Multistate Tax Commission

Multistate Tax Commission

Annual Report
FY11-12

Message from the Director

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

As this Annual Report "goes to press" – a phrase that has greatly shifted in meaning in our digital age, but one still apt for an annual "publication" – the Commission is approaching the end of its second year of strategic planning. The process that started in the spring of 2010 has already had a positive effect in the Commission's engagement of your tax administrators and now wends its way through projects designed to improve the Commission's marquee compliance effort, the Joint Audit Program. But I want to call your attention to the groundwork that undergirds these results and projects, and the projects that we'll pick up next.

As a result of the strategic planning process, and drawing on input from states, tax practitioners, industry, and others interested in the issues of state and local taxation of multistate and multinational businesses, the Commission's longstanding mission was reformulated: The Multistate Tax Commission is an intergovernmental state tax agency whose mission is to achieve fairness by promoting compliance and consistent tax policy and practice, and to preserve the sovereignty of state and local governments over their tax systems.

Also out of this process, a vision for the Commission coalesced: That before the end of this decade, the MTC will be recognized as the "gold standard" for tax policy development, the primary authority for the public and public officials on issues of state and local tax uniformity and fairness, and the leading resource for ensuring equitable tax compliance.

I am committed to achieving this vision, but I ask for your input and support as the Commission works to achieve it. This Annual Report of the Multistate Tax Commission – by nature, a backward looking review of the Commission's activities for the fiscal year beginning July 1, 2011 and ending June 30, 2012 – will provide you with background information that will be helpful to you in providing us that input and support. I look forward to hearing from you.

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 27, 2011, in Whitefish, Montana.

The Commission took the following actions during July 1, 2011 to June 30, 2012:

- Approved the Commission Budget for 2011-2012.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Adopted the *Model Statute for Disallowance of Deductions for Certain Payments to Captive Real Estate Investment Trusts*.
- Adopted the *Model Mobile Workforce Statute*.
- Adopted an amendment to the *Model Statute for Combined Reporting*, Section 1.I. – Definition of "Tax Haven" for Purposes of Water's Edge Election Model Regulation IV.18.(A).
- Adopted Policy Statement 01-2011, *in Support of Telecommunications Reform*.
- Adopted Policy Statement 02-2011, *in Support of Maintaining the Integrity of State Tax Appeals Systems*.
- Adopted Policy Statement 03-2011, *in Support of Maintaining the Integrity of Property Tax Appeals Systems*.
- Adopted Resolution 01-2011, *in Support of and Appreciation for the Work of the Congressional Budget Office*.
- Adopted Resolution 02-2011, *Renewing the Commitment of MTC Member States to Voluntary State Tax Uniformity*.
- Adopted Resolution 03-2011, *Resolution in Support of and Appreciation of the Uniformity and Interstate Cooperation Projects of the Federation of Tax Administrators*.
- Elected Cory Fong, Tax Commissioner, North Dakota, as Chair.
- Elected Alana M. Barragán-Scott, Director, Missouri Department of Revenue, as Vice Chair.
- Elected Julie P. Magee, Revenue Commissioner, Alabama, as Treasurer.
- Elected Kristine Cazadd, Interim Executive Director, California State Board of Equalization; Robert Geddes, Chairman, Idaho Tax Commission; Andy Dillon, Michigan State Treasurer; and Susan Combs, Texas Comptroller of Public Accounts, as at-large members of the Executive Committee.

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

Multistate Tax Compact States

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

Executive Committee Report

MTC Officers FY11-12

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

Alana M. Barragán-Scott, *Vice-Chair*
Director
Missouri Department of Revenue

Julie P. Magee, *Treasurer*
Commissioner
Alabama Department of Revenue

The Executive Committee met four times during the period July 1, 2011, to June 30, 2012:

- July 28th in Whitefish, Montana
- December 9th in Charleston, South Carolina
- March 1st via teleconference
- May 10th in Washington, D.C.

The meetings were regular meetings through which the committee provided oversight and direction to the activities of the Commission.

The following members of the Commission were elected to serve as Commission officers and members of the Executive Committee for fiscal year 2012:

- Chairman: Cory Fong (North Dakota)
- Vice Chairman: Alana M. Barragán-Scott (Missouri)
- Treasurer: Julie P. Magee (Alabama)
- At-large: Kristine Cazadd (California State Board of Equalization), Susan Combs (Texas), Andy Dillon (Michigan), and Bob Geddes (Idaho).

