Multistate Tax Commission

MTC
Multistate Tax Commission

Annual Report
FY10-11

Message from the Director

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

One of the principal purposes of the Multistate Tax Commission is 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 provides both industry and states an organization within which to discuss and resolve their tax problems. The Commission also assists the states in encouraging multistate and multinational businesses to comply properly with state and local tax laws and, in turn, advocates improvements in laws, rules, and practices that make it easier and more convenient for those businesses to comply. Finally and fundamentally, the Commission works 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, 2010 and ending June 30, 2011.

Respectfully,

Joe Huddleston
Executive Director

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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 28, 2010, in Hood River, Oregon.

The Commission took the following actions during July 1, 2010 to June 30, 2011:

- Approved the Commission Budget for 2010-2011.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Repealed *Uniform Principles Governing State Transactional Taxation of Telecommunications – Vendor and Vendee Versions*.
- Repealed *Guideline Regarding Applicability of Sales and/or Use Tax to Sales of Computer Software*.
- Adopted an amendment to Model Regulation IV.18.(A).
- Renewed Resolution 2005-01, *Resolution in Support of Telecommunications Tax Improvement*.
- Renewed, with amendment, Resolution 2005-02, *Resolution in Support of Expansion of the Refund Offset Program*.
- Renewed Resolution 2005-03, *Resolution Urging the Use of the Alternative Dispute Resolution Program by Compact Member States*.
- Renewed, with amendments, Resolution 2005-04, *Resolution Regarding Tax Fairness in the Proposed Federal Extension of the "Internet Tax Freedom Act Amendments of 2007*."
- Elected Stephen M. Cordi, Deputy Chief Financial Officer for Tax & Revenue, District of Columbia, as Chair.
- Elected Cory Fong, Tax Commissioner, North Dakota, as Vice Chair.
- Elected Robert J. Kleine, State Treasurer, Michigan, as Treasurer.
- Elected Royce Chigbrow, Chair, Idaho State Tax Commission; Susan Combs, Comptroller, Texas Comptroller of Public Accounts; Roxy Huber, Executive Director, Colorado Department of Revenue; and Selvi Stanislaus, Executive Officer, California Franchise Tax Board, 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.

States which have adopted the Multistate Tax Compact

- Alabama
- Alaska
- Arkansas
- California
- Colorado
- District of Columbia
- Hawaii
- Idaho
- Kansas
- Michigan
- Minnesota
- Missouri
- Montana
- New Mexico
- North Dakota
- Oregon
- South Dakota
- Texas
- Utah
- Washington

MTC Officers FY10-11

Stephen M. Cordi, *Chair*
Deputy Chief Financial Officer for Tax and Revenue
District of Columbia

Cory Fong, *Vice-Chair*
Tax Commissioner
North Dakota Department of Revenue

Robert J. Kleine, *Treasurer*
State Treasurer
Michigan Department of Treasury

Executive Committee Report

The Executive Committee met six times during the period July 1, 2010, to June 30, 2011:

- July 29th in Hood River, Oregon
- December 9th via teleconference
- March 10th via teleconference
- April 18th via teleconference
- May 12th in Washington, D.C.
- June 6th via teleconference

The Executive Committee also met via teleconference on July 1, 2010, the actions from which were included in their last annual report and will not be reflected in this report.

The meetings, except for the meeting of May 12th, were regular meetings through which the committee has provided oversight and direction to the activities of the Commission. The meeting on May 12th was solely devoted to a strategic planning session; a quorum was not present, and no business was conducted.

The following members of the Commission were elected to serve as Commission officers and members of the Executive Committee for fiscal year 2011:

- Chairman: Stephen M. Cordi (District of Columbia)
- Vice Chairman: Cory Fong (North Dakota)
- Treasurer: Robert J. Kleine (Michigan)
- At-large: Royce Chigbrow (Idaho), Susan Combs (Texas), Roxy Huber (Colorado), and Selvi Stanislaus (California Franchise Tax Board).

In January, Mr. Chigbrow resigned from the Idaho State Tax Commission. Alana M. Barragán-Scott, Director of the Missouri Department of Revenue, was appointed and elected to fill the vacant at-large position on the Executive Committee. The election of a new governor in Michigan resulted in the departure of Robert J. Kleine as State Treasurer, also in January. The executive director fulfilled the duties of Commission treasurer for the remainder of the term.

The Executive Committee took the following actions during fiscal year 2011:

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding a proposed Model Statute for Disallowance of Deductions for Certain Payments to Captive Real Estate Investment Trusts.

- Regarding a proposed Model Statute on the Tax Collection Procedures for Accommodations Intermediaries back to the Uniformity Committee for further consideration that did not receive sufficient support in a bylaw 7 survey to be considered for adoption by the Commission at its annual meeting in 2010, directed staff to review "affected states," confer with Streamlined Sales Tax staff on involvement of that organization in this issue, and poll those states that voted negatively.

- Initiated a strategic planning effort, headed by the Chair and Vice Chair.

- Approved the audited financial statements as reported in an independent auditor report for fiscal year July 1, 2009 – June 30, 2010.

- Accepted the dissolution of TaxNet Governmental Communications Corporation, a joint effort of the MTC and FTA, and distribution of the remaining funds as directed by its board.

- Recommended the Commission consider a proposed Model Statute for Disallowance of Deductions for Certain Payments to Captive Real Estate Investment Trusts, resulting in a bylaw 7 survey of affected members to determine if they would consider the proposal.

- Referred a proposed Model Statute on the Tax Collection Procedures for Accommodations Intermediaries back to the Uniformity Committee for further consideration.

- Elected Alana M. Barragán-Scott, Director of the Missouri Department of Revenue, to serve out the unexpired portion of Royce Chigbrow's position on the Executive Committee.

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding a proposed Model Statute Regarding Partnership or Pass-Through Entity Income That Is Ultimately Realized by an Entity That Is Not Subject to Income Tax.

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding a proposed amendment to Model Statute for Combined Reporting Section 1.I. – Definition of "Tax Haven" for Purposes of Water's Edge Election.

