2,423 viewers visiting the MTC website by clicking on the

ad. Comparable figures for FY 2005 were 186,536 ad viewings and 1,405 visits to the MTC website. The cost of the ad for the year was \$1,371.11. The ad is now being displayed by Google in "content" situations, such as at the bottom of newspaper articles that relate to taxes. It also continues to be displayed with general search results on Google.

In addition, MTC staff routinely discusses the voluntary disclosure program and distributes disclosure brochures during appropriate public presentations.

NEXUS DATA EXCHANGE

The Nexus discovery exchange, or lead sets, began November 2001 and continued through September 2005. A total of eight sets were exchanged, including 440 companies. Susan Ribe sent a survey to Nexus Committee members and direct lead set contacts in member states to assess the usefulness of the leads and interest in continuing the project. The Committee will discuss the survey at its Topeka meeting and determine the future course of this program.

Nexus School

During the fiscal year, MTC staff conducted nexus schools in Montgomery, AL, Oklahoma City, OK, Helena, MT and Raleigh, NC. A total of 157 students attended the four schools.

Training Program Report

This has been an active year for MTC training—with eleven courses provided to the states—compared to eight courses provided during the last fiscal year. All Commission training has also been approved for the National Registry of CPE Sponsors of the National Association of State Boards of Accountancy (NASBA). This will make it easier for our students to obtain CPE credit and also helps to increase the visibility of our training program.

Courses Offered in 2005-2006

The following MTC courses were offered during the year:

NEXUS SCHOOL

September 20-21, 2005 in Montgomery, Alabama for 40 students
December 6-7, 2005 in Oklahoma City, Oklahoma for 36 students
February 14-15, 2006 in Helena, Montana for 47 students
March 28-29, 2006 in Raleigh, North Carolina for 34 students

CORPORATE INCOME TAX

October 24-28, 2006 in Montpelier, VT for 50 students (34 in Part 2)
March 6-10, 2006 in Helena, Montana for 43 students (23 in Part 2)

NON-STATISTICAL SAMPLING

November 14-18, 2005 in Portland, Maine for 19 students
January 23-27, 2006 in Mitchell, South Dakota for 24 students
February 6-10, 2006 in Oklahoma City, Oklahoma for 22 students

STATISTICAL SAMPLING

June 26-30, 2006 in Portland, Maine for 16 students
July 17-21, 2006 in Oklahoma City, Oklahoma for 20 students

NASBA Certification

The MTC has been approved for the National

Registry of CPE Sponsors of the National Association of State Boards of Accountancy (NASBA) for the period April 1, 2006 – April 1, 2007. The approval is for “group-live” programs only. Accounting boards in thirty seven states recognize NASBA certification for granting CPE credit and some state accounting boards require NASBA certification for granting of CPE credit. This certification provides NASBA’s “seal of approval” for MTC courses and will make it easier for some students to obtain CPE credit.

Tuition & Host State Credit

Following a review of the cost of providing MTC courses, we have adjusted tuition for most MTC courses (with the exception of the Nexus School). This is in keeping with the direction from the Executive Committee (in 1999) to price courses at their full cost, with additional charges for states that participate to a lesser degree in financing general operations of the Commission.

New tuition rates for member states with old rates in parentheses are:

Nexus School	\$600	(600)
Corporate Income Tax		
Part I	\$445	(350)
Part I & II	\$1125	(850)
Non-Statistical Sampling	\$830	(710)
Statistical Sampling	\$920	(750)
Computer Assisted Audit	\$630	
(has not been offered in recent years)		

Tuition for other membership categories are based on the following:

- Add 20% for Associate Member States involved in Audit or Nexus Program
- Add 30% for Associate Member State not involved in Audit or Nexus Program
- Add 40% for Other States

The new tuition schedule for all membership categories is:

CORPORATE INCOME TAX

	Part I	Parts I & II
Compact or Sovereignty Member	\$445	\$1125
Associate Member: Participating in Audit or Nexus Program	\$535	\$1350
Associate Member: Not participating in Audit or Nexus Program	\$580	\$1460
All other States	\$625	\$1575

COMPUTER ASSISTED AUDIT

Compact or Sovereignty Member	\$630
Associate Member: Participating in Audit or Nexus Program	\$755
Associate Member: Not participating in Audit or Nexus Program	\$820
All other States	\$880