In February, Bob Geddes resigned from the Idaho State Tax Commission. The Chair informed the members of the committee at its May meeting that with only two months left in the fiscal year and no further planned Executive Committee meetings, the vacancy would be filled with the election of new officers and committee members at the Commission's Annual Meeting on August 1, 2012.

The Executive Committee took the following actions during fiscal year 2012:

- Approved the transfer of residual fund balances in the Nexus Activities, Membership Development and Relations, Federalism at Risk, and State Tax Compliance funds into the Enterprise Automation Fund.

- Referred a Model Statute Regarding Partnership or Pass-Through Entity Income That Is Ultimately Realized by an Entity that is Not Subject to Income Tax back to the Uniformity Committee with the direction that the committee should identify alternate approaches that could solve the problem identified by the Commonwealth of Massachusetts, and consider suggestions from the states and other interested parties.

- Held a strategic planning session at which an environmental scan was conducted so that the committee could provide input on the Commission's strengths, weaknesses, opportunities and threats.

- Approved August 1st as the date for the Commission's annual meeting in 2012.

- Approved the audited financial statements as reported in an independent auditor report for fiscal year July 1, 2010 – June 30, 2011.
- Referred a Model Sales & Use Tax Notice and Reporting proposal back to the Uniformity Committee for further consideration.
- Referred a proposal for Recommended Amendments to Compact Article IV Section 17 and 1(g) back to the Uniformity Committee for further consideration.
- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding a proposed Model Statute on the Tax Collection Responsibilities of Accommodations Intermediaries, as amended by the committee.
- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding proposed Model Statutes for Telecommunications Transaction Tax Centralized Administration.
- Approved the proposed 2012-2013 budget for the Commission.
- Recommended the Commission consider proposed Model Statutes for Telecommunications Transaction Tax Centralized Administration, as amended by the committee, resulting in a bylaw 7 survey of affected members to determine if they would consider the proposal.
- Recommended the Commission consider a proposed Model Statute on the Tax Collection Responsibilities of Accommodations Intermediaries, resulting in a bylaw 7 survey of affected members to determine if they would consider the proposal.
- Took no action but retained a Model Sales & Use Tax Notice and Reporting proposal pending the final resolution of litigation in Colorado.
- Took no action but retained five recommended amendments to Compact Article IV to allow more time for states, as well as stakeholders, to examine these revisions to Article IV.

The Executive Committee undertook additional actions during fiscal year 2012 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 2011-2012 fiscal year.

AUDIT COMMITTEE

The audit committee met three times in fiscal year 6/12. They first met on July 26, 2011 in Whitefish, Montana. There were 47 members, guests and staff present at the meeting. There were 41 individuals representing 20 audit program states present. 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 9 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 audit committee also participated in the SWOT discussion chaired by Elizabeth Harchenko.

A follow up discussion on improving the audit program was held during the audit committee meeting. The audit committee formed a small sub-committee to further explore ways to improve the audit program. This sub-committee met on September 27 and October 19 to develop recommendations to the audit committee.

The audit committee met a second time via a teleconference on November 16, 2011. There were 43 members, staff and members of the public present at the meeting. There were 33 individuals representing 22 audit program states present. The main topic during the public session was to approve the recommendations forwarded by the sub-committee on ways to improve the audit program. The public session was adjourned and a new teleconference call was established for the closed session. There were 39 members and staff present for the closed session. The audit committee reviewed the status of all the audits in progress. A discussion was held on 12 income tax and 5 sales tax audits that had significant issues. The audit committee expressed its satisfaction with the status of the audits in progress. The audit committee also selected 11 companies for the MTC income tax program.

The audit committee met for a third time in Nashville Tennessee on March 8, 2012. There were 36 members present or attended via a teleconference representing 21 states.

The audit committee reviewed the status of all the audits in progress. A discussion was held on 14 income tax and 5 sales tax audits that had significant issues. The audit committee expressed its satisfaction with the status of the audits in progress.

The audit committee held a lengthy discussion on revamping the audit selection criteria for both income and sales tax. The audit director prepared a draft for each tax. The audit committee recommended many revisions and asked the audit director to reflect these changes. The audit director will make changes and the committee will review and approve at a special meeting.

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

AUDIT PROGRAM

Productivity

Audit Program completed 4 and parts of 8 income tax audits for fiscal year end 6/12. The Audit Program also completed 5 sales tax audits and parts of 8 other audit for the same period. There are 20 income and 32 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 $110,878,008 for income tax and $6,990,376 for sales tax.

