ANNUAL REPORT FY 2019

MTC

MULTISTATE TAX COMMISSION

www.mtc.gov

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MULTISTATE TAX COMMISSION

Multistate Tax Commission

ANNUAL REPORT FOR FISCAL YEAR 2019

(July 1, 2018 – June 30, 2019)

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Compact Members	Sovereignty Members	Associate & Program Members
Alabama*†	Georgia*†	Arizona†
Alaska*	Kentucky*†	California
Arkansas*†	Louisiana*†	Connecticut†
Colorado*†	Michigan†	Delaware*
District of Columbia*†	Minnesota†	Florida†
Hawaii*†	New Jersey*†	Illinois
Idaho*†	Rhode Island*†	Indiana
Kansas*†	West Virginia*†	Iowa*†
Missouri*†		Maine
Montana*†		Maryland*†
New Mexico*†		Massachusetts†
North Dakota*†		Mississippi
Oregon*†		Nebraska*†
Texas†		New Hampshire*†
Utah*†		New York
Washington*†		North Carolina†
		Ohio
		Oklahoma†
		Pennsylvania*
		South Carolina†
		South Dakota†
		Tennessee*†
		Vermont†
		Virginia
		Wisconsin*†
		Wyoming

*Joint Audit Program Member

†National Nexus Program Member

As of Aug. 1, 2019

Message from the Executive Director

I am pleased to present the 2019 Annual Report of the Multistate Tax Commission covering the activities of the Commission and its various committees and staff during the time period July 1, 2018, to June 30, 2019. This annual report presents a convenient compilation of reports presented to the Commission at its 52nd annual meeting and conference held in Boise, Idaho, in August, as well as the *Financial Statements and Report of Independent Certified Public Accountants for the Years Ended June 30, 2019 and 2018*.

The Multistate Tax Commission (MTC) 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. During this past year the Commission held its annual meeting in July of 2018 in Boston, Massachusetts, where our annual conference highlighted two topics having significant impact on states: the decision in *South Dakota v. Wayfair* and federal tax reform. We also recognized our distinguished and outstanding recipient of the 2018 Paull Mines Award for Contributions to State Tax Jurisprudence, Sheldon Laskin, former Counsel for the Commission and Director of the National Nexus Program.

Two uniformity projects were completed during the period covered by this report — amendments to the Commission's general allocation and apportionment regulation and a model statute for reporting to states federal partnership audit results and taxable income adjustments. The model reporting statute was a true collaboration among states, business and industry, and the tax practitioner community. This effort reflected the commitment we have to our vision to be recognized as the "gold standard" in the development of tax policy and be the primary authority for assuring uniformity and fairness in tax administration.

I ask for your continued input and support as the Commission continues to facilitate joint state efforts in these areas. The Annual Report of the Multistate Tax Commission — by nature, a backward look at the Commission's activities — will provide you with information that will be helpful to you in providing us that input and support. I look forward to hearing from you.

Respectfully,

Gregory S. Matson
Executive Director

Overview of Actions Taken by the Multistate Tax Commission

The Commission held the Annual Business Meeting, as required by Article VI of the Multistate Tax Compact, on July 25, 2018, in Boston, Massachusetts.

The Commission took the following actions during July 1, 2018, to June 30, 2019:

- Approved the Commission Budget for 2018-2019.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Adopted a *Model Uniform Statute for Reporting Adjustments to Federal Taxable Income and Federal Partnership Audit Adjustments* as a uniformity recommendation to the states.
- Adopted amendments to the Commission's Model General Allocation and Apportionment Regulation.
- Elected John L. Valentine, Commission Chair, Utah State Tax Commission, as Chair.
- Elected Keith Richardson, Deputy CFO for Tax and Revenue, District of Columbia Office of Tax and Revenue, as Vice Chair.
- Elected Glenn Hegar, Texas Comptroller of Public Accounts, as Treasurer.
- Elected Nia Ray, Director, Oregon Department of Revenue; Walter Anger, Deputy Director and Commissioner of Revenues, Arkansas Department of Finance and Administration; Ken Roberts, Chairman, Idaho State Tax Commission; and Joel Walters, Director, Missouri Department of Revenue, as at-large members of the Executive Committee.

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

Report of the Executive Committee

The Executive Committee met four times during the period July 1, 2018, to June 30, 2019:

- July 26, 2018, in Boston, Massachusetts;
- September 12, 2018, via teleconference;
- November 8, 2018, in Orlando, Florida; and
- April 26, 2019, in Denver, Colorado.

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 2019:

- Chair: John L. Valentine, Commission Chair, Utah State Tax Commission
- Vice Chair: Keith Richardson, Deputy CFO for Tax and Revenue, District of Columbia Office of Tax and Revenue
- Treasurer: Glenn Hegar, Texas Comptroller of Public Accounts
- At-Large: Nia Ray, Director, Oregon Department of Revenue; Walter Anger, Deputy Director and Commissioner of Revenues, Arkansas Department of Finance and Administration; Ken Roberts, Chairman, Idaho State Tax Commission; and Joel Walters, Director, Missouri Department of Revenue

On March 22, 2019, Joel Walters left the Missouri Department of Revenue, resulting in a vacancy in one of the four at-large positions on the Executive Committee. On April 26, 2019, Ken Roberts left the Idaho State Tax Commission, creating another vacancy in the at-large positions on the Executive Committee. With only a few months left in the fiscal year and no further planned Executive Committee meetings, the Chair determined that these vacancies would be filled with the election of new officers and committee members at the Commission's annual meeting on August 7, 2019.

The Executive Committee took the following actions during fiscal year 2019:

- Received the Uniformity Committee's recommendations with respect to the proposed Model Uniform Statute and Regulation for Reporting Adjustments to Federal Taxable Income and Federal Partnership Audit Adjustments and directed that a public hearing be held on the proposed amendments. The

Executive Committee considered the Hearing Officer's report on the proposed amendments, received public comments on the proposed amendments, and recommended consideration by the Commission, triggering the bylaw 7 survey process for these provisions.

- Received the Hearing Officer's report with respect to the proposed Model Sales and Use Tax Notice and Reporting Statute. The Executive Committee adopted his recommendation that after *South Dakota v. Wayfair*, the project be sent back to the Uniformity Committee and have that committee, in an expeditious manner, discuss any necessary revisions to the proposed model statute.

- Authorized current and future executive directors to sign an agreement with the Social Security Administration and any future modifications to the agreement.

- Received updates on the state impacts of federal tax reform and other pieces of federal legislation.

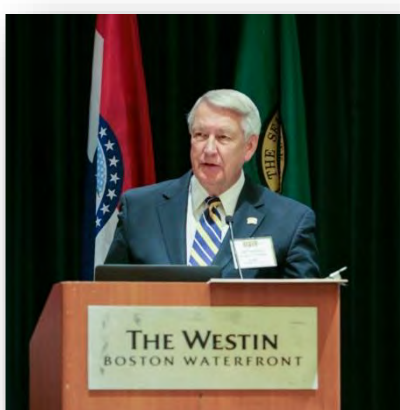
- Engaged in a discussion with the direct marketing industry on use tax collection issues.