- Recommended the Commission consider a proposed Model Mobile Workforce Statute, resulting in a bylaw 7 survey of affected members to determine if they would consider the proposal.

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding a proposed Model Sales & Use Tax Notice and Reporting Statute.

- Conducted an initial strategic planning session in Washington, D.C., facilitated by Elizabeth Harchenko.

- Approved the proposed 2011-2012 budget for the Commission.

- Suspended the activities of the Technology Committee indefinitely and required a technology report as an addendum to each executive director report provided to the Executive Committee during the time the Technology Committee is inactive.

- Recommended the Commission consider a proposed amendment to the Model Statute for Combined Reporting Section 1.I. – Definition of "Tax Haven" for Purposes of Water's Edge Election, resulting in a bylaw 7 survey of affected members to determine if they would consider the proposal.

- Recommended the Commission consider a proposed Model Sales & Use Tax Notice and Reporting Statute, resulting in a bylaw 7 survey of affected members to determine if they would consider the proposal.

The Executive Committee undertook additional actions during fiscal year 2011 that are recorded in the minutes of its meetings.

Audit Committee Report

Janielle Lipscomb
Oregon Department of Revenue
Chair, Audit Committee

Rick DeBano
Wisconsin Department of Revenue
Vice Chair, Audit Committee

Les Koenig, Director
Director, MTC Joint Audit Program

The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2010-2011 fiscal year.

AUDIT COMMITTEE

The Audit Committee met three times thus far in fiscal year 6/11. They first met on July 27, 2010 in Hood River, OR. There were 44 members, guests and staff present at the meeting. There were 32 individuals representing 20 Audit Program States present. There were 2 members of the public present at the meeting.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 12 income tax and 2 sales tax audits that had significant issues. The Audit Committee expressed its satisfaction with the status of the audits in progress.

The Audit Committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing.

The Audit Committee met a second time via a teleconference on November 17, 2010. There were 37 members, and staff present at the meeting. There were 33 individuals representing 22 Audit Program States present. Since this was a closed session meeting, there were no members of the public present at the meeting.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 15 income tax and 4 sales tax audits that had significant issues. The Audit Committee expressed its satisfaction with the status of the audits in progress.

Since this was a teleconference the Audit Committee did not conduct a round table discussion of audits in the states that would normally been done. The meeting lasted 1 hour.

The Audit Committee met a third time in Kansas City on March 3, 2011. There were 40 members, guests, and staff present at the meeting. There were 31 individuals representing 20 Audit Program States present. There were 2 guests present during the open session.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 11 income tax and 3 sales tax audits that had significant issues. The Audit Committee expressed its satisfaction with the status of the audits in progress.

The Audit Committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing. The Committee also participated in a presentation on uncertain tax positions given by Professor Richard Harvey.

AUDIT PROGRAM

PRODUCTIVITY

Audit Program completed 6 income tax audits and parts of 4 other income tax audits for fiscal year end 6/11. The Audit Program also completed 5 and parts of 5 sales audit for the same period. There are 20 income and 28 sales tax audits in progress. There were several income and sales tax cases that were delayed by the taxpayers due to turn over in their tax staffs or taxpayers being sold.

The MTC Audit Program proposed assessments of $83,501,595 for income tax and $12,603,148 for sales tax.

The Commission's Audit Manuals for income and sales tax manuals are posted on the Commission's web site.

STAFFING

The proposed budget for fiscal year end 6/12 allows the Audit Program to fill the income tax auditor vacancy and creates one additional auditor position. The hiring process for these two positions will begin in August 2011. A decision on whether to hire an additional income or sales tax auditor has not yet been determined.

TRAINING

Jeff Silver and Les Koenig participated as instructors in an income tax course in South Carolina in October, 2010. Jeff Silver and Larry Shinder conducted an income tax class in Boston in March 2011. Bob Schauer conducted a sampling class in Chicago and a computer assisted auditing class in Wyoming during the last quarter of fiscal year 6/11.

AUDIT HOURS WORKED PER QUARTER

	9/10	12/10	3/11	6/11	Total
Income Tax Total Audits in Process	22	22	25	20	N/A
Total State Returns Under Audit	343	343	390	311	N/A
Total Income Audit Hours per Quarter	3827	3310	3891	3927	14955
Sales Tax Total Audits in Process	31	32	30	28	N/A
Total State Returns Under Audit	377	389	356	337	N/A
Total Sales Audit Hours per Quarter	2751	2325	2776	2813	10665
Total Both Taxes Audits in Process	53	54	55	48	N/A
Total State Returns Under Audit	720	732	746	648	N/A
Total Audit Hours Both Taxes	6578	5635	6667	6740	25620

TRENDS IN PRODUCTIVITY

MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/95 - 6/11

	6/95	6/96	6/97	6/98	6/99	6/00	6/01	6/02	6/03	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11
Income Tax Total Audits	9	9	10	9	7	10	8	7	8	7	7	9	7	7	3	6	6
Total States Audited	99	111	152	120	186	251	131	166	165	266	196	175	141	209	79	152	309
Total Hours	9284	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649
Average Hours Per State	**94**	**68**	**81**	**83**	**55**	**52**	**66**	**57**	**64**	**45**	**64**	**72**	**66**	**84**	**81**	**69**	**83**
Sales Tax Total Audits	15	13	14	10	16	11	14	13	11	10	11	6	15	9	10	12	5
Total States Audited	152	123	143	97	184	102	158	159	145	154	160	77	187	97	120	147	65
Total Hours	8009	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200
Average Hours Per State	**53**	**79**	**79**	**80**	**40**	**89**	**75**	**56**	**61**	**71**	**38**	**64**	**71**	**80**	**61**	**73**	**110**
TotalBoth Taxes Total Audits	24	22	24	19	23	21	22	20	19	17	18	15	22	16	13	18	11
Total States Audited	251	234	295	217	370	353	289	325	310	420	336	252	328	306	199	299	374
Total Hours	17293	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849
Average Hours Per State	**69**	**74**	**80**	**82**	**48**	**63**	**71**	**56**	**62**	**55**	**56**	**70**	**69**	**83**	**69**	**71**	**88**

Litigation Committee Report

Marshall Stranburg
Florida Department of Revenue
Chair, Litigation Committee

Mark Wainwright
Clark Snelson
Utah Office of the Attorney General
Vice Chairs, Litigation Committee

Shirley K. Sicilian
MTC General Counsel

The MTC Litigation Committee is chaired by Marshall Stranburg, Florida Department of Revenue. Its co-vice chairs are Mark Wainwright and Clark Snelson, Utah Office of the Attorney General. The Committee undertook the following activities this fiscal year, through June, 2011.