Staffing

The MTC hired 2 income tax auditors, who began work in February, 2012. One auditor, Nick Polimeros was hired for the New York Office and Bill LoCascio for the Chicago office.

Training

Cathy Felix and Les Koenig participated as instructors in an income tax course in Wisconsin in September, 2011 and Cathy and Jeff Silver conducted training in West Virginia. Also, Harold Jennings and Bob Schauer participated in a sampling class in New Mexico in September 2011 and Chicago in March 2012 in Chicago.

TRENDS IN PRODUCTIVITY
MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/96- 6/12

	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	6/12
Income Tax Total Audits	9	10	9	7	10	8	7	8	7	7	9	7	7	3	6	6	4
Total States Audited	111	152	120	186	251	131	166	165	266	196	175	141	209	79	152	309	131
Total Hours	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649	11937
Average Hours Per State	**68**	**81**	**83**	**55**	**52**	**66**	**57**	**64**	**45**	**64**	**72**	**66**	**84**	**81**	**69**	**83**	**91**
Sales Tax Total Audits	13	14	10	16	11	14	13	11	10	11	6	15	9	10	12	5	5
Total States Audited	123	143	97	184	102	158	159	145	154	160	77	187	97	120	147	65	59
Total Hours	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200	5000
Average Hours Per State	**79**	**79**	**80**	**40**	**89**	**75**	**56**	**61**	**71**	**38**	**64**	**71**	**80**	**61**	**73**	**110**	**85**
Total Both Taxes Total Audits	22	24	19	23	21	22	20	19	17	18	15	22	16	13	18	11	9
Total States Audited	234	295	217	370	353	289	325	310	420	336	252	328	306	199	299	374	190
Total Hours	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849	16937
Average Hours Per State	**74**	**80**	**82**	**48**	**63**	**71**	**56**	**62**	**55**	**56**	**70**	**69**	**83**	**69**	**71**	**88**	**89**

Litigation Committee Report

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.

In-Person Meetings

The litigation committee met on July 25 and 26, 2011, in Whitefish, Montana, with twenty-six representatives from fourteen states in attendance. The Committee topics included a staff report on recent U.S. Supreme Court activity affecting state taxation and sovereignty, after which the meeting was adjourned so that members could attend the Informational and Training Session for State Tax Attorneys, where attendees heard presentations on topics relevant to multistate litigation. The litigation committee also met with the uniformity committee for a strategic planning session on Tuesday, July 26, 2011.

The next in-person meeting was held March 8 and 9, 2012 in Nashville, Tennessee, with 24 attorneys from 16 states in attendance. After a staff report on U.S. Supreme Court activity and a video-link presentation from John Coalson of Alston & Bird, LLP on unclaimed property tax laws, the Committee adjourned so those in attendance could join the Informational and Training Session for State Tax Attorneys.

State Tax Attorney Teleconferences

We continue to host our series of state tax attorney teleconferences. These teleconferences are information and training sessions that provide a forum for state attorneys general and revenue department attorneys to hear presentations on significant legal developments in state tax law. Most calls have been well attended with approximately 35 states, and well over 50 attorneys. Teleconferences were held:

- August 30, 2011
- September 7, 2011
- October 3, 2011
- December 10, 2011
- February 16, 2012
- May 17, 2012

Paull Mines Award

In July, 2011, Ted Spangler, Retired Deputy Attorney General for the State of Idaho, was presented with the fourth annual Paull Mines Award for Contribution to State Tax Jurisprudence. In October 2011, Mr. Spangler's long and illustrious career with Idaho and association with the MTC was the subject of an article in State Tax Notes.

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

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 during the first three quarters of fiscal year 2012. It does not contain confidential taxpayer information.

Committee Activities

The committee met on July 26, 2011 in Whitefish, Montana. The committee spent most of its open session time at its July meeting participating in SWOT strategic planning. It met again in Nashville, Tennessee on March 8, 2012.

At each 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 Commission's National Nexus Program collected* fiscal year 2012:

    - **$12,547,433** on behalf of Nexus member states
    - **$15,246,349** on behalf of all states

    The Commission has historically collected on behalf of non-member states in order to increase the multi-state voluntary disclosure program's usefulness to taxpayers seeking a one-stop, uniform process.

- Multi-state Voluntary Disclosure **Rules of Procedure**: the Nexus-Committee-approved uniform rules of procedure for multi-state voluntary disclosure have been in force for almost two years. They have improved consistency of treatment of similarly situated taxpayers as well as allowed taxpayers to order their affairs with advance notice of how the Commission and states address certain common situations, such as eligibility, confidentiality, and deadlines. They have decreased time to completion of disclosures.