- Reviewed the efforts and work of the Commission's standing committees during the year.

- Approved the audited financial statements as reported in an independent auditor report for the years ended June 30, 2018, and 2017.

- Approved a proposed fiscal year 2019 – 2020 budget for the Commission.

The Executive Committee undertook additional actions during fiscal year 2019 that are recorded in the minutes of its meetings.



Report of the Audit Committee

Frank Hales, Chair

Lee Baerlocher, Vice Chair

Audit Committee

The committee met three times in fiscal year 2019. The committee first met on July 23, 2018, in Boston, Massachusetts. There were 54 members, guests, and staff present during the public session and 50 members and staff present during the closed session of the meeting. There were 2 members of the public present during the public session and there were 42 individuals representing 20 audit program states present during the closed session of the meeting.

The committee also met on November 6, 2018, in Orlando, Florida. There were 61 members, guests, and staff present during the public session and 59 members and staff present during the closed session of the meeting. There were no members of the public present during the public session and there were 36 individuals representing 22 audit program states present during the closed session of the meeting.

The third and final meeting of the committee in fiscal year 2019 was in Denver, Colorado, on April 24, 2019. There were 46 members, guests, and staff present during the public session and 44 members and staff present during the closed session of the meeting. There were 2 members of the public present during the public session and there were 36 individuals representing 23 audit program states present during the closed session of the meeting.

At each meeting the committee reviewed the status of all audits, whether in progress or recently closed. Discussions were held on income tax and sales tax audits that had significant issues. MTC legal staff provided an update on state and local tax issues and cases at each meeting during this fiscal year. This legal update was new as a regular agenda item for the committee and well received by its members.

During the meeting in Denver, the committee approved changes to Step 2 in the audit nomination process. Step 2 allows member states to vote on audit candidates nominated by member states. Members of the committee felt such changes were necessary to ensure voting accurately measured member interest in each audit nomination. The changes included revising voting options, corresponding audit weight for each option, and some slight formatting changes.

During the meeting in Orlando, the committee reviewed and approved closure of a sales tax audit under the guidelines of the committee's early closure policy. The committee also reviewed and approved adding eight new corporate income tax audits into the MTC's audit inventory.

During the meeting in Boston, the committee discussed the Commission's use of subpoenas. While only used as a last resort of action, taxpayers should be informed upfront (at the beginning of audit) that we will use them should they fail to respond to our IDRs.

As is customary, the committee ended all of its meetings with a round table discussion regarding audit leads and issues that individual states are experiencing.

The committee will meet for the first time in fiscal year 2020 on August 5, 2019, during the MTC annual meetings held in Boise, Idaho.

Audit Program

Productivity

The Audit Program completed six corporate income tax audits and parts of twelve other corporate income tax audits for fiscal year 2019. The Audit Program also completed seven sales tax audit and parts of twenty-eight other sales tax audits in fiscal year 2019. Currently, there are twelve income and twenty-eight sales tax audits in progress.

The MTC Audit Program proposed assessments of $61,704,365 for the completed corporate income tax audits and $6,470,763 for the completed sales tax audits for fiscal year 2019.

Staffing

Fiscal year 2019 was a bitter sweet year for the Audit Program. At our spring meeting, we celebrated the years of service Keith Getschel, outgoing Director, provided to the Commission. Holly Coon from Alabama was his replacement. Big thanks to Keith for preparing her for the continued success of the Audit Program. We also bid farewell to Dan Keating, a Senior Income Tax Auditor, who notified us of his retirement in May 2019. While we are sad to see Keith and Dan leave the Commission, we are happy for them and wish them the very best in retirement.

However, we are excited about to the future of Audit Program and posted an announcement for a new corporate income tax auditor. We accepted applications through July 15, 2019, and we are in the process of conducting interviews to fill this position.

Training

The Joint Audit Program staff provided instruction at five trainings during the 2019 fiscal year.

- Computer Assisted Audit Techniques Using Excel
  July 11-12, 2018, in Hoover, Alabama
  Bob Schauer and Harold Jennings were the instructors for this class

- Statistical Sampling Class for Sales & Use Tax
  September 25-28, 2018, in Sioux Falls, South Dakota
  Bob Schauer and Jantha Jamison were the instructors for this class

- SITAS/Collaborative Audit Group Training (CAGT)
  March 4-5, 2019, in Peachtree City, Georgia
  Holly Coon (AL) and Larry Shinder were instructors at this training

- Corporate Income tax training
  March 18-22, 2019, in Ewing, New Jersey
  Jeff Silver and Larry Shinder were instructors at this training

- Statistical Sampling Class for Sales & Use Tax Audits
  June 11 -14, 2019, in Milwaukee, Wisconsin
  Bob Schauer and Jantha Jamison were the instructors for this class

The entire audit staff met in Boston, Massachusetts, May 20-23, 2019, to attend training on new and developing state tax issues and to promote camaraderie among the audit group. Instruction was provided by members of the audit and legal staff.

MULTISTATE TAX COMMISSION

TRENDS IN PRODUCTIVITY

MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS

6/2002- 6/2019

	6/02	6/03	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	6/13	6/14	6/15	6/16	6/17	6/18	6/19
Income Tax Total Audits	7	8	7	7	9	7	7	3	6	6	4	5	6	5	4	4	2	6
Total States Audited	166	165	266	196	175	141	209	79	152	309	131	150	103	79	64	76	35	113
Total Hours	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649	11937	12836	14413	11136	12893	7925	7469	28337
Average Hours Per State	**57**	**64**	**45**	**64**	**72**	**66**	**84**	**81**	**69**	**83**	**91**	**86**	**139**	**141**	**201**	**104**	**213**	**251**
Sales Tax Total Audits	13	11	10	11	6	15	9	10	12	5	5	12	6	4	11	8	6	7
Total States Audited	159	145	154	160	77	187	97	120	147	65	59	163	63	48	108	76	66	71
Total Hours	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200	5000	13195	6570	5121	18155	12267	8133	6307
Average Hours Per State	**56**	**61**	**71**	**38**	**64**	**71**	**80**	**61**	**73**	**110**	**85**	**81**	**104**	**106**	**168**	**161**	**123**	**89**
Total Both Taxes Total Audits	20	19	17	18	15	22	16	13	18	11	9	17	12	9	15	12	8	13
Total States Audited	325	310	420	336	252	328	306	199	299	374	190	313	166	127	172	152	101	184
Total Hours	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849	16937	26031	20983	16257	31048	20192	15602	36644
Average Hours Per State	**56**	**62**	**55**	**56**	**70**	**69**	**83**	**69**	**71**	**88**	**89**	**83**	**126**	**128**	**180**	**133**	**154**	**188**

Report of the Litigation Committee

Clark Snelson, Chair
Mark Wainwright and Donnita Wald, Co-Vice Chairs

The Litigation Committee held two in-person meetings in the fiscal year ended June 30, 2019. The committee's July 24, 2018 meeting may have set a record for in-person attendance, with more than 80 attendees and 26 states represented. The meeting was also webcast to numerous on-line participants. The meeting was structured to allow both in-person and on-line participants to obtain CLE credits. The keynote address entitled "Why States Should Tax GILTI", was given by acclaimed Tax Analysts contributing editor Lee Sheppard. The address sparked considerable discussion on state conformity to the 2017 Tax Cuts and Jobs Act's international tax provisions in the tax press in the following weeks.