In-Person Meetings

The litigation committee met July 25 and 26, 2010 in Hood River, Oregon, with twenty-four representatives from fifteen states in attendance. Thirty attorneys from eleven states attended the Committee's next meeting, held March 3 and 4, 2011 in Kansas City, Missouri. At each meeting, the Committee adjourned, after a brief staff up-date, to attend the Informational and Training Session for State Tax Attorneys, where attendees shared information about pending and potential cases and heard presentations on topics relevant to multistate litigation.

State Tax Attorney Teleconferences

We continue to host our series of state tax attorney teleconferences. These teleconferences provide a forum for state attorneys general and revenue department attorneys to hear presentations on significant legal developments in state tax law. They have been well attended with approximately 40 states represented on several of the calls. Teleconferences were held:

- May 26, 2011
- March 16, 2011
- February 3, 2011
- November 22, 2010
- November 15, 2010
- October 7, 2010

Paull Mines Award

In July, 2010, Benjamin F. Miller, Retired Annuitant for the California Franchise Tax Board, was presented with the third annual Paull Mines Award for Contribution to State Tax Jurisprudence.

Nexus Committee Report

Lennie Collins
North Carolina Department of Revenue
Chair, Nexus Committee

Thomas K.E. Shimkin
Director, MTC National Nexus Program

This report reviews Nexus Committee activity in fiscal year 2011 (July 1, 2010 through June 30, 2011). It does not contain confidential taxpayer information.

Committee Activities

The committee met on July 27, 2010 in Hood River, Oregon.

At the meeting the committee heard staff reports about activities of the National Nexus Program and offered general direction to Nexus program staff. Updates and discussion included:

- Oversight of the voluntary disclosure program, including on-going efforts to improve the process for states and taxpayers through technological advancements. The committee approved of staff's efforts to achieve greater efficiency through technology.

- Staff presented information on specific taxpayers and industries that involve nexus issues, which the committee considered. Committee members also raised several issues, which the committee also considered. More information is available in the closed committee report.

- The Commission's Director of Policy Research, Dr. Elliott Dubin, presented the findings of a study he and his research assistant, Ann Boyd, conducted with respect to voluntary disclosure. The study concluded that voluntary disclosure is a cost-effective supplement to other enforcement activities.

- State participation in committee work remains strong, although travel to meetings has been difficult for some.

Voluntary Disclosure Procedures

Most importantly, the Nexus Committee at its July meeting gave its final approval to the Nexus Program's *Procedures of Multi-state Voluntary Disclosure*. Approval was unanimous. Executive Committee members may wish to examine this document, as it is intended to be the rules to govern the Commission's voluntary disclosure program. The Nexus Committee expects that Commission staff will publish these on the Commission's website and that taxpayers will rely upon them. The Committee anticipates that written procedures will increase taxpayer confidence in the program and encourage its use.

In summary, the procedures --

- Do not apply to a state's single-state voluntary disclosure program, but "all member states of the NNP accept these procedures as the state's procedure with respect to multi-state disclosures…" However, states may opt out of any provision with specific notice that they do so. Sect. 4. Commission staff will ensure that all NNP member states understand the procedures and have made an informed choice whether to opt out of one or more provisions before staff posts these for the public to rely on.

- Clarify who is eligible for voluntary disclosure, e.g., not those under audit. Sect. 5.

- Guarantee taxpayer anonymity before an agreement is signed (states with statutes not permitting this may opt out). Sects. 6 and 7.

- Allow taxpayers to complete the disclosure after proper application in the event a state discovers the applicant independently. Sect. 8, 15.

- Prohibit member states (except if they opt out) and the Commission to use voluntary disclosure information for enforcement purposes. Sect. 7.

- Provide certain protections to a taxpayer in the event of mistaken disclosure of its identity to a state or the Commission, e.g., making a payment before an agreement is signed. Sects. 9 – 11.

- If it learns of a material misrepresentation in a voluntary disclosure application, require the Commission to:

    - Notify states that signed the agreement, which may rescind if they choose.

    - Not notify states that did not receive the agreement offer.

    - Withdraw offers without comment from states still considering the offer.

        - Whether to notify these states of the material misrepresentation was a point of debate within the committee. The committee chose this rule because it would not disadvantage multi-state disclosure versus single-state programs in the eyes of potential disclosants who may be concerned about the Commission's unique ability to notify multiple states (the Commission knows most or all states to which a taxpayer applies, while a single knows only that a taxpayer has applied to it).

- Encourage all parties to pursue disclosures timely. Taxpayers meeting specific deadlines will continue to enjoy the privilege of completing a disclosure in the event a state discovers it independently before the disclosure agreement is signed. Sect. 14. States and the Commission also have specific deadlines, but there are no similar inducements to compliance. Sects. 16 – 18.

The committee met on March 3, 2011 in Denver, Colorado.

At the meeting the committee heard staff reports about activities of the National Nexus Program and offered general direction to Nexus program staff. Updates and discussion included:

- A significant closed-session discussion.

- Oversight of the voluntary disclosure program.

- Review of a re-drafted template contract for voluntary disclosure.

Nexus School

Nexus and Legal staff taught two nexus schools during the period, one in Helena, Montana, and the other in Denver, Colorado. Each was well attended. Staff had updated a portion of the material in advance of each school.