    The committee discussed and approved staff-suggested amendments to the rules, which were generally administrative and clarifying. The only substantive change was to bring the rules into compliance with most state laws that require information exchange among states. The rules formerly prohibited all information exchange related to the identity of a voluntary disclosant.

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* The annual collection amounts include only back tax actually collected (cash basis). They 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, nor does it include the value of future tax payments from a newly-compliant taxpayer, which is usually also substantial.

The committee also noted and discussed a staff report that voluntary disclosure staff (usually not the same person as the Nexus Committee member) are sometimes unfamiliar with the approved rules of procedure and request agreement terms that conflict with them. The rules bind all Nexus member states except when a state affirmatively requests different treatment, which is footnoted in the rules.

The committee discussed at its March 8 meeting staff's background report on nexus issues related to cloud computing. Committee members discussed their states' approaches and the relative merits of each.

Training Program Report

Ken Beier
Director, MTC Training Program

The Commission training program reached 380 participants during the year. This includes 219 participants at six in-person training courses, the 2011 Annual Conference in Whitefish, Montana, and an online seminar on pass-through entities. Details on events from the past year and scheduled for the coming year follow.

Courses Offered in 2011-2012

The following MTC courses were offered during the year:

Corporate Income Tax

September 19-22, 2011 in Madison, Wisconsin for 33 students
April 10-12, 2012 in Charleston, West Virginia for 34 students

Nexus School

October 26-27, 2011 in Little Rock, Arkansas for 37 students
April 25-26, 2012 in Jefferson City, Missouri for 41 students

Statistical Sampling for Sales and Use Tax Audits

March 26-29, 2012 in Chicago, Illinois for 17 students
May 27-31, 2012 in Denver, Colorado for 31 students

Computer Assisted Audit Training Using Excel and Basic Random Sampling

(Combined course)
August 22-25, 2011 in Albuquerque, New Mexico for 26 students

All participants for these courses were state and local government personnel, except for the statistical sampling course in Chicago, where 2 of the attendees were from the private sector.

In addition, the training program supported the following events:

- Annual Conference in Whitefish, Montana for 80 participants
- Online Seminar -- Pass-Through Entities--Income Tax Implications for the States for 81 participants on May 16, 2012.

Courses Schedule for 2012-2013

The following courses are currently scheduled:

Corporate Income Tax

October 1-4, 2012, Helena, Montana
January 2013, Honolulu, Hawaii (tentative)

Nexus School

September 19-20, 2012, St. Paul, Minnesota
December 11-12, 2012 Salt Lake City, Utah (tentative)

Statistical Sampling for Sales and Use Tax Audits

August 27-30, 2012, Albuquerque, New Mexico (this course is full)
October 1-4, 2012, 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. We expect to add registration for live online training courses in the near future. The Commission also certifies attendance for CLE credit at Commission sponsored events.

Online Registration

Online registration for MTC training courses and other Commission events is now using the CVENT event management services. This system also processes credit card payments.

Training Fees and Host State Credit

The Commission has increased in-person per person course fees, to support the cost of the CVENT event management services, in the following amounts:

Compact / Sovereignty	$15
Program	$20
Other States	$25
Private Sector	$25

The new fees will be effective for all courses that start after October 4, 2012. This is the first change in fees since 2007-2008 and is consistent with Executive Committee policy that sets training fees at their full estimated average cost per student with additional charges for states that participate to a lesser degree in financing general operations of the Commission.

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.

Uniformity Committee Report

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

The Multistate Tax Commission develops model laws – statutes and regulations - that states may consider adopting. Proposed model laws may be suggested by our Executive Committee, any of our standing committees, a single state, a taxpayer, taxpayer groups, or any other members of the public.

Once members have identified a model that they would like to develop, the initial drafting process takes place in our Uniformity Committee. All Committee meetings and teleconferences are open to the public and public participation is encouraged. The Commission's Uniformity Committee is chaired by Wood Miller, Missouri Department of Revenue. Its 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. 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 Uniformity Committee meets three times during the year in person and six or more times during the year by teleconference. Drafting groups associated with various uniformity projects meet regularly by teleconference, some as frequently as weekly.