The Litigation Committee met again on April 24, 2019, in Denver, Colorado. This meeting was also well-attended with attorneys from 18 states attending in-person and many more state attorneys participating via webcast. Once again, the meeting was structured to allow participants to claim CLE credits. Deputy General Counsel Lila Disque gave a presentation on recent decisions of and pending cases before the U.S. Supreme Court, followed by a presentation by Stephanie Do and Michael Hilkin of the Eversheds Sutherland law firm on how states should respond to the international tax provisions of the Tax Cuts and Jobs Act.

The committee, along with staff of the Commission, also works on training for attorneys that is provided in conjunction with Litigation Committee meetings and by phone.

Report of the Nexus Committee

Christy Vandevender, Chair
Randy Tilley, Vice Chair

The Nexus Program FY 2019 results (July 1, 2018, through June 30, 2019) are provided below.

- Nexus states' collections: $14,695,429 ($18,601,151 FY 2018)
- Non-Nexus states' collections: $48,892 ($0 FY 2018)
- Nexus states' executed agreements: 379 (3,087 FY 2018)
- Nexus states' average contract value: $38,774 (FY 2018: $6,026)

The above amounts include checks received by the Commission or amounts paid by the taxpayer directly to the states and reported to the Commission. Interest on back tax paid and the value of a new taxpayer are not included.

The Nexus Committee met in person on July 23, 2018, in Boston, Massachusetts, on November 6, 2018, in Orlando, Florida, on April 24, 2019, in Denver, Colorado.

<u>The Committee considered and approved the following issues at the July 23, 2018 meeting</u>:

> Changes were recommended to the standard voluntary disclosure application, given that states will be moving toward minimum sales volume/number of transactions thresholds for nexus as a result of *South Dakota v. Wayfair*. Taxpayers applying for voluntary disclosure should provide information on when physical presence nexus-creating activities commenced, as well as information on sales volume and number of sales transactions in the state, and when such sales commenced. The approved changes to the application form are intended to obtain that information from applicants.

<u>The Committee considered and approved the following issues at the November 6, 2018 meeting</u>:

> Richard Cram will circulate the following survey among participating states, with the responses used to provide guidance to Nexus Program staff on how pass-

through entities applying for voluntary disclosure should be treated in the voluntary disclosure agreement:

1. Which states are willing to consider including both pass-through entities and their owners within one voluntary disclosure agreement and which states are not?
2. For those states willing to consider including both pass-through entities and their owners within one voluntary disclosure agreement, must the owners, in addition to the pass-through entity, also sign the agreement?
3. Which states are willing to consider accepting consolidated income tax returns filed by a pass-through entity on behalf of its nonresident owners and which states are not?
4. If the entity applying for voluntary disclosure is a disregarded entity for federal income tax purposes, will your state enter into a voluntary disclosure agreement concerning income tax with such an entity?

<u>The Committee considered and approved the following issues at the April 24, 2019 meeting</u>:

Revisions were made to the standard voluntary disclosure agreement, for use in situations when the taxpayer has only economic nexus and no physical presence in the state and is applying for sales and use tax voluntary disclosure. The revised agreement provides that the lookback period would commence as of the date that the state commenced enforcement of economic nexus for sales and use tax and the remote seller has exceeded that economic nexus threshold.

Richard Cram will circulate a survey to determine how states are calculating income/franchise tax lookback periods when the voluntary disclosure application is received after the tax year has ended but before the return is due for that tax year. States appear to be taking different approaches. Some states may include that tax year in the lookback period, and other states would consider it outside the lookback period, since the return was not due or delinquent at the time the application was received. Richard will also solicit additional responses to the survey circulated following the November 6, 2018 meeting. The results of both surveys will be distributed prior to the next meeting, and will be discussed at that meeting.

Report of the State Intercompany Transactions Advisory Service Committee

Joe Garrett, Chair

The State Intercompany Transactions Advisory Committee has encouraged continued case example discussions among Committee member states, states that signed the participation commitment and information sharing agreement, and other states pursuant to other information exchange agreements and authorizations. The Committee also has continued outreach efforts to other states to ascertain interest in participating in these activities with Committee member states and other participating states. The Committee held a well-received training and information session March 6 and 7, 2019, in Peachtree City, Georgia, with over 40 participants and presenters from 16 states and the Commission. Topics covered at the session included introduction to transfer pricing methods, audit selection and identification of transactions, potential legal issues and lessons learned from recent litigation, and techniques utilized and results reached by states through their work with an expert economist. Further activities of the Committee and next steps for the Committee to consider continue to be discussed.

Report of the Strategic Planning Committee

Nancy Prosser, Chair

The Multistate Tax Commission began its strategic planning process in May 2011. During 2011-2012, the Commission developed its statements of Mission, Values, Vision, and Goals.

MISSION STATEMENT:

The Multistate Tax Commission is an intergovernmental state tax agency. Its 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

VISION

By 2019, 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
- The leading resource for ensuring equitable tax compliance

The Committee met on July 24, 2018, in Boston, Massachusetts. Executive Director Greg Matson presented information on performance measures and data for the Engagement Goal Project. The Committee asked about using WebEx or similar technologies when holding meetings. Some program committees and work groups are moving towards using such technology and Commission staff indicated that such technology will soon be tested.

The Committee also discussed overall strategic planning efforts. Members suggested that greater engagement in the process might result if program committees were more aware of the Commission's mission, vision, values, and goals. As a result of these suggestions, the committee chair and the deputy executive director decided to attend each of the November program committee meetings and discuss strategic planning at the Commission. The plan was to then seek ideas from program committees at the 2019 spring committee meetings as an initial step to work on updating the Commission's mission, vision, values, and goals.

The Committee met again on November 7, 2018, in Orlando, Florida. A report was made on presentations by the committee's chair and Commission staff at program committee meetings held earlier in the week. Questions were asked and answers provided on the name of the committee, committee membership, and committee leadership. It was decided the committee would vote at the April 2019 meeting on changing the committee's name.