Multi-state Voluntary Disclosure

Multi-state voluntary disclosure has produced $11,884,837* for states this fiscal year.

* The annual collection amount includes only back tax actually collected (cash basis). It may also contain a trivial amount of penalty, interest, and miscellaneous fees if they were collected before conclusion of the voluntary disclosure. It does not include any tax, interest, penalty, or other thing of value collected after the voluntary disclosure process ended. States almost always collect substantial interest on back tax amounts after the end of the voluntary disclosure process, but the Commission does not include these amounts in its reports.

Technology Committee Report

Gordon Smead
Tennessee Department of Revenue
Chair, Technology Committee

The Technology Committee was chaired by Gordon Smead of the Tennessee Department of Revenue from the fall of 2010 until his unexpected retirement in April. The position is currently vacant.

The committee met during the Commission's annual meeting week in Hood River, Oregon, on July 26, 2010 (two states were represented, participating via teleconference). The committee also met via teleconferences on December 16, 2010 (one state represented), and March 8, 2011 (four states represented).

The Commission's computing assets and information security structures are appropriately maintained and operational. The IT staff rolled out new desktops and laptops to all staff in all offices. This included migrating user data from old laptops to new laptops, and working through the growing pains of a new operating system (Windows 7) and Microsoft Office 2010. A virtualization assessment was completed, and virtualization of the data center has been completed for all but two domain controllers and secure messaging server pending renewal of licenses and operating software upgrades. In preparation for virtualization, data storage was procured and configured, physical configuration changes were made to the computer racks in the server room, and excess legacy equipment was removed. Hard drives in the servers in the Chicago and New York offices were upgraded.

The website continues to be a key aspect of the Commission's public face, and an active resource for states and stakeholders. An upgrade to the content management system was completed. The vendor used to do the upgrade is also became our website hosting provider; not only did this move facilitate the upgrade process, it also saved operational expenses.

Using June 2011 as a sample month, the Commission's website averages 95.60 visits per day (2,868 total), with visitors viewing an average 2.9 pages and spending just over 2 minutes per visit. The home page, the Uniform Sales and Use Tax Exemption Certificate, and the state map (which has links to all the state tax websites) are the most popular pages. The top referring sites to our website are *revenue.alabama.gov*, *dor.wa.gov*, *ador.state.al.us*, *en.wikipedia.org*, and *iowa.gov*.

A new area of the website was set up to accommodate the hosting of Tax Stratification and Estimation Program for Windows (TSEPWin), statistical software written by Dr. Richard W. Kulp and his nephew, Robert Kulp. TSEPWin was marketed by Kulp & Associates, LLC, until the summer of 2010 when Dr. Kulp retired and closed Kulp & Associates, LLC. Dr. Kulp contacted the Commission with an offer to transfer ownership to MTC and have them provide webhosting with the proviso that TSEPWin be offered to government agencies, businesses, and industries free of charge. Dr. Kulp still provides technical support and will update the program as needs arise.

The Commission received three responses to its Request for Information for the Automated Audit Program Software Project. Staff will be reevaluating the project with a view toward implanting in discrete phases. Staff will follow up with the vendors in the near future, in advance of any formal request for proposals.

On June 6, 2011, the Executive Committee approved the Executive Director's recommendation to suspend activities of the Technology Committee indefinitely and require a technology report as an addendum to each executive director report provided to the Executive Committee during the time the Technology Committee is inactive.

Training Program Report

The Commission training program reached 340 participants during the year. This includes 234 participants in six training courses, a session at the March 2011 committee meetings for 40 participants, and the 2010 Annual Conference in Hood River, Oregon which attracted 66 participants. Details on events from the past year and scheduled for the coming year follow.

Ken Beier
Director, MTC Training Program

Courses Offered in 2010-2011

The following MTC courses were offered during the year:

Corporate Income Tax

October 12-14, 2010 in Columbia, South Carolina for 24 students
March 14-16, 2011 in Boston, Massachusetts for 102 students

Nexus School

October 26-27, 2010 in Helena, Montana for 27 students
May 11-12, 2011 in Denver, Colorado for 52 students

Computer Assisted Audit Techniques Using Excel

May 17-18, 2011 in Cheyenne, Wyoming for 21 students

Statistical Sampling for Sales and Use Tax Audits

March 28-31, 2011 in Chicago, Illinois for 8 students

All participants for these courses were state government personnel, except for the statistical sampling course, where 7 of the 8 attendees were from the private sector.

In addition, the training program supported the following events:

- A session on **Federal Schedule UTP (Uncertain Tax Position Statement)** on March 3, 2011 in Kansas City, Missouri (as part of the MTC committee meetings) for 40 state participants.
- Annual Conference in Hood River, Oregon for 66 participants.

Courses Schedule for 2011-2012

The following courses are currently scheduled:

Corporate Income Tax

September 19-22, 2011 in Madison, Wisconsin

Nexus School

Fall 2011 in Little Rock, Arkansas (tentative)

Computer Assisted Audit Techniques Using Excel and Basic Random Sampling

August 22-25, 2011 in Albuquerque, New Mexico (tentative)

Statistical Sampling for Sales and Use Tax Audits

March 26-29, 2012 in Chicago, Illinois

We anticipate scheduling additional sessions as interest is expressed by the states. Updates to our schedule as well as registration information can be found at www.mtc.gov or by contacting Antonio Soto at 202-508-3846.

NASBA Certification and Continuation Education Credit

The Commission continues its registration with the National Association of State Boards of Accountancy (NASBA) as a CPE sponsor. This registration is for "group-live" programs. Accounting boards in 47 states and the District of Columbia recognize NASBA certification for granting of CPE credit for in-person courses. The Commission also certifies attendance for CLE credit at Commission sponsored events.

Tuition and Host State Credit

The tuition schedule for 2011-2012 remains at the level established for 2007-2008. The current rates for Compact and Sovereignty member states reflect the cost of staff time and variable costs for our courses. Tuition for private sector participants in the Statistical Sampling and other courses is now set at 75% above the level for Compact and Sovereignty members. The "add-on" for Project Member States is 25% and Other States is 40%, relative to the fees for Compact and Sovereignty members.