Currently before the Commission:

1. Model Statutes for the Collection and Remittance of Lodging Taxes by Accommodations Intermediaries
2. Model Statutes for Communications Transaction Tax Centralized Administration

Currently before the Executive Committee:

1. UDITPA related amendments for corporate income tax apportionment
    - Sales factor sourcing for services and intangibles
    - Definition of "sales"
    - Factor Weighting
    - Definition of Business Income
    - Section 18 Distortion Relief
2. Sales and Use Tax Notice and Reporting

Under development at the Uniformity Committee:

Income & Franchise Tax

1. Partnership or Pass-Through Entity Income Ultimately Realized by an Entity That Is Not Subject to Income Tax
2. Financial Institutions Apportionment, Amendment

Sales & Use Tax

1. Model Associate Nexus Statute (New York – style "Amazon law")
2. Protection of Communications Providers from Class Action Lawsuits
3. Communications Definition and Sourcing

Project Summaries

Currently Before the Commission

1. ***Model Laws on Communications Transaction Tax Centralized Administration.*** This project was requested by the telecommunications industry and has three goals. First, develop "best practices" models for centralize administration of local telecommunications transaction taxes under three 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, prepared draft statutes for Proposals I, II and III. These were approved by the Uniformity Committee in November, 2011 and in February, 2012 were approved by the Executive Committee for public hearing. Local government representatives had 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 had been invited to participate as well. The Executive Committee accepted the Hearing Officer's report and recommended the proposed models to the Commission and a Bylaw 7 survey. The proposed models passed the Bylaw 7 survey and are now before the Commission for potential adoption.

2. ***Model Statutes for the Collection and Remittance of Lodging Taxes by 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 requested the Uniformity Committee provide further recommendations. The Uniformity Committee surveyed states for additional input and ultimately added an alternative proposal to the recommended models. The Executive Committee approved both for a second public hearing. The hearing has been held and the Hearing Officer's report submitted. The Executive Committee accepted the Hearing Officer's report and recommended the proposed models, with further amendments, to the Commission. A Bylaw 7 survey was conducted and a majority of affected compact member states indicated they would consider the proposals if approved. The models are now before the Commission for potential adoption.

Currently Before the Executive Committee

1. ***Compact Art.IV [UDITPA] amendments.*** Article IV of the Multistate Tax Compact contains UDITPA virtually word for word. In July 2009, the Executive Committee directed the Uniformity Committee to begin drafting model amendments for five of its provisions: **section 17 sales factor numerator sourcing, definition "sales," 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 Uniformity Subcommittee, working with a drafting group, has recommended amendments for each of these five provisions. The Executive Committee began its consideration of whether to approve the models for public hearing in December, 2011, and asked for Uniformity Committee clarifications. Those clarifications were made and the Executive Committee took the matter up again in May, 2012. After discussion, the matter was held over for further consideration by the Executive Committee.

2. ***Sales and Use Tax Notice and Reporting.*** 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 associate nexus model is discussed below). The Subcommittee determined it would work first on the sales and use tax notice and reporting model. The resulting proposal 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. Sellers are also required to make annual reports to each such purchaser and an annual report to the state. De minimis exceptions and penalties are provided. 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 proposal was not placed on the Commission's agenda, however, because it had not passed the bylaw 7 survey at that

point. The proposal came back before the Executive Committee in December, 2011, and clarifications were requested. The Uniformity Committee made those clarifications and the Executive Committee took the matter up again in May, 2012. During that meeting, the Executive Committee voted to retain the proposal pending further discussion after the 10th Circuit has issued its opinion in *Direct Marketing Association v. Brohl,* D.C. No. 10-cv-01546-REB-CBS (10th Circuit).

Under Development at the Uniformity Committee

Income & Franchise Tax

1. ***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. 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. At the July meeting, the Executive Committee requested the Uniformity Committee work with industry on its alternative recommendations or amendments to the current recommendation and report back to the Executive Committee with a matrix of issues and options.

2. ***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.

Sales & Use Tax Uniformity Subcommittee

1. ***Associate Nexus Presumption.*** A first draft of this proposal was presented during the Uniformity Committee teleconference in October, 2011. That draft largely followed legislation first adopted in New York. A second draft has been prepared for the July 2012 meeting that also largely follows the New York legislation and includes aspects of the similar legislation adopted by California. The Subcommittee has benefited considerably from comments and input by representatives from New York and California.

2. ***Protection of Communications Providers from Class Action Lawsuits.*** This project was requested by the telecommunications industry. It was set aside so that work could be completed on models for Centralized Administration of Telecommunications Transaction Taxes (above). We are now ready to begin work on the project and the industry plans to provide a presentation to the Subcommittee in July.