Extensive discussion occurred concerning how the committee could better receive input from and participation by program committees and their members on strategic planning activities. Comments were made concerning whether program committees had enough time during their meetings to participate in strategic planning activities. A suggestion was made that the Commission's mission, vision, values, and goals be updated, which would provide direction to and encourage program committees to work on ways to achieve the goals and vision. After the meeting, staff sent out a request to committee members for input on updating the Commission's mission, vision, values, and goals to assist in deciding how the Commission will proceed with strategic planning.

The Committee met for the last time on April 25, 2019, in Denver Colorado. At that meeting the Committee voted to have "Steering" removed from the committee's name, resulting in the Committee being called "Strategic Planning Committee." Proposed changes to the Committee's charter were discussed and the proposed charter amendments were revised to eliminate use of the term "advisory" regarding membership on the Committee of chairs and vice chairs of standing Commission committees. Suggested language clarifying the quorum requirements for the Committee was also proposed. The proposed charter revisions with the changes previously noted were adopted by the Committee.

Proposed updates to the Commission's mission, vision, values, and goals were presented to Committee members so they could review them, recommend any changes, and be prepared to vote on these at the Committee's next meeting. Initial background information was provided on a project to update Commission bylaws. This project is intended to update the Commission's bylaws to better encourage participation and engagement of sovereignty members.

The Committee continues to be committed to integrating strategic planning tools and practices into the operations of the Commission. Permanent staff continues to integrate strategic planning into the daily work of the Commission. The Committee continues to evaluate the Commission's progress with strategic planning. These discussions will continue and the committee will report to the Executive Committee on progress and future direction.

Report of the Training Program

Sherry Tiggett, Events and Training Manager

The Commission training program reached 416 participants during the year. This included 212 participants at in-person training courses, 155 attending the 51st Annual Conference in Boston, Massachusetts, and 49 at the 2019 Spring Committee Meetings. Details on training events from the past year and scheduled for the coming year follow.

Courses Offered in 2018-2019

The following MTC courses were offered during the year:

Computer Assisted Audit Techniques Using Excel
July 11 – 12, 2018, in Hoover (Birmingham area), Alabama, for 26 participants from the Alabama Department of Revenue, the Georgia Department of Revenue, the Kansas Department of Revenue, and the South Carolina Department of Revenue.

Statistical Sampling for Sales and Use Tax Audits
September 24 – 28, 2018, in Sioux Falls, South Dakota, for 23 participants from the Iowa Department of Revenue, the Nebraska Department of Revenue, and the South Dakota Department of Revenue.

Intercompany Transactions/Transfer Pricing training
March 6 – 7, 2019, in Peachtree City, Georgia, for 34 participants from the Alabama Department of Revenue, the Arkansas Department of Finance and Administration, the Connecticut Department of Revenue Services, the Delaware Division of Revenue, the Georgia Department of Revenue, the Kansas Department of Revenue, the Kentucky Department of Revenue, the Louisiana Department of Revenue, the Mississippi Department of Revenue, the Missouri Department of Revenue, the New Jersey Division of Taxation, the North Carolina Department of Revenue, the Oregon Department of Revenue, the Utah State Tax Commission, the West Virginia State Tax Department, and the Wisconsin Department of Revenue.

Corporate Income Tax training
March 18 – 21, 2019, in Trenton, New Jersey, for 63 participants from the New Jersey Division of Taxation.

Nexus School
May 6 –7, 2019, in Helena, Montana, for 42 participants from the Georgia Department of Revenue, the Louisiana Department of Revenue, the Minnesota Department of Revenue, the Montana Department of Revenue, and the South Carolina Department of Revenue.

Statistical Sampling for Sales and Use Tax Audits
June 11-14, 2019, in Milwaukee, Wisconsin, for 24 participants from the Illinois Department of Revenue, the Kansas Department of Revenue, the Minnesota Department of Revenue, thee Missouri Department of Revenue, the Wisconsin Department of Revenue, and the Wyoming Department of Revenue.

On November 27 and 28, 2018, Larry Shinder from the Joint Audit Program, along with Bruce Fort from the legal division, provided the Vermont Department of Taxation with income tax training. The training was geared to specific topics requested by Vermont on issues they have encountered during audits.

Other training conducted by Commission staff included a video conference *Ethics and Professionalism for State Tax Professionals*, presented by Bruce Fort, Helen Hecht, Marshall Stranburg, and Greg Matson; an informational and training session webcast titled *Legal and Legislative Developments in Marketplace Collection After Wayfair* presented by Richard Cram and Brian Hamer; and an informational and training session *GILTI, FDII and Repatriation: One Year Later* presented by Bruce Fort.

All participants for these courses were state and local government personnel.

The training program also supported the 51st Annual Conference in Boston, Massachusetts, which was attended by 155 participants, the 2018 Fall Committee Meetings held in Orlando, Florida, and the 2019 Spring Committee Meetings held in Denver, Colorado. Staff also worked on preparations for the 52nd Annual Conference and Committee Meetings, the 2019 Fall Committee Meetings, 2020 Spring Committee Meetings, and 53rd and 54th Annual Conference and Committee Meetings. The events manager also conducted site visits to prospective meeting venues.

Courses Schedule for 2019-2020

The following courses are currently scheduled:

- Corporate Income Tax, Itasca, Illinois, September 24 – 27, 2019
- Statistical Sampling for Sales and Use Tax Audits, Portland, Maine, October 8 – 11, 2019.

We encourage states to contact us as early as possibly regarding hosting a class. Updates to our schedule and registration information can be found at www.mtc.gov or by contacting the MTC Events and Training Manager at (202) 650-0296.

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 training events.

Training Fees

The current fee schedule has been in place since October 2012 and no change in fees is expected for the coming year.

Report of the Uniformity Committee

Tommy Hoyt (Texas), Chair

In the fiscal year ending June 30, 2019, the Uniformity Committee had three in-person meetings—July 24, 2018, at the Commission's Annual Meeting in Boston, Massachusetts; November 7, 2018, in Orlando, Florida; and April 25, 2019, in Denver, Colorado.

During the year, Holly Coon, Alabama, stepped down from the chair's role to become director of the Commission's Joint Audit Program. Tommy Hoyt, Texas, the vice chair, took over the duties of chair and Maria Sanders, Missouri, agreed to take on the role of vice chair.

In July, the committee formed two work groups to take on two new projects. The first was drafting a model option for combined filing under *Finnigan* (the *Finnigan*-combined filing work group). Phil Skinner, Idaho, has been leading that group. The second was a project recommending requirements for the implementation of marketplace facilitator collection and remittance following *Wayfair* (the *Wayfair* implementation work group). Tommy Hoyt agreed to lead that group.

At its July meeting, the Commission's Executive Committee also referred back to this committee the proposed Model Sales and Use Tax Notice and Information Reporting Statute. That model has not been taken up again by the committee.