The Commission provides a host state credit of up to $3000 for each course. The credit is for support related to the course and applies to tuition for host state students.

Online Registration

Online registration is now being used for all MTC courses and most MTC in-person meetings.

Uniformity Committee Report

The Uniformity Committee is chaired by Wood Miller, Missouri Department of Revenue. The Committee structure includes two standing Subcommittees: the Sales & Use Tax Uniformity Subcommittee, chaired by Richard Cram, Kansas Department of Revenue; and the Income & Franchise Tax Uniformity Subcommittee, chaired by Robynn Wilson, Alaska Department of Revenue. Ms. Wilson was appointed in August, 2010. The Subcommittees have appointed Work Groups and Drafting Groups, as needed. Lennie Collins, North Carolina Department of Revenue, chairs the Work Group for the Financial Institutions Apportionment project.

The Subcommittees met in-person on July 25-26, 2010, with 35 participants both in-person and by teleconference; on December 7-8, 2010, with 30 participants both in-person and by teleconference; and on March 1-2, 2011 with 29 in attendance both in-person and by teleconference. In addition, the subcommittees met via teleconference on September 30, 2010; October 19, 2010; November 16, 2010; February 8, 2011; April 26, 2011; May 24, 2011; and June 21, 2011. The Work Group for the Financial Institutions Apportionment has also met via teleconference several times throughout the fiscal year. And, in May, the Commission announced that in keeping with its commitment to an open and public process, the ad hoc Drafting Groups, used throughout the year to assist staff in producing draft uniformity language at the Subcommittee's policy direction, will be treated as if they were a commission body subject to our public notice and public participation policies.

The Committee, together with its Subcommittees and Groups, has worked on the following nine projects during this fiscal year.

Summary

- Sales & Use Tax Uniformity
  1. Model Associate Nexus Statute
  2. Sales & Use Tax Notice and Reporting
  3. Centralized Administration of Telecommunications Transaction Tax
  4. Tax Collection Responsibilities of Accommodations Intermediaries

- Income & Franchise Tax Uniformity
  1. Compact Art. IV, Amendments
  2. Withholding for Multistate Employees
  3. Partnership or Pass–Through Entity Income Ultimately Realized by an Entity That Is Not Subject to Income Tax Withholding for Multistate Employees
  4. Financial Institutions Apportionment, Amendment
  5. Combined Reporting Tax-Haven Provisions, Amendment

Wood Miller
Missouri Department of Revenue
Chair, Uniformity Committee

Richard Cram
Kansas Department of Revenue
Chair, Sales and Use Tax
Uniformity Subcommittee

Robynn Wilson
Alaska Department of Revenue
Chair, Income and Franchise Tax
Uniformity Subcommittee

Descriptions

Sales & Use Tax Uniformity Subcommittee

1. ***Associate Nexus Presumption.*** At its March, 2010 meetings, the Subcommittee initiated two projects related to sales and use tax education and enforcement: (1) a sales and use tax notice and reporting model, and (2) an associate nexus model. The Subcommittee determined it would work first on the sales and use tax notice and reporting model (summarized below); and in March 2011, when that work was completed, the Subcommittee directed that work begin on an "associate nexus" model statute.

2. ***Sales and Use Tax Notice and Reporting.*** At its March, 2010 meetings, the Subcommittee voted to develop a Model Sales and Use Tax Notice and Reporting Statute. A Drafting Group prepared a policy question list, and based on the Subcommittee's answers to those questions, prepared a draft of a model statute for Subcommittee review. The draft requires sellers who are not collecting sales or use tax to notify purchasers of a potential tax liability at the time of sale if the product is to be delivered into the state. The draft also requires the seller to make annual reports to each such purchaser and an annual report to the state. The draft allows for certain de minimis exceptions and for penalties. The draft was approved by the Uniformity Committee in early March, 2011. Later that month, the Executive Committee approved the draft for public hearing. The hearing was held, and the Hearing Officer's report and recommendations were presented to the Executive Committee, which recommended approval of the proposal to the Commission. The matter has not been placed on the Commission's agenda, however, because it has not passed the bylaw 7 survey.

3. ***Centralized Administration of Telecommunications Transaction Tax.*** This project has three goals. First, develop "best practices" models for centralize administration of local telecommunications transaction taxes under 3 alternative state structures: state taxes distributed to locals – Proposal I, local taxes administered by state – Proposal II, or local taxes administered by centralized local authority – Proposal III. Second, adopt model telecommunications definitions and sourcing rules along the lines of those currently contained in SSUTA. And third, adopt model administrative procedures that would provide protections from class-action lawsuits as contained in SSUTA. The Subcommittee's Drafting Group, which includes representatives from both government and industry, has prepared draft statutes for Proposals II and III. Local government representatives have been invited to participate in this project, and because proposed federal Streamlined legislation would require simplification of state and local telecommunications transactions tax administration, staff for the Streamlined Sales Tax Governing Board have been invited to participate as well.

4. ***Tax Collection Responsibilities of Accommodations Intermediaries.*** This model is intended for use in states that take the position lodging tax must be collected on the price intermediary charges its customer, which includes the intermediary's mark-up, rather than merely on the "wholesale" or "discount" price the intermediary pays to the hotel. The model does not impose lodging tax, but addresses collection and remittance requirements: the intermediary is required to collect tax on full amount received from its customer, remit tax on mark-up directly to the state/ locality, and remit tax on "discount" price to the hotel (hotel would then remit to state/ locality). After a public hearing held July 21, 2009, the Hearing Officer provided a report and recommendations to the Executive Committee at its December, 2009 meeting. At the Executive Committee's January 2010 teleconference, the model was referred to a bylaw 7 survey. Eight Compact member States responded affirmatively and six responded in the negative or explicitly abstained. The Executive Committee then sent the model back to the Uniformity Committee for further consideration at the Uniformity Committee's discretion. The Uniformity Committee has surveyed states for additional input and is considering possible further recommendations.