NON-STATISTICAL SAMPLING

Compact or Sovereignty Member	\$830
Associate Member: Participating in Audit or Nexus Program	\$995
Associate Member: Not participating in Audit or Nexus Program	\$1080
All other States	\$1160

STATISTICAL SAMPLING

Compact or Sovereignty Member	\$920
Associate Member: Participating in Audit or Nexus Program	\$1105
Associate Member: Not participating in Audit or Nexus Program	\$1195
All other States	\$1290

NEXUS SCHOOL

Compact or Sovereignty Member	\$600
Associate Member: Participating in Audit or Nexus Program	\$720
Associate Member: Not participating in Audit or Nexus Program	\$780
All other States	\$840

For some of our scheduled courses, the old rates will still apply, since commitments were made to host states under the old tuition schedule.

The host state credit, which was previously based on a statement of labor and direct expenses from the host state, has been changed to a \$3000 credit for each course. The credit is for support related to the course and applies to tuition for host state students.

Training Brochure

The new MTC Training Program brochure has been distributed to MTC committee lists and state contacts. This will be revised and reissued, as needed, later in the fiscal year.

**MULTISTATE TAX
COMMISSION**

**Financial Statements and
Report of Independent Certified
Public Accountants**

**For the Years Ended
June 30, 2006 and 2005**

MULTISTATE TAX COMMISSION
Table of Contents
June 30, 2006 and 2005

	<u>Page</u>
Report of Independent Certified Public Accountants	1
Financial Statements	
Balance Sheets	2-3
Statements of Revenue and Expenses and Changes in Fund Balance - Unappropriated Funds	4-5
Statements of Changes in Fund Balance -- Appropriated Funds	6-7
Statements of Changes in Fund Balance -- Restricted Funds	8
Statements of Cash Flows	9
Notes to Financial Statements	10-14
Supplementary Information	
Report of Independent Certified Public Accountants on Supplementary Information	15
Schedule of Expenses	16-17

Report of Independent Certified Public Accountants

Executive Committee
Multistate Tax Commission

We have audited the accompanying balance sheets of Multistate Tax Commission as of June 30, 2006 and 2005 and the related statements of revenue and expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Multistate Tax Commission as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Linton Shafer Warfield & Hamlett

September 14, 2006

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets		
Cash and cash equivalents	\$ 2,430,467	\$ 2,024,308
Accounts receivable		
Schools	9,995	33,617
Special projects	-	9,565
Prepaid expenses	<u>39,434</u>	<u>39,548</u>
Total Current Assets	<u>2,479,896</u>	<u>2,107,038</u>
Property and Equipment - at Cost		
Office furniture and equipment	887,245	1,041,041
Leasehold improvements	109,857	109,857
Less: accumulated depreciation and amortization	<u>(803,923)</u>	<u>(871,543)</u>
Property and Equipment - Net	<u>193,179</u>	<u>279,355</u>
Other Assets		
Expense account advances	7,700	7,700
Deposits	<u>10,861</u>	<u>10,861</u>
Total Other Assets	<u>18,561</u>	<u>18,561</u>
TOTAL ASSETS	<u>\$ 2,691,636</u>	<u>\$ 2,404,954</u>

LIABILITIES

	<u>2006</u>	<u>2005</u>
Current Liabilities		
Accounts payable	\$ 55,289	\$ 70,187
Payroll taxes withheld and accrued	26,727	25,224
Accrued salaries and vacation pay	230,396	236,596
Current portion of capital lease obligation	6,671	6,748
Deferred assessments and audit reimbursements	<u>267,650</u>	<u>397,296</u>
Total Current Liabilities	<u>586,733</u>	<u>736,051</u>
 Long-Term Liabilities		
Capital lease obligation	<u>-</u>	<u>6,099</u>
Total Long-Term Liabilities	<u>-</u>	<u>6,099</u>
 TOTAL LIABILITIES	 <u>586,733</u>	 <u>742,150</u>
 Commitments and Contingencies - Note 3		
 Fund Balances		
Unappropriated	1,128,568	786,702
Appropriated	592,685	638,366
Restricted	<u>383,650</u>	<u>237,736</u>
Total Fund Balances	<u>2,104,903</u>	<u>1,662,804</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 2,691,636</u>	 <u>\$ 2,404,954</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Revenue and Expenses
and Changes in Fund Balance
Unappropriated Funds
For the Years Ended June 30,