In November, the committee considered the white paper produced by the *Wayfair* implementation work group, recommending best practices focusing primarily on imposing tax collection obligations on marketplace providers. After discussing that white paper, the committee voted to ask the Executive Committee that it be published and disseminated to the states which that committee agreed to do. We are gratified to see that states are generally looking to the recommendations in that white paper in enacting marketplace provider collection statutes.

In November, the committee also voted to commence a project and create a work group to update the Commission's statement on P.L. 86-272 (the P.L. 86-272 work group). Holly Coon had also been leading that group and Laurie McEllhatton, California, has agreed to take over that leadership role.

In November, the Executive Committee heard the Hearing Officer's Report on the Model Uniform Statute for Reporting Adjustments to Federal Taxable Income and Federal Partnership Audit Adjustments (the revised RAR model statute). That model was referred to the Commission and was approved in a special meeting of the Commission held for that purpose on January 24, 2019.

In April, the committee received updates from the two project work groups and asked the staff of the Commission to survey the states and determine if there are emerging issues with the implementation of *Wayfair* or marketplace collection statutes and to report back at the committee meetings held this week.

The projects completed by the committee in the 2018-2019 fiscal year include the revised RAR model statute and the *Wayfair* white paper. The status of current uniformity projects is summarized below.

Project/Work Groups	
Sales and Use Tax Notice/Information Reporting Model	
Chair and Staff	N/A
Background	A public hearing on this model was held, but soon after, the U.S. Supreme Court issued its decision in *Wayfair*, holding states could impose collection and remittance requirements on remote sellers. The hearing officer, therefore, recommended that the model again be referred back to the Uniformity Committee for consideration of whether it would be necessary in light if *Wayfair*.
Status	The Uniformity Committee has not taken any action on this model.
***Finnigan*-Combined Filing Work Group**	
Chair and Staff	Phil Skinner, Idaho; Bruce Fort and Helen Hecht, MTC Staff
Scope of Project	This work group has been tasked with creating a model "*Finnigan*" alternative in addition to the "*Joyce*" approach already in the Commission's Model Statute for Combined Reporting.
Background	At its April 2018 meeting, the committee was asked to consider adding a "*Finnigan*" option in the Commission's Model Statute for Combined Reporting, which currently uses the "*Joyce*" approach. Commission staff produced a briefing book on the issue. The question at the center of the *Joyce/Finnigan* debate is: Are states limited in their ability to tax an apportioned share of the income of a unitary business conducted by multiple legal entities if some portion of that income might be attributed to an entity over which the state lacks taxing jurisdiction? States have generally been moving toward the *Finnigan* approach—which allows the state to tax the unitary business without regard to whether it has jurisdiction over one or more entities making up that business. At its July 2018 meeting, the committee voted to take on the project and created a work group to draft the model option.

Status	The work group has held bi-weekly meetings and has a draft model for discussion. The work group has recently been focusing on the treatment of NOLs in the group return and this issue has delayed finishing the model.
P.L. 86-272 Work Group	
Chair and Staff	Laurie McEllhatton, California, and Brian Hamer, MTC staff
Scope of Project	This work group is tasked with updating the Commission's Statement of Information Concerning Practices of Multistate Tax Commission and Signatory States under Public Law 86-272.
Background	The statement was last updated in 2001 and does not contemplate many activities regularly undertaken by businesses today, including selling goods over the Internet.
Status	The work group is holding bi-weekly meetings and work is ongoing. The work group is hoping to have a revised statement for the Uniformity Committee to review by the November 2019 meeting.

Report of the Executive Director

Gregory S. Matson, Executive Director
Marshall Stranburg, Deputy Executive Director

This report is a summary of the Commission's organizational and staff activities for the period July 1, 2018, through June 30, 2019.

I. Programs & Activities

A. Joint Audit Program

The Joint Audit Program has completed 6 corporate income tax audits and parts of 12 other corporate income tax audits for fiscal year 2019. The program also completed 7 sales tax audits and parts of 28 other sales tax audits for fiscal year 2019. There are 12 income and 31 sales tax audits in progress.

The program has proposed assessments of $61,704,365 for the completed corporate income tax audits and $6,470,763 for the completed sales tax audits for fiscal year 2019.

The following chart summarizes hourly data for completed audits for the fiscal year end June 30, 2019:

	Income & Franchise	Sales & Use	Total
Total Audits	6	7	13
Total States Audited	113	71	184
Total Hours	28337	6307	34644
Average Hours per State	251	89	188

The Audit Committee met for the first time in fiscal year 2019 on July 23, 2018, in Boston, Massachusetts. During this meeting the committee discussed the progress of current audits. The committee also discussed the Commission's use of subpoenas. During the meeting in Boston, Bruce Fort, senior counsel, gave a presentation on recent happenings in the state and local tax area. As usual, the committee ended with the states' roundtable discussion.

The committee met again on November 6, 2018, in Orlando, Florida. During this meeting the committee discussed the progress of current audits. Mr. Fort and Chris Barber, counsel, gave a presentation on recent activity in state and local tax and unique audit issues. The committee reviewed and approved closure of a sales tax audit under the guidelines of the committee's early closure policy. The committee also reviewed and approved adding eight new corporate income tax audits into inventory.

The Audit Committee last met on April 24, 2019, in Denver, Colorado. During this meeting the committee approved changes to Step 2 in the audit nomination process. Step 2 allows Audit Committee member states to vote on audit candidates nominated by the member states. The changes included revising voting options, corresponding weight given to each option, and some slight formatting changes. Mr. Fort gave a presentation on recent happenings in the state and local tax area. The committee also discussed the progress of current audits and, as usual, the meeting concluded with the states' round table discussion.

Holly Coon of the Alabama Department of Revenue was hired on April 15, 2019, to replace Keith Getschel as director of the Joint Audit Program. Mr. Getschel retired in May.

The Joint Audit Program staff met in Boston, Massachusetts, May 20-23, 2019, to provide training on new and developing state tax issues and to promote camaraderie among the staff.

B. National Nexus Program

<u>Multistate Voluntary Disclosure Program</u>

Results for the fiscal year 2019 are provided below:

- Nexus states' collections: $14,695,429 ($18,601,151 in FY 2018)
- Non-Nexus state collections: $48,892 ($0 in FY 2018)
- Nexus states' executed contracts: 379 (3,087 in FY 2018)
- Nexus states' average contract value: $38,774 ($6,026 FY 2018)

The above amounts include funds received by the Commission or paid by the taxpayer directly to the states and reported to the Commission. Interest on back tax paid and the ongoing value of a new taxpayer are not included.

Membership

There are currently thirty-eight participating states (including the District of Columbia) in the program. Commission staff continues to reach out to non-member states. Delaware terminated its participation in the Nexus Program at the end of FY 2018.