Income & Franchise Tax Uniformity Subcommittee

1. ***Compact Art. IV Amendments.*** In July 2009, the Executive Committee directed the Uniformity Committee to begin drafting amendments for five Compact Art. IV provisions (section 17 sales sourcing, definition "gross receipts," definition "business income," factor weighting, clarification of section 18), and instructed the Uniformity Committee to report back if it recommends the scope of review be changed. In December 2009, Richard Pomp, Prentiss Willson, and Michael McIntyre provided an educational foundation on UDITPA background and apportionment concepts. The Subcommittee then began drafting revisions for section 17 sourcing. The Subcommittee has completed an initial draft of a new section 17 and has turned its attention to the definition of "gross receipts." It has also begun work on factor weighting. The Subcommittee's goal is to complete the section 17 sourcing and the definition of "gross receipts" provisions during its July in-person meetings.

2. ***Withholding for Multistate Employees.*** This was a priority project to develop a uniform state withholding threshold for non-resident employees. A Work Group held three teleconferences in August 2009, to develop a policy question list. The Subcommittee then held three teleconferences in September, October and November of 2009 to answer those questions. Based on the Subcommittee's policy choices, staff produced a draft model statute which was further amended by the Subcommittee at in-person and teleconference meetings held December 2009, January 2010, and March 2010. The Subcommittee received valuable input from the Council on State Taxation, the

American Payroll Association, and other business representatives. In March, 2010, the Subcommittee voted to approve the model and the Uniformity Committee then voted to recommend it favorably to the Executive Committee for public hearing. In April, 2010, the Executive Committee approved the model for public hearing. A public hearing was held on May 10, 2010, and a Hearing Officer's report was provided to the Executive Committee on May 18, 2010. The proposed model sets a 20 work-day *de minimis* threshold for both employer withholding responsibility and employee individual income tax filing responsibility; includes a reciprocity provision (though it would not supersede existing reciprocity agreements); and provides exceptions for professional entertainers, professional sportsmen and women, certain other high-income individuals, and any person who earns any type of income other than wage income in the state. At its May 24, 2010 teleconference, the Executive Committee voted to adopt the hearing officer's recommended amendments and return the model to the Uniformity Committee for further consideration in light of concerns raised by Montana. The Subcommittee reconsidered the model during its July, 2010 in-person meeting and formed a Drafting Group to list the issues and options for further discussion. In December 2010, the Subcommittee voted to recommend additional changes. The two main changes were: (1) add language to require an aggregate day count among related employers, and (2) clarify that the "key employee" exception applies to both corporate and non-corporate employees. The Executive Committee adopted the changes at its March 2011 teleconference and approved the model for a bylaw 7 survey, which passed. The matter is on the Commission's agenda.

3. ***Partnership or Pass–Through Entity Income Ultimately Realized by an Entity That Is Not Subject to Income Tax.*** This project addresses tax gap issues that arise when a pass-through entity is owned by another entity that is not subject to corporate income tax. The Subcommittee appointed a drafting group to list issues and options. After considering several alternative approaches and receiving significant input from the insurance industry, the Subcommittee chose its preferred approach and directed that a draft be developed. The industry is not in favor of the approach. After several meetings and teleconferences, the Subcommittee voted to approve a draft in at its in-person meeting in December 2010. In March 2011, the Executive Committee approved the proposal for public hearing. The hearing was held and a Hearing Officer's report and recommendations were provided to the Executive Committee, which discussed the matter in June and continued the discussion to its meeting in July.

4. ***Financial Institutions Apportionment, Amendment.*** The Subcommittee's Work Group, which includes representatives from several states and the banking industry, identified problems with the current MTC financial institutions model and proposed conceptual amendments for addressing them. The amendments included clarifications to the property factor rule for sourcing loans (based on SINAA – solicitation, investigation, negotiation, approval and administration); new receipts factor rules for sourcing ATM fees, merchant discounts, and trust account fees; and revisions to the receipts factor rule that requires use of "cost of performance" for sourcing any receipts not otherwise specified. The Subcommittee agreed with the Work Group's conceptual recommendations, and directed the Work Group to draft amendments accordingly. The Work Group completed a draft of recommended changes to the receipts factor, which the Subcommittee has reviewed, amended, and preliminarily approved. The Work Group has now begun drafting amendments to the property factor – in particular, the sourcing of loans using the "SINAA" approach. When the property factor provision is complete, the Subcommittee will consider the proposal as a whole.

5. ***Combined Reporting Tax-Haven Provisions, Amendment.*** The MTC model combined reporting statute requires world-wide combination but allows a water's-edge election. The election limits the combined group to domestic, and some foreign, unitary affiliates. At the request of Organization for International Investment and a number of jurisdictions that had been identified as "tax havens" by the OECD, the Executive Committee requested the Uniformity Committee consider whether to review three water's-edge provisions. The Uniformity Committee determined it should initiate a project on one of the three, the Tax-Haven provisions. A draft model amendment was approved by the Subcommittee in December, 2010. The Executive Committee approved the proposal for public hearing in March, 2011. The hearing was held, and the Hearing Officer's report and recommendations were presented to the Executive Committee, which recommended approval of the proposal to the Commission. The matter passed a bylaw 7 survey and has been placed on the Commission's agenda.