3. ***Communications Definition and Sourcing.*** This project was requested by the telecommunications industry. It was set aside so that work could be completed on models for Centralized Administration of Telecommunications Transaction Taxes (above). We are now ready to begin work on the project and the industry plans to provide a presentation to the Subcommittee in July.

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, 2012 and 2011

LSWG

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

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

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, 2012 and 2011 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, 2012 and 2011, 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 10, 2012

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MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION
Balance Sheets
June 30,

ASSETS

	2012	2011
Current Assets		
Cash and cash equivalents	$ 1,574,744	$ 1,219,938
Accounts receivable		
Schools	47,120	22,700
Fees	225,000	114,900
Accrued interest	23,171	27,400
Prepaid expenses	71,300	48,684
Total Current Assets	1,941,335	1,433,622
Property and Equipment - at Cost		
Office furniture and equipment	709,622	688,577
Leasehold improvements	236,147	236,147
Less: accumulated depreciation and amortization	(680,353)	(606,130)
Property and Equipment - Net	265,416	318,594
Other Assets		
Investments	3,851,745	3,602,074
Expense account advances	7,600	7,200
Deposits	6,165	6,165
Total Other Assets	3,865,510	3,615,439
TOTAL ASSETS	$ 6,072,261	$ 5,367,655

LIABILITIES

	2012	2011
Current Liabilities		
Accounts payable	$ 58,607	$ 23,348
Payroll taxes withheld and accrued	-	37,189
Accrued salaries and vacation pay	352,225	353,033
Unearned membership, program and registration fees	470,275	463,659
Total Current Liabilities	881,107	877,229
TOTAL LIABILITIES	881,107	877,229
Commitments and Contingencies - Note 3		
Fund Balances		
Unappropriated	3,457,302	2,787,182
Appropriated	609,087	648,976
Restricted	1,124,765	1,054,268
Total Fund Balances	5,191,154	4,490,426
TOTAL LIABILITIES AND FUND BALANCES	$ 6,072,261	$ 5,367,655

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,

	2012	2011
Revenue - Unappropriated and Appropriated		
Assessments	$ 6,055,821	$ 5,436,148
Interest	155,062	144,274
Realized gain (loss) on investments	18,946	(45)
Unrealized gain (loss) on investments	(4,326)	20,878
Other income		
Training fees	166,634	147,839
Miscellaneous	17,202	5,197
Total Revenue	6,409,339	5,754,291
Expenses - Unappropriated and Appropriated		
Accounting	14,978	16,854
Bonds and insurance	16,371	16,716
Conferences and training schools	85,902	93,147
Depreciation and amortization	93,637	81,118
Bond amortization	74,483	66,389
Employee benefits	892,064	957,346
Miscellaneous	18,384	15,861
Consumable supplies	55,394	63,459
Postage	21,511	23,171
Printing and duplicating	17,455	23,276
Professional services	238,279	193,306
Publications and electronic resources	26,906	32,657
Recruitment	419	-
Rent	240,591	241,407
Repairs and maintenance	20,679	11,754
Retirement plan	405,056	386,845
Salaries	3,323,609	3,153,434
Software licenses	3,031	11,440
Staff training	13,147	7,658
Subscriptions, publications, dues	46,203	33,650
Telephone	56,212	49,227
Travel	238,316	205,490
Allocation of administrative expenses	(123,519)	(114,454)
Total Expenses	$ 5,779,108	$ 5,569,751

(continued)

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

	2012	2011
Excess of Revenue Over Expenses prior to Other Income and Expenses	$ 630,231	$ 184,540
Other Income		
TaxNet dissolution income	-	86,556
Excess of Revenue Over Expenses	630,231	271,096
Transfer (to) from Appropriated Fund Balance	39,889	(158,262)
Transfer from Restricted Fund Balance	-	-
Total Amount Transferred	39,889	(158,262)
FUND BALANCE - Unappropriated - Beginning of Year	2,787,182	2,674,348
FUND BALANCE - Unappropriated - End of Year	$ 3,457,302	$ 2,787,182