	<u>2006</u>	<u>2005</u>
Revenue - Unappropriated and Appropriated		
Assessments	\$ 4,524,769	\$ 4,435,340
Less amounts from restricted funds	-	(18,000)
Interest	97,158	36,045
Other income		
Training fees	193,545	182,002
Miscellaneous	25,280	7,925
Total Revenue	<u>4,840,752</u>	<u>4,643,312</u>
Expenses - Unappropriated and Appropriated		
Accounting	14,546	12,961
Bonds and insurance	22,259	25,527
Conferences and training schools	127,438	127,349
Database services	100,000	120,000
Depreciation and amortization	93,600	104,286
Employee benefits	489,410	525,199
Miscellaneous	12,513	13,847
Office supplies	30,840	51,710
Postage	29,542	28,582
Printing and duplicating	33,192	21,941
Professional services	364,305	410,703
Publications and electronic resources	25,429	29,173
Recruitment	4,132	8,811
Rent	242,542	233,343
Repairs and maintenance	5,790	2,940
Retirement plan	293,165	305,377
Salaries	2,465,546	2,520,232
Software licenses	19,455	42,555
Staff training	14,284	26,200
Subscriptions, publications, dues	35,333	40,819
Telephone	53,949	65,150
Transfer - database services	(100,000)	(140,000)
Transfer - training and education	-	(8,800)
Travel	284,375	295,728
Allocation of administrative expenses	(117,078)	(158,359)
Total Expenses	<u>\$ 4,544,567</u>	<u>\$ 4,705,274</u>

(continued)

MULTISTATE TAX COMMISSION
Statements of Revenue and Expenses
and Changes in Fund Balance
Unappropriated Funds
For the Years Ended June 30,

	<u>2006</u>	<u>2005</u>
Excess of Revenue Over (Under) Expenses	\$ 296,185	\$ (61,962)
Transfer from Appropriated Fund Balance	45,681	94,228
Transfer from Restricted Fund Balance	<u>-</u>	<u>18,000</u>
Total Amount Transferred	45,681	112,228
FUND BALANCE - Unappropriated - Beginning of Year	<u>786,702</u>	<u>736,436</u>
FUND BALANCE - Unappropriated - End of Year	<u>\$ 1,128,568</u>	<u>\$ 786,702</u>

The accompanying notes are an integral part of these financial statements.

MULTISTATE TAX COMMISSION
Statements of Changes in Fund Balance
Appropriated Funds
For the Years Ended June 30,

	<u>State Tax Compliance</u>	<u>Federalism At Risk</u>	<u>Enterprise Automation Project</u>
Fund Balance - June 30, 2004	\$ 23,918	\$ 25,146	\$ 557,004
Transfer to Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>(86,557)</u>
Net Amount Transferred (To) From Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>(86,557)</u>
Fund Balance - June 30, 2005	23,918	25,146	470,447
Transfer to Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>(45,681)</u>
Net Amount Transferred (To) From Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>(45,681)</u>
Fund Balance - June 30, 2006	<u>\$ 23,918</u>	<u>\$ 25,146</u>	<u>\$ 424,766</u>

Nexus Activities	Nexus Education	Membership Development and Relations	Total
\$ 90,000	\$ 7,671	\$ 28,855	\$ 732,594
-	(7,671)	-	(94,228)
-	(7,671)	-	(94,228)
90,000	-	28,855	638,366
-	-	-	(45,681)
-	-	-	(45,681)
<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 28,855</u>	<u>\$ 592,685</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Changes in Fund Balance
Restricted Funds
For the Years Ended June 30,