Financial Statements and
Report of Independent Certified Public Accountants

MULTISTATE TAX COMMISSION

Financial Statements and Report of Independent Certified Public Accountants

For the Years Ended June 30, 2011 and 2010

LSWG
Linton Shafer Warfield & Garrett, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

MULTISTATE TAX COMMISSION
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June 30, 2011 and 2010

LSWG
Linton Shafer Warfield & Garrett, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

JENNIFER P. CLINGAN, CPA
EDWARD T. GARRETT, CPA
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DOUGLAS C. WARFIELD, CPA, CVA

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, 2011 and 2010 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, 2011 and 2010, 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 & Garrett

November 8, 2011

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MULTISTATE TAX COMMISSION

LIABILITIES

	2011	2010
Current Liabilities		
Accounts payable	$ 23,348	$ 70,870
Payroll taxes withheld and accrued	37,189	32,128
Accrued salaries and vacation pay	353,033	331,719
Deferred assessments and audit reimbursements	463,659	488,078
Total Current Liabilities	877,229	922,795
TOTAL LIABILITIES	877,229	922,795
Commitments and Contingencies - Note 3		
Fund Balances		
Unappropriated	2,787,182	2,674,348
Appropriated	648,976	490,714
Restricted	1,054,268	947,302
Total Fund Balances	4,490,426	4,112,364
TOTAL LIABILITIES AND FUND BALANCES	$ 5,367,655	$ 5,035,159

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,

	2011	2010
Revenue - Unappropriated and Appropriated		
Assessments	$ 5,436,148	$ 5,380,022
Interest	144,274	90,040
Realized gain (loss) on investments	(45)	1,021
Unrealized gain on investments	20,878	70,377
Other income		
Training fees	147,839	90,794
Miscellaneous	5,197	18,865
Total Revenue	5,754,291	5,651,119
Expenses - Unappropriated and Appropriated		
Accounting	16,854	17,491
Bonds and insurance	16,716	19,556
Conferences and training schools	93,147	106,262
Depreciation and amortization	81,118	82,458
Bond amortization	66,389	25,108
Employee benefits	957,346	869,166
Miscellaneous	15,861	13,392
Consumable supplies	63,459	26,886
Postage	23,171	25,801
Printing and duplicating	23,276	22,671
Professional services	193,306	210,409
Publications and electronic resources	32,657	30,374
Rent	241,407	234,725
Repairs and maintenance	11,754	9,619
Retirement plan	386,845	394,137
Salaries	3,153,434	3,166,641
Software licenses	11,440	15,747
Staff training	7,658	5,228
Subscriptions, publications, dues	33,650	38,951
Telephone	49,227	56,861
Travel	205,490	234,683
Allocation of administrative expenses	(114,454)	(113,136)
Total Expenses	$ 5,569,751	$ 5,493,030

(continued)

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

	2011	2010
Excess of Revenue Over Expenses prior to Other Income and Expenses	$ 184,540	$ 158,089
Other Income		
TaxNet dissolution income	86,556	-
Excess of Revenue Over Expenses	271,096	158,089
Transfer to Appropriated Fund Balance	(158,262)	(17,500)
Transfer from Restricted Fund Balance	-	-
Total Amount Transferred	(158,262)	(17,500)
FUND BALANCE - Unappropriated - Beginning of Year	2,674,348	2,533,759
FUND BALANCE - Unappropriated - End of Year	$ 2,787,182	$ 2,674,348

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

Equipment Reserve	Enterprise Automation Project	Nexus Activities	Membership Development and Relations	Total
$ 17,500	$ 287,795	$ 90,000	$ 28,855	$ 473,214
17,500	-	-	-	17,500
17,500	-	-	-	17,500
35,000	287,795	90,000	28,855	490,714
(28,294)	100,000	-	-	158,262
(28,294)	100,000	-	-	158,262
$ 6,706	$ 387,795	$ 90,000	$ 28,855	$ 648,976

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	Total
Fund Balance - June 30, 2009	$ 42,694	$ 759,790	$ 802,484
Revenue	-	791,130	791,130
Expenses	-	646,312	646,312
Excess of Revenue Over Expenses	-	144,818	144,818
Fund Balance - June 30, 2010	42,694	904,608	947,302
Revenue	-	770,521	770,521
Expenses	-	663,555	663,555
Excess of Revenue Over Expenses	-	106,966	106,966
Transfer to Unappropriated Fund Balance	-	-	-
Fund Balance - June 30, 2011	$ 42,694	$ 1,011,574	$ 1,054,268

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Cash Flows
For the Years Ended June 30,

	2011	2010
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	$ 378,062	$ 302,907
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	86,054	86,312
Bond amortization	66,389	25,108
Loss on disposal of property and equipment	10,287	358
Unrealized loss (gain) on investments	(20,878)	(70,377)
Realized gains on sale of investments	45	(1,021)
Changes in assets and liabilities		
Accounts receivable		
Schools	14,064	(33,184)
Fees	103,860	(136,725)
Prepaid expenses and accrued interest	(8,299)	(8,522)
Expense account advances	-	400
Deposits	-	478
Accounts payable	(47,522)	56,502
Payroll taxes withheld and accrued	5,061	(344)
Accrued salaries and vacation pay	21,314	(14,713)
Deferred assessments and audit reimbursements	(24,419)	194,673
Net Cash Provided by Operating Activities	584,019	401,852
Cash Flows From Investing Activities		
Purchase of property and equipment	(103,368)	(85,015)
Proceeds from sale of property and equipment	3,766	-
Purchase of investments	(1,081,158)	(1,850,934)
Proceeds from sale of investments	308,058	200,000
Payments on capital lease	-	(4,417)
Net Cash Used in Investing Activities	(872,702)	(1,740,366)
Net Increase (Decrease) in Cash and Cash Equivalents	(288,683)	(1,338,514)
Cash and Cash Equivalents - Beginning of Year	1,508,621	2,847,135
Cash and Cash Equivalents - End of Year	$ 1,219,938	$ 1,508,621
Supplemental Disclosures		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ 114

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

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 lst of each year (unless other specific arrangements are made with a State) 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.

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.

Fair Value

Financial Accounting Standards Board (FASB) Codification Standards defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements and establish a hierarchy for valuation inputs.

Fair value is the price that would be received to sell an asset of paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset of transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income of cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 - inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

- Level 2 - inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 - inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

2. Retirement Plan

Effective June 30, 1986, the Commission adopted a defined contribution plan to be funded at a rate of 12.4% 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, 2011 and 2010 was $419,059 and $424,945, respectively.