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,

	State Tax Compliance	Federalism At Risk	Federal Tax Information Data Sharing Initiative	Equipment Reserve	Enterprise Automation Project	Nexus Activities	Membership Development and Relations	Total
Fund Balance - June 30, 2010	$ 23,918	$ 25,146	$ -	$ 35,000	$ 287,795	$ 90,000	$ 28,855	$ 490,714
Transfer to Unappropriated Fund Balance	-	-	86,556	(28,294)	100,000	-	-	158,262
Net Amount Transferred (To) From Unappropriated Fund Balance	-	-	86,556	(28,294)	100,000	-	-	158,262
Fund Balance - June 30, 2011	23,918	25,146	86,556	6,706	387,795	90,000	28,855	648,976
Transfer from Unappropriated Fund Balance	(23,918)	(25,146)	(52,390)	12,500	167,920	(90,000)	(28,855)	(39,889)
Net Amount Transferred (To) From Unappropriated Fund Balance	(23,918)	(25,146)	(52,390)	12,500	167,920	(90,000)	(28,855)	(39,889)
Fund Balance - June 30, 2012	$ -	$ -	$ 34,166	$ 19,206	$ 555,715	$ -	$ -	$ 609,087

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, 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
Fund Balance - June 30, 2011	42,694	1,011,574	1,054,268
Revenue	-	761,346	761,346
Expenses	-	690,849	690,849
Excess of Revenue Over Expenses	-	70,497	70,497
Transfer to Unappropriated Fund Balance	-	-	-
Fund Balance - June 30, 2012	$ 42,694	$ 1,082,071	$ 1,124,765

The accompanying notes are an integral part of these statements.

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

	2012	2011
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	$ 700,728	$ 378,062
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	97,769	86,054
Bond amortization	74,483	66,389
Loss on disposal of property and equipment	-	10,287
Unrealized (gain) loss on investments	4,326	(20,878)
Realized (gain) loss on sale of investments	(18,946)	45
Changes in assets and liabilities		
Accounts receivable		
Schools	(24,420)	14,064
Fees	(110,100)	103,860
Prepaid expenses and accrued interest	(18,387)	(8,299)
Expense account advances	(400)	-
Accounts payable	35,259	(47,522)
Payroll taxes withheld and accrued	(37,189)	5,061
Accrued salaries and vacation pay	(808)	21,314
Deferred assessments and audit reimbursements	6,616	(24,419)
Net Cash Provided by Operating Activities	708,931	584,019
Cash Flows From Investing Activities		
Purchase of property and equipment	(44,591)	(103,368)
Proceeds from sale of property and equipment	-	3,766
Purchase of investments	(748,693)	(1,081,158)
Proceeds from sale of investments	439,159	308,058
Net Cash Used in Investing Activities	(354,125)	(872,702)
Net Increase (Decrease) in Cash and Cash Equivalents	354,806	(288,683)
Cash and Cash Equivalents - Beginning of Year	1,219,938	1,508,621
Cash and Cash Equivalents - End of Year	$ 1,574,744	$ 1,219,938
Supplemental Disclosures		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -

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 or 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 or 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. Defined Contribution 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 expense relating to the defined contribution plan for the years ended June 30, 2012 and 2011 was $438,972 and $419,059, 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 January 31, 2020. These leases provide for the following minimum annual base rentals exclusive of utility charges and certain escalation charges:

Fiscal Year Ended:	Minimum Annual Payment
2013	$ 388,530
2014	396,431
2015	404,487
2016	387,699
2017	370,563

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, 2012 and 2011 was $383,925 and $383,528, 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 $882,218 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. For the years ended June 30, 2012 and 2011 the Enterprise Automation fund balances were $555,715 and $387,795, respectively.

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. In 2012, the executive commission approved the transfer of these funds to the Enterprise Automation Project. For the years ended June 30, 2012 and 2011, the Nexus Activities fund balances were $90,000 and $0, respectively.

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. In 2012, the executive commission approved the transfer of these funds to the Enterprise Automation Project. For the years ended June 30, 2012 and 2011, the Membership Development fund balances were $28,555 and $0, respectively.

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. In 2012, the executive commission approved the transfer of these funds to the Enterprise Automation Project. For the years ended June 30, 2012 and 2011, the State Tax Compliance fund balances were $23,918 and $0, respectively.

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. In 2012, the executive commission approved the transfer of these funds to the Enterprise Automation Project. For the years ended June 30, 2012 and 2011, the Federalism at Risk fund balances were $25,146 and $0, respectively.

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 $42,500 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. For the years ended June 30, 2012 and 2011, the Equipment Reserve fund balances were $19,206 and $6,706, respectively.

4. Appropriated Fund Balances (continued)

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). For the years ended June 30, 2012 and 2011, the Federal Tax Information Data Sharing Initiative fund balances were $34,166 and $86,556, respectively.