	4R Project	Nexus Program	Deregulation	Special Audit	Total
Fund Balance - June 30, 2004	\$ 60,694	\$ 162,982	\$ 5,698	\$ 8,089	\$ 237,463
Revenue	-	796,320	-	-	796,320
Expenses	-	772,349	5,698	-	778,047
Excess (Deficiency) of Revenue Over Expenses	-	23,971	(5,698)	-	18,273
Transfer to Unappropriated Fund Balance	(18,000)	-	-	-	(18,000)
Fund Balance - June 30, 2005	42,694	186,953	-	8,089	237,736
Revenue	-	829,583	-	-	829,583
Expenses	-	683,669	-	-	683,669
Excess (Deficiency) of Revenue Over Expenses	-	145,914	-	-	145,914
Fund Balance - June 30, 2006	<u>\$ 42,694</u>	<u>\$ 332,867</u>	<u>\$ -</u>	<u>\$ 8,089</u>	<u>\$ 383,650</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION

**Statements of Cash Flows
For the Years Ended June 30,**

	2006	2005
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over (under) expenses	\$ 442,099	\$ (43,689)
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided by operating activities		
Depreciation and amortization	96,302	109,717
Loss on disposal of property and equipment	583	13,038
Changes in assets and liabilities		
Accounts receivable		
Members	-	27,330
Schools	23,622	(31,937)
Special projects	9,565	(9,565)
Prepaid expenses	114	33,976
Expense account advances	-	400
Accounts payable	(14,898)	4,523
Payroll taxes withheld and accrued	1,503	(1,083)
Accrued salaries and vacation pay	(6,200)	(27,313)
Deferred assessments and audit reimbursements	(129,646)	256,415
Net Cash Provided by Operating Activities	423,044	331,812
Cash Flows From Investing Activities		
Purchase of property and equipment	(10,709)	(98,878)
Payments on capital lease	(6,176)	(6,176)
Net Cash Used in Investing Activities	(16,885)	(105,054)
Net Increase in Cash and Cash Equivalents	406,159	226,758
Cash and Cash Equivalents - Beginning of Year	2,024,308	1,797,550
Cash and Cash Equivalents - End of Year	\$ 2,430,467	\$ 2,024,308
Supplemental Disclosures		
Income taxes paid	\$ -	\$ -
Interest paid	\$ 1,444	\$ 1,444

The accompanying notes are an integral part of these financial statements.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2006 and 2005

1. Summary of Significant Accounting Policies

The Multistate Tax Commission (the Commission) was organized in 1967. It was established under the Multistate Tax Compact, which by its terms, became effective August 4, 1967. The basic objective of the 'Compact' and, accordingly, the Commission is to provide solutions and additional facilities for dealing with state taxing problems related to multi-jurisdictional business.

Cash Equivalents

For purposes of the statement of cash flows, the Commission considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Commission considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

All property and equipment is stated at cost and depreciated using straight-line and accelerated methods based upon estimated useful lives as follows:

Leasehold Improvements	5 years
Office Furniture and Equipment	5 to 7 years

Expenditures for maintenance and repairs are charged to the appropriate expense accounts as incurred. Expenditures for renewals or betterments which materially extend the useful lives of assets or increase their productivity are capitalized at cost. The costs and related allowances for depreciation of assets retired or otherwise disposed of are eliminated from the accounts. The resulting gains or losses are included in the determination of excess of revenue over expenses.

Deferred Assessments and Audit Reimbursements

Assessments and audit reimbursements are due from the respective states on July 1st of each year and cover the following twelve-month period. Assessments received prior to July 1st for the following year are unearned and considered deferred income until recognized as revenue in the following year.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2006 and 2005

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

In the opinion of legal counsel, the Commission is exempt from Federal income taxes as well as from other Federal taxes as an organization of a group of States or as an instrumentality of those States. Therefore, no provision has been made in the financial statements for Federal income taxes.

Capital Lease

A long-term lease transaction relating to the financing of equipment is accounted for as a capital lease. Capital lease obligations reflect the present value of future rental payments, discounted at the interest rate implicit in the lease.

A corresponding amount is capitalized and amortized over the assets estimates economic lives on a straight-line basis. The amortization is included in depreciation expense

2. Retirement Plan

Effective June 30, 1986, the Commission adopted a defined contribution plan to be funded at a rate of twelve percent of each participating individual's annual salary. To participate in this plan, employees are required to work more than certain pre-determined hourly and monthly levels throughout the plan year. The total pension expense relating to the defined contribution plan for the years ended June 30, 2006 and 2005 was \$331,692 and \$345,458, respectively.