Outreach

Richard Cram published an article entitled "No Shade for Cloud Computing Income Under P.L. 86-272," in the September 24, 2018 issue of State Tax Notes.

Staff continues to urge states to put a link to the program on their voluntary disclosure web pages.

Nexus Schools

A well-attended Nexus School (covering only income/franchise tax nexus) was held June 6-7, 2019, in Helena, Montana. Please let a member of the Commission staff know if your state would like to host a Nexus School.

Amnesties

The program posts on its web page a list of upcoming and current state tax amnesties. Please inform program staff if you would like the Commission to post your state's amnesty.

Staffing

The program presently has four permanent full-time staff members: Richard Cram, director, Diane Simon-Queen, voluntary disclosure program manager, Michelle Lewis, paralegal, and James Lee, program specialist.

C. Legal Division

The legal division staffs the Uniformity Committee and its various work groups (including research, drafting, presentations, and reports); staffs the Litigation Committee; provides attorney and other training; offers litigation support and legal advice to states; provides legal support to the Commission and its programs and projects (including the Joint Audit and National Nexus Programs and general administrative functions); and files amicus briefs on behalf of the Commission. Members of the legal division also regularly speak at conferences and seminars and publish articles in tax journals (as detailed elsewhere in this report).

Uniformity Work

This year, the legal division has worked staffing the following uniformity projects:

- Partnership Informational Project
- Model *Finnigan* Combined Filing Approach
- Wayfair Implementation and Marketplace Facilitator Work Group*
- Updated P.L. 86-272 Statement of Information

*The primary staff for this project was Richard Cram, director of the Commission's National Nexus Program.

Litigation Committee Work

The legal division staffed the Litigation Committee at its meetings in Boston, Massachusetts, on July 24, 2018, and Denver, Colorado, on April 24, 2019, helping to provide presentations at those meetings. At the Spring Committee Meetings, the Litigation Committee hosted lawyers Stephanie Do and Michael Hilkin of the Eversheds Sutherland firm who discussed state responses to the international tax provisions of the Tax Cuts and Jobs Act. Lila Disque provided an update on current Supreme Court cases impacting state taxation. The presentation was web-cast with lawyers from numerous states listening.

Attorney and Other Training

The legal division participates in two types of Commission training—structured courses on topics related to multistate taxation and facilitated roundtable discussions for particular states. The structured courses may cover both legal and audit topics and the facilitated roundtable discussions are customized for states based on the cases or issues they would like to discuss. When providing training, the legal division often works in conjunction with Commission audit staff. Training conducted so far this year included a training and case consultation in Vermont; a two-day course in Georgia on transfer pricing and intercompany transactions; and corporate income tax training focused on combined reporting in New Jersey. At the end of 2018, the legal division put together an ethics training, along with the executive director and deputy executive director, for those state professionals needing CPE and CLE credit.

The legal division also develops and delivers attorney training in conjunction with Litigation Committee meetings. At the 2018 Annual Meeting, the legal division developed and helped present a series of training presentations, including an IRS presentation on sham transactions and expert instruction on statutory construction in the context of litigation. The legal staff also hosted a guided roundtable discussion on *Wayfair*, tax reform, and state responses to both. At the Spring Committee Meetings, the legal division hosted a two-day attorney training attended by attorneys from approximately 15 states. Discussion topics included cost-of-performance litigation, economic substance doctrine developments, nexus after *Wayfair*, residency-based taxation, trust litigation before the U.S. Supreme Court, and taxation of digital transactions and sharing economy services. The presentation was web-cast with lawyers from some 15 states listening. State attorneys receive free CLE for these trainings.

Litigation Support and Legal Advice

The legal division regularly consults with state attorneys, as requested, on tax litigation including litigation strategy, issues, arguments, and moot courts. The legal division has provided substantial legal consultation during this fiscal year to the states of Vermont, Idaho, New Mexico, Colorado, South Carolina, Kansas, New Jersey, Pennsylvania, Minnesota, Missouri, and Utah. The legal division also works with a group of state tax attorneys and with the National Association of Attorneys General to make sure that state attorneys general are aware of state cases in which the states may want to file joint amicus briefs.

The legal division also consults with individual states regarding draft legislation, draft regulations, and state tax policies. In recent months, states have reached out to the legal division for help with state issues resulting from federal tax reform, state tax reform, and the implementation of the *Wayfair* decision. With respect to implementation of *Wayfair,* the legal division has been assisted by National Nexus Program Director Richard Cram.

Support for the Commission's Programs and Projects

The legal division supports the Commission's Joint Audit and National Nexus Programs and other Commission programs and projects as requested. Recently, for example, the legal division has consulted with the Joint Audit Program on the issuance and enforcement of administrative subpoenas. The legal division assisted with an intensive training for Joint Audit Program staff that took place this year. The legal division also provides support for the Commission's general administration by addressing open meetings issues, maintaining confidentiality policies, handling records requests, researching and making recommendations for record retention policies, resolving lease disputes, reviewing contracts, and filing corporate registrations and reports.

Amicus Briefs Filed on Behalf of the Commission

State requests for amicus briefs have escalated in recent years. The legal division has recently filed briefs in: *Franchise Tax Board v. Hyatt*, U.S. Supreme Court Docket No. 17-1299; *Cougar Den v. Washington*, U.S. Supreme Court Docket No. 16-1498; *Colorado v. Oracle,* Colorado Supreme Court No. 2018SC3; *Alabama Dep't of Revenue v. CSX Transportation, Inc.,* U.S. Supreme Court Docket No. 18-447; and *Steiner v. Utah State Tax Commission*, Utah Supreme Court Case No. 20180223-SC.

Publications

- Brian Hamer authored an article entitled "States Should Embrace GILTI or Pursue an Alternative Path to Fairness," published in the February 11, 2019 issue of State Tax Notes.
- Helen Hecht authored an article entitled "Fifty Years of MTC Uniformity Efforts: The Not-So-Obvious Lessons," published in the July 2019 issue of the Journal of Multistate Taxation and Incentives.

D. Policy Research

The policy research director supports Commission efforts in addressing federal legislation with implications for state and local taxation, monitors state adoption of Commission model statutes, regulations, and guidelines. He has been monitoring research on the economic and fiscal impacts on the states resulting from the passage of the Tax Cuts and Jobs Act (TCJA). In addition, he has participated in MTC working group teleconferences on ***Wayfair*** **Implementation and Marketplace Facilitator Work Group and Combined Filing Model Working Group**

He and former Policy Research Intern Parker Armstrong updated information on current economic conditions and trends in state and local government finance for the Commission's 51st Annual Conference. This research information was published in the November 26, 2018 edition of State Tax Notes as "Trends in State and Local Government Finances, 1967 to 2017."