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.

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 approximately twenty 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 2012	Market 2012	Cost 2011	Market 2011
Investments				
Mutual funds	$ 868,954	$ 899,497	$ 253,568	$ 252,335
US Government and Agency securities	2,897,245	2,952,248	3,258,634	3,349,739
Total Investments	$ 3,766,199	$ 3,851,745	$ 3,512,202	$ 3,602,074

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.

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

For fiscal year ended June 30, 2012, the Commission maintains cash balances in one bank. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) on noninterest bearing transaction accounts in full through December 31, 2012. Accounts are insured on deposit accounts (money market) up to $250,000 at each bank. For the year ended June 30, 2012, there was an uninsured cash balance of $27,601.

For fiscal year ended June 30, 2011, the Commission maintains cash balances in two banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) on noninterest bearing transaction accounts in full through December 31, 2012. The Commission has a collateral agreement with one bank to cover amounts uninsured by FDIC. At June 30, 2011, there was an uninsured cash balance of $26,876. 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 10, 2012, the date that the financial statements were available to be issued.

Member Status for California

California repealed the Mulitstate Tax Compact effective July 1, 2012. While still considered an associate member state, California thus has no financial obligation to the Commission in accordance with Article VI.4(b) of the Compact (commonly referred to as the general membership assessment). In fiscal year ended June 30, 2012, California's general membership assessment was $539,833. This amount represented 8.4% of unappropriated and appropriated revenue in that fiscal year. Due to California's repeal of the Compact, the Commission has not budgeted any revenue from California for fiscal year ending June 30, 2013.

SUPPLEMENTARY INFORMATION

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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, 2012, and have issued our report thereon dated November 10, 2012, 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.

Linton Shafer Warfield & Garrett

November 10, 2012

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MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2012

	Unappropriated and Appropriated Funds						Restricted Funds		
	General Expenses	Audit Program	Federal Tax Information Data Sharing Initiative	Administrative Expenses	Training and Education	Total Unappropriated and Appropriated Funds	National Nexus Program	Total Restricted Funds	Total All Funds
Accounting	$ 11,000	$ -	$ -	$ 3,978	$ -	$ 14,978	$ -	$ -	$ 14,978
Bonds and insurance	-	-	-	16,371	-	16,371	-	-	16,371
Conferences and training schools	67,409	3,176	-	198	15,119	85,902	3,176	3,176	89,078
Depreciation and amortization	-	12,028	-	81,609	-	93,637	4,132	4,132	97,769
Bond amortization	74,483	-	-	-	-	74,483	-	-	74,483
Employee benefits	190,426	516,677	3,723	153,717	27,521	892,064	76,231	76,231	968,295
Miscellaneous	1,991	5,339	-	9,278	1,776	18,384	180	180	18,564
Consumable supplies	6,680	12,562	-	34,292	1,860	55,394	3,873	3,873	59,267
Postage	6,025	9,446	-	3,583	2,457	21,511	5,894	5,894	27,405
Printing and duplicating	788	3,829	-	3,888	8,950	17,455	724	724	18,179
Professional services	197,034	98	-	39,707	1,440	238,279	-	-	238,279
Publications and electronic resources	4,993	7,357	-	14,556	-	26,906	-	-	26,906
Recruitment	-	419	-	-	-	419	5,709	5,709	6,128
Rent	30,869	89,600	-	120,122	-	240,591	143,334	143,334	383,925
Repairs and maintenance	-	4,740	-	15,939	-	20,679	-	-	20,679
Retirement plan	100,947	234,032	-	61,482	8,595	405,056	33,916	33,916	438,972
Salaries	825,350	1,872,456	48,667	507,788	69,348	3,323,609	273,962	273,962	3,597,571
Software licenses	-	385	-	2,646	-	3,031	695	695	3,726
Staff training	2,679	-	-	10,468	-	13,147	1,338	1,338	14,485
Subscriptions, publications, dues	25,947	11,103	-	7,805	1,348	46,203	6,597	6,597	52,800
Telephone	13,915	27,954	-	13,883	460	56,212	2,880	2,880	59,092
Travel	83,511	107,449	-	20,058	27,298	238,316	4,689	4,689	243,005
Allocation of administrative expenses	360,377	637,472	-	(1,121,368)	-	(123,519)	123,519	123,519	-
Total Expenses	$ 2,004,424	$ 3,556,122	$ 52,390	$ -	$ 166,172	$ 5,779,108	$ 690,849	$ 690,849	$ 6,469,957