3. Commitments

The Commission rents its office facilities in Washington, D.C., Texas, New York, and Illinois under lease agreements with terms expiring on various dates through December 31, 2009. These leases provide for the following minimum annual base rentals exclusive of utility charges and certain escalation charges:

<u>Fiscal Year Ended:</u>	<u>Minimum Annual Payment</u>
2007	\$ 281,367
2008	172,933
2009	44,395
2010	21,930

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2006 and 2005

3. Commitments (Continued)

The leases include certain escalation charges based on various factors including utility, operating expense and property tax increases from a base year. Rent expense, exclusive of utility charges and real estate taxes, for the years ended June 30, 2006 and 2005 was \$306,155 and \$294,644, respectively.

4. Appropriated Fund Balances

The Commission's executive committee authorized the Enterprise Automation fund in the amount of \$73,000 during the year ended June 30, 1997. An additional \$614,298 has been authorized in subsequent years. The purpose of this fund is to provide support, through professional services, for developing enterprise-wide applications for managing the Commission information resources in a manner that enhances its operations.

The Commission's executive committee authorized the Nexus Activities fund in the amount of \$80,000 during the year ended June 30, 1997. An additional net amount of \$20,000 has been authorized in subsequent years. The purpose of this fund is to provide support for Commission nexus activities including, a) research and writing on Constitutional nexus issues and b) a reserve for professional services to support work on potential nexus cases in litigation.

The Commission's executive committee authorized the Membership Development and Relations fund in the amount of \$150,000 during the year ended June 30, 2000. The purpose of this fund is to support efforts aimed at increasing membership.

The Commission's executive committee authorized the State Tax Compliance fund in the amount of \$23,918 during the year ended June 30, 2004. The purpose of this fund is to support the implementation of the recommendations of the Commission's State Tax Compliance Initiative and the measures to improve state tax compliance by multistate taxpayers as approved by the Executive Committee or Commission.

The Commission's executive committee authorized the Nexus Education fund in the amount of \$100,000 during the year ended June 30, 2002. The purpose of this fund is to educate federal and state policymakers and the public concerning issues and standards of Nexus for state taxation of interstate commerce to advance the goal of preserving the ability of states to tax a fair share of such commerce and for preventing the unwarranted restrictions on state jurisdictional authority.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2006 and 2005

5. Restricted Fund Balances

During the year ended June 30, 1988, the 4R Program was established whereby contributions received are restricted to use for supporting education, lobbying and legal expenses related to this property tax project. The purpose of the project is to provide for research activities as well as to seek favorable changes in Federal laws which are related to property tax restrictions of state and local governments.

During the year ended June 30, 1991, the National Nexus program was established. This program, funded by participating states, aims to encourage and secure taxpayer compliance with current state laws through a centralized taxpayer registration information service, a liability resolution process and information sharing among member states. The contributions received from the participating states are restricted for this purpose.

During the year ended June 30, 1999, the Deregulation project was established. This project provides technical assistance to help states adapt their tax policies to the deregulation of major industries, with an initial focus on electric utility deregulation. The contributions received from the participating states are restricted for this purpose.

6. TaxNet Governmental Communications Corporation (TaxNet)

TaxNet is a separate corporation organized as a public charity and instrumentality of the states for the purpose of establishing, maintaining and administering an electronic communications network to allow subscriber access to tax information and communication with governmental tax offices. The corporation is managed by a board of directors, which includes, in accordance with its bylaws, the Chair, Vice Chair and Executive Director of Multistate Tax Commission.

Among other things, the Commission assisted in the formation of TaxNet by contributing legal services. The Commission continues to assist TaxNet by contributing other legal services. Such services have not been reflected separately in the accompanying financial statements, because such amounts are not material.

7. Deferred Compensation Plan

The Commission offers employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. In accordance with federal law, participants' deferred compensation under the plan is trustee and thus shielded against the claims of the creditors of the Commission and therefore, not included in these financial statements.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2006 and 2005

7. Deferred Compensation Plan (Continued)

The Commission believes it has no liability for losses under the plan but does have a duty of due care that would be required of an ordinary prudent investor.

Investments are managed by the plan's trustee under twenty seven investment options or a combination thereof. The participants make the choice of the investment option(s).

8. Allocation of Administrative Expenses

The administrative costs of providing the various programs and other activities have been allocated among the programs and supporting services, based on total operating costs.

9. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting period, and disclosures. Actual results could differ from those estimates.

10. Concentration of Credit Risk

The Commission maintains cash balances in two banks. One of the banks is a bank in the State of Colorado. The Commission is an eligible account holder under Colorado's "Public Deposit Protection Act of 1975". The purpose of the act is to provide protection of public moneys on deposit in state and national banks in Colorado and beyond that provided by the federal deposit insurance corporation and to ensure prompt payment of deposit liabilities to governmental units in the event of default or insolvency of any such banks. Accounts at the other bank are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2006 and 2005, the uninsured cash balance was \$143,286 and \$0 respectively. The Commission has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

11. Capital Lease

The Commission acquired certain equipment under the provisions of a long-term lease.

Future minimum lease payments under the capital lease are as follows:

<u>Year Ended</u>	
2007	\$6,671

SUPPLEMENTARY INFORMATION

**Report of Independent Certified Public Accountants
on Supplementary Information**

Executive Committee
Multistate Tax Commission

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Multistate Tax Commission for the year ended June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenses for the year ended June 30, 2006, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Linton Shafer Worfield & Bennett

September 14, 2006

MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2006

Unappropriated and Appropriated Funds

	General Expenses	Audit Program	Administrative Expenses	Enterprise Automation
Accounting	\$ 9,800	\$ -	\$ 4,746	\$ -
Bonds and insurance	-	-	22,259	-
Conferences and training schools	91,849	12,399	1,462	-
Database services	-	100,000	-	-
Depreciation and amortization	-	17,374	64,792	11,434
Employee benefits	70,434	295,136	99,111	14,101
Miscellaneous	2,696	3,176	6,641	-
Office supplies	3,489	9,634	13,115	-
Postage	2,597	12,069	9,140	-
Printing and duplicating	2,715	2,351	15,048	-
Professional services	246,799	4,792	16,076	69,768
Publications and electronic resources	2,759	7,902	14,768	-
Recruitment	125	-	4,007	-
Rent	35,643	90,984	115,915	-
Repairs and maintenance	359	1,650	3,656	-
Retirement plan	62,781	167,649	51,130	5,019
Salaries	570,172	1,404,877	404,023	31,594
Software licenses	-	5,025	721	13,709
Staff training	3,595	1,086	9,603	-
Subscriptions, publications, dues	13,341	15,825	4,891	-
Telephone	17,015	26,305	10,629	-
Transfer - database services	-	-	-	(100,000)
Travel	73,390	165,780	15,847	56
Allocation of administrative expenses	251,136	483,071	(887,580)	-
Total Expenses	\$ 1,460,695	\$ 2,827,085	\$ -	\$ 45,681

Training and Education	Total		Restricted Funds		Total All Funds
	Unappropriated and Appropriated Funds		National Nexus Program	Total Restricted Funds	
\$ -	\$ 14,546	\$ -	\$ -	\$ 14,546	
-	22,259	-	-	22,259	
21,728	127,438	5,429	5,429	132,867	
-	100,000	-	-	100,000	
-	93,600	2,702	2,702	96,302	
10,628	489,410	82,568	82,568	571,978	
-	12,513	247	247	12,760	
4,602	30,840	2,854	2,854	33,694	
5,736	29,542	4,263	4,263	33,805	
13,078	33,192	1,521	1,521	34,713	
26,870	364,305	13,300	13,300	377,605	
-	25,429	1,194	1,194	26,623	
-	4,132	-	-	4,132	
-	242,542	63,613	63,613	306,155	
125	5,790	-	-	5,790	
6,586	293,165	38,527	38,527	331,692	
54,880	2,465,546	317,350	317,350	2,782,896	
-	19,455	-	-	19,455	
-	14,284	2,751	2,751	17,035	
1,276	35,333	13,217	13,217	48,550	
-	53,949	5,456	5,456	59,405	
-	(100,000)	-	-	(100,000)	
29,302	284,375	11,599	11,599	295,974	
36,295	(117,078)	117,078	117,078	-	
<u>\$ 211,106</u>	<u>\$ 4,544,567</u>	<u>\$ 683,669</u>	<u>\$ 683,669</u>	<u>\$ 5,228,236</u>	