The policy research director participated in the following periodic local or online economic forums and seminars:

- Tax Economist Forum Breakfast: Andrew Hanson, Marquette University, Taxes and Borrower Behavior: Evidence from thee Mortgage Interest Deductiblity Limit – July 11
- REMI luncheon on possible impact of *Wayfair* decision on states – September 13
- REMI luncheon: Economic Impacts of a Revenue-Neutral Carbon Tax – September 27
- Tax Economist Forum Breakfast: Modeling the Internal Revenue Code in a Heterogeneous General Equilibrium Framework – October 4
- Tax Economists Forum: A Universal Earned Income Tax Credit to Reverse Wage Stagnation: Economics, Distribution, and Politics – October 10
- REMI webinar: Mid-term elections and impact on the states – October 25
- REMI luncheon: Policy and the Economy – October 29
- Tax Economist Forum: A Static Microsimulation of the Colombian Tax System – November 8
- REMI webinar: Impacts of Property Assessed Clean Energy Programs – November 14
- National Tax Association Annual Meeting in New Orleans, Louisiana – November 15 through November 17
- REMI luncheon: Earnings, EITC, and Employment Responses to a $15.00 Minimum Wage: Will Low-Income Workers Be Better Off? – November 29
- National Association for Business Economics (NABE) fourth quarter economic forecast – December 4 (telephone conference)
- Tax Economists Forum: Taxation of Digital Services – December 12
- REMI webinar: Midterm elections and the impact on states – construction of model – December 19
- REMI luncheon: Midterm Elections: What Do They Mean for States? – December 20
- Tax Economists Forum: The Ins and Outs of Measuring Inequality in the U.S.: Piketty and Company Aren't the Only Game in Town – January 23
- Tax Policy Center seminar: How States Are Responding to TCJA – January 29
- Tax Economist Forum: A Framework for Economic Analysis of Tax Regulations – February 6
- Tax Economists Forum: IP Boxes and the Activities of Foreign-Owned U.S. Corporations – February 27

- SITAS Training Peachtree City, Georgia – March 6-7
- Tax Economist Forum: Two Federal Decentralization Proposals: A Universal SALT Deduction and the Case for Qualified Municipal Infrastructure Bonds – March 11
- Tax Economist Forum: Economic Impact of Sports Betting – March 20 (organized by the policy research director)
- REMI luncheon: Economic Costs of an Overvalued Dollar – March 28
- REMI Webinar: New Ideas and State-Level Impacts of TCJA – April 15
- Bureau of the Census Webinar: Job Growth and Spatial Mismatch between Jobs and Low-Income Residents – April 17
- REMI luncheon: New Ideas and State-Level Impacts of TCJA – April 25
- REMI Webinar: The Green New Deal - The Role of Analysis – May 1
- National Tax Association 49th Annual Spring Symposium – May 16-17
- Urban Institute Symposium: Effects of Corporate and Business Provisions of the TCJA – June 6
- Economic Policy Institute Conference: Reset Retirement – Solutions for the 21st Century – June 14
- REMI 2019 D.C. Annual Policy Conference – June 21
- Tax Economists Forum Breakfast: Carbon Tax – June 26

Other work undertaken by the policy research director include consulting with the American Economics Group on evaluation of data models and data sources for estimating revenue impact of the *Wayfair v. South Dakota* decision, evaluating candidates for the summer internship, monitoring current economic conditions, and providing comments on Charles McLure's articles for State Tax Notes on aspects of the *Wayfair* decision.

Policy Research Intern Parker Armstrong completed his internship in August 2018. Emma Snyder began her internship with the Commission on June 4th.

E. Legislative Division

The legislative counsel and director:

- Monitors and analyzes in collaboration with the director of policy research and the legal division federal legislation that affects states;

- Coordinates Commission responses to federal legislation, including joining with the efforts of other organizations, drafting policy positions, and meeting with legislators and staff;
- Educates congressional members and staff about the negative effects of preemption generally and with respect to specific bills;
- Answers questions from member states about federal legislation;
- Monitors state legislation, identifies trends, and consults with states when requested; and
- Increases the visibility and reputation of the Commission through establishing lines of contact to legislators, taxpayer organizations, other multistate governmental organizations, the public, and other stakeholders in federal and state legislation that preempts or substantially affects state taxation.

A legislative newsletter is published by the legislative counsel most Mondays summarizing introduced federal bills that impact states. Also included in the newsletter are state bills with multistate effect or interest.

The legislative counsel continues to proactively increase the visibility of the Commission and promote it as the "gold standard" for tax policy development. Counsel focuses on state and federal legislators and their staffs; the Congressional Budget Office (providing data to score bills); and multistate organizations such as the National Governor's Association, the Federation of Tax Administrators; the Streamlined Sales Tax Governing Board; and the National Conference of State Legislatures (NCSL) Executive Committee Task Force on State and Local Taxation. Awareness of the Commission among state legislators who serve on tax committees has historically been low; counsel is working with the NCSL to develop awareness and relationships among with these legislators.

We are monitoring the following issues—

<u>Digital Goods</u>

Senator John Thune (R-South Dakota) and Senator Ron Wyden (D-Oregon) introduced S. 765. Representative Steve Cohen (D-Tennessee 19th) and Representative John Ratcliffe (R-Texas 4th) introduced H.R. 1725, which serves as a companion to S. 765. S. 765 has been referred to the Senate Committee on Finance, on which Mr. Thune serves. Senator Wyden is the ranking member. 16 Republicans, 17 Democrats, and one independent cosponsor S. 765. H.R. 1725 has been referred to the House Committee on the Judiciary, on which Mr. Cohen serves.

Both bills prohibit a state from taxing a digital good unless the state also taxes its tangible equivalent. It also requires that the incidence of the tax fall onto the end user. Interestingly, neither bill creates original jurisdiction in federal district courts, a provision that has been included in previous state tax preemption bills.

Mobile Workforce

Senator John Thune (R-South Dakota) introduced S. 604. It prevents a state from taxing the income of a non-resident worker unless the worker engages in employment duties in the state for more than thirty days in the relevant tax year. However, Senator Chuck Schumer (D-New York) is the minority leader and has influence. He opposes the bill fiercely because New York City hosts many itinerant business trips and asserts jurisdiction to tax teleworkers resident in other states. New York estimates that the bill would reduce revenue by $100m annually.

BATSA:

Rep. Steve Chabot (R-Ohio-1st) introduced H.R. 3603, the Business Activity Tax Simplification Act, on June 3, 2019. The text is the same as last Congress' iteration except for the effective date. Supporters promote it as an update of P. L. 86-272 designed to reflect the contemporary economy. In reality it would hollow-out state taxation of multistate businesses. H.R. 3063 prohibits almost all state business-activity taxes (including net income, gross receipts, commercial activity, and business and occupation taxes) on entities doing business in a state by expanding protection to include intellectual property and services, allowing physical presence in a state if fewer than 15 days (in contrast, the Mobile Workforce Act requires 30 days), exempting digital goods from taxation, and requiring states using combined or consolidated filing to use the *Joyce* apportionment method. A transliteration of the bill may be found on the MTC website in Legislation portion of the Resources area.