3. Commitments

The Commission rents its office facilities in Washington, D.C., New York, and Illinois under lease agreements with terms expiring on various dates through December 31, 2016. These leases provide for the following minimum annual base rentals exclusive of utility charges and certain escalation charges:

Fiscal Year Ended:	Minimum Annual Payment
2012	$ 341,773
2013	311,717
2014	203,993
2015	48,474
2016	24,492

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, 2011 and 2010 was $383,528 and $377,804, 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 $714,298 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.

4. Appropriated Fund Balances (continued)

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 multi state taxpayers as approved by the Executive Committee or Commission.

The Commission's executive committee authorized the Federalism at Risk fund in the amount of $120,000 during the year ended June 30, 2002. The purpose of this fund is to provide support for an inquiry to assess the status of state and local tax systems. This inquiry culminated in a written report published in 2003.

The Commission's executive committee authorized the Equipment Reserve fund in the amount of $17,500 during the year ended June 30, 2009. An additional $30,000 has been authorized in subsequent years. The purpose of this fund is to provide support for purchases of computer equipment for the Commission's audit program and information technology department.

The Commission's executive committee authorized the Federal Tax Information Data Sharing Initiative fund in the amount of $86,556 during the year ended June 30, 2011. The purpose of this fund is to establish and monitor the operation of the Commission as an agent and representative of those states requesting contractor services with respect to federal tax information (FTI).

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, a liability resolution process, and information sharing among member states. 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.

On December 30, 2010, the TaxNet Governmental Communications Corporation was dissolved. The Commission received $86,556 for their share of the organization assets. This amount is shown as other income on the Statement of Revenue and Expenses and Changes in Fund Balance - Unappropriated Funds.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2011 and 2010

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 trusteed and thus shielded against the claims of the creditors of the Commission and therefore, not included in these financial statements.

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 one investment options or a combination thereof. The participants make the choice of the investment option(s).

8. Investments

The following is a summary of investments along with their respective fair values, all of which are considered level one:

	Cost 2011	Market 2011	Cost 2010	Market 2010
Investments				
Certificates of deposit	$ -	$ -	$ 258,058	$ 258,058
Mutual funds	253,568	252,335	-	-
US Government and Agency securities	3,258,634	3,349,739	2,546,796	2,616,473
Total Investments	$ 3,512,202	$ 3,602,074	$ 2,804,854	$ 2,874,531

The Commission invests in a professionally managed portfolio that contains mutual funds. Such investments are exposed to various risks such as interest rates, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

9. 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.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2011 and 2010

10. 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.

11. Concentration of Credit Risk

The Commission maintains cash balances in two banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at each bank. The Commission has a collateral agreement with one bank to cover amounts uninsured by FDIC. At June 30, 2011 and 2010, there were uninsured cash balances of $26,876 and $18,186, 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.

12. Subsequent Events

Management has evaluated subsequent events through November 8, 2011, the date that the financial statements were available to be issued.

Appropriated Fund Balances
On July 28, 2011 the Executive Committee approved the elimination of the Nexus activities, membership development and relations, Federalism at risk and State tax compliance appropriated funds with the transfer of these fund balances into the Enterprise Automation project appropriated fund.

SUPPLEMENTARY INFORMATION

Linton Shafer Warfield & Garrett, P.A.
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Report of Independent Certified Public Accountants on Supplementary Information

Executive Committee
Multistate Tax Commission

We have audited the financial statements of Multistate Tax Commission as of and for the year ended June 30, 2011, and have issued our report thereon dated November 8, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

November 8, 2011

Linton Shafer Warfield & Garrett

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MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2011

	Unappropriated and Appropriated Funds					Restricted Funds		
	General Expenses	Audit Program	Administrative Expenses	Training and Education	Total Unappropriated and Appropriated Funds	National Nexus Program	Total Restricted Funds	Total All Funds
Accounting	$ 10,500	$ -	$ 6,354	$ -	$ 16,854	$ -	$ -	$ 16,854
Bonds and insurance	-	-	16,716	-	16,716	-	-	16,716
Conferences and training schools	71,172	5,046	133	16,796	93,147	4,235	4,235	97,382
Depreciation and amortization	-	5,379	75,739	-	81,118	4,936	4,936	86,054
Bond amortization	66,389	-	-	-	66,389	-	-	66,389
Employee benefits	209,494	559,690	170,585	17,577	957,346	81,580	81,580	1,038,926
Miscellaneous	1,454	4,278	7,411	2,718	15,861	47	47	15,908
Consumable supplies	7,946	28,391	24,620	2,502	63,459	1,053	1,053	64,512
Postage	3,570	12,090	5,971	1,540	23,171	5,239	5,239	28,410
Printing and duplicating	8,190	2,055	706	12,325	23,276	-	-	23,276
Professional services	179,242	-	11,184	2,880	193,306	-	-	193,306
Publications and electronic resources	4,521	10,449	17,305	382	32,657	-	-	32,657
Recruitment	-	-	-	-	-	4,999	4,999	4,999
Rent	33,764	88,732	118,911	-	241,407	142,121	142,121	383,528
Repairs and maintenance	-	392	11,362	-	11,754	-	-	11,754
Retirement plan	97,673	223,517	59,012	6,643	386,845	32,214	32,214	419,059
Salaries	816,487	1,799,059	484,314	53,574	3,153,434	259,297	259,297	3,412,731
Software licenses	-	1,208	10,232	-	11,440	-	-	11,440
Staff training	1,828	-	5,830	-	7,658	1,212	1,212	8,870
Subscriptions, publications, dues	18,613	10,580	3,231	1,226	33,650	3,893	3,893	37,543
Telephone	16,184	20,796	11,684	563	49,227	3,058	3,058	52,285
Travel	69,225	99,808	15,920	20,537	205,490	5,217	5,217	210,707
Allocation of administrative expenses	325,978	616,788	(1,057,220)	-	(114,454)	114,454	114,454	-
Total Expenses	$ 1,942,230	$ 3,488,258	$ -	$ 139,263	$ 5,569,751	$ 663,555	$ 663,555	$ 6,233,306