Extenders

Both Senate Finance Chairman Chuck Grassley (R-Iowa) and House Ways and Means Chairman Richard Neal (D-Massachusetts 1st) have announced that they intend to work on tax extenders. Senator Grassley said that he is eager to retroactively apply all extenders because taxpayers have relied on them. Chairman Neal said that he wants to examine them deliberately; there may be a wait for his committee to act.

Response to *Wayfair*

The general response of Congress after *Wayfair* has been either relief among some as they can point to the decision as a reason to not address the issue or warnings that there must be federal guidelines to how states exercise their new power. Because of *Wayfair*, parties previously favoring federal legislation to authorize states to collect now oppose federal intervention (they have plenary power now; legislation would limit it), while those previously opposed now support federal efforts (to limit *Wayfair* if not to overturn it). However, states so far have been generally doing such an excellent job at restraint after *Wayfair* — no retroactivity, reasonable start dates, and coordination — that they have taken a good bit of wind from the sails of those who predict confusion and difficulty complying with new remote collection requirements. Additionally, Chairman Jerry Nadler (D-N.Y. 10th) of the House Judiciary Committee, which has jurisdiction over state tax bills, has demonstrated understanding of the dangers of state-tax preemption

But *Wayfair* does not please all states. Senators from non-sales taxes states (Oregon, Montana, and New Hampshire) have introduced politically-induced legislation (at least 11 bills) to alter implementation of remote collection authority. Although they genuinely oppose having their retailers collected other states' tax, it is politically critical to be seen by their constituents having taken some action. They likely know that their bill will not pass. And then there is New Hampshire where state officials have enacted legislation that imposes requirements on states attempting to enforce their collection right on New Hampshire sellers.

These are the major state legislative responses the *Wayfair* decision:

- Bills repealing no longer necessary laws such as "click-through nexus" and notice and reporting requirements.
- In states without statutory authority, bills to require remote vendors to collect.
- A large amount of activity involves establishing collection and remittance requirements regarding sales made by or through marketplace facilitators. Numerous state bills have passed or are pending. The status of these bills can be found in the Legislative Newsletter.
- A significant amount of activity setting sales and transaction thresholds applicable to remote sellers. Many states have copied South Dakota's thresholds ($100,000 of sales into the state in a year or 200 or more separate transactions in a year) because those were considered "safe" after the *Wayfair* decision. Some states have dropped the transactions requirement, while a few states have adopted or are considering adoption of a sales threshold greater than $100,000.

SALT Deduction

This is a personal income tax issue. Legislators from states (primarily Democratic) whose residents are heavily burdened by the Tax Cuts and Jobs Act's $10,000 cap on state and local taxes that may be deducted federally have introduced at least eleven bills to either remove the cap or allow their states to employ work-arounds, such as nearly 100% credits against state and local taxes for deductible charitable donations to functions typically performed by the state. These bills will not advance. The Republican-controlled Senate is not disposed to consider the issue, as most states have residents who are only slightly disadvantaged and the cost of the tax expenditure is high. Three states, three New York counties, and one New York village have filed suits on this issue.

F. Training

The training staff supported the following activities since July 1, 2018:

Computer Assisted Audit Techniques Using Excel
July 11 – 12, 2018, in Hoover (Birmingham area), Alabama, for 26 participants from the Alabama Department of Revenue, the Georgia Department of Revenue, the Kansas Department of Revenue, and the South Carolina Department of Revenue.

Statistical Sampling for Sales and Use Tax Audits
September 24 – 28, 2018, in Sioux Falls, South Dakota, for 23 participants from the Iowa Department of Revenue, the Nebraska Department of Revenue, and the South Dakota Department of Revenue.

Intercompany Transactions/Transfer Pricing training
March 6 – 7, 2019, in Peachtree City, Georgia, for 34 participants from the Alabama Department of Revenue, the Arkansas Department of Finance and Administration, the Connecticut Department of Revenue Services, the Delaware Division of Revenue, the Georgia Department of Revenue, the Kansas Department of Revenue, the Kentucky Department of Revenue, the Louisiana Department of Revenue, the Mississippi Department of Revenue, the Missouri Department of Revenue, the New Jersey Division of Taxation, the North Carolina Department of Revenue, the Oregon Department of Revenue, the Utah State Tax Commission, the West Virginia State Tax Department, and the Wisconsin Department of Revenue.

Corporate Income Tax training
March 18 – 21, 2019, in Trenton, New Jersey, for 61 participants from the New Jersey Division of Taxation.

Nexus School
May 6 –7, 2019, in Helena, Montana, for 42 participants from the Georgia Department of Revenue, the Louisiana Department of Revenue, the Minnesota Department of Revenue, the Montana Department of Revenue, and the South Carolina Department of Revenue.

Statistical Sampling for Sales and Use Tax Audits
June 11-14, in Milwaukee, Wisconsin, for 24 participants from the Illinois Department of Revenue, the Kansas Department of Revenue, the Minnesota Department of Revenue, thee Missouri Department of Revenue, the Wisconsin Department of Revenue, and the Wyoming Department of Revenue.

Other training conducted by Commission staff included a video conference *Ethics and Professionalism for State Tax Professionals*, presented by Bruce Fort, Helen Hecht, Marshall Stranburg, and Greg Matson; an informational and training session webcast titled *Legal and Legislative Developments in Marketplace Collection After Wayfair* presented by Richard Cram and Brian Hamer; and an informational and training session *GILTI, FDII and Repatriation: One Year Later* presented by Bruce Fort.

The events and training staff coordinated the logistics of the 51st Annual Conference in Boston, Massachusetts, July 23 – 26, 2018, which included an off-site reception and dinner at the New England Aquarium. Ellen Tansey from the Massachusetts Department of Revenue provided onsite assistance.

The events and training staff also coordinated logistics for the 52nd Annual Conference in Boise, Idaho. The events and training manager traveled to Boise, Idaho, in August 2018, to do a walk-through at the Grove — the host hotel — and visit five potential venues for an off-site banquet (which will be held at the Basque Market). Mike Chakarun from Idaho accompanied her, along with representatives from the Boise Convention and Visitors Bureau who arranged and scheduled the visits.

The events and training staff secured venues for trainings that will occur in September and October of 2019. Requests for proposals were sent out and space secured for the 2019 Fall Committee Meetings in San Antonio, Texas. Events and training staff conducted site visits in the D.C. area for potential space for the 2020 Spring Committee Meetings. The events and training manager participated in a FAM (familiarity trip sponsored by the city's Convention and Visitors Bureau) to Anchorage, Alaska, as potential site of 2021 Annual Conference and Meetings. A site visit to Little Rock, Arkansas, was made to scout prospective venues for the 2020 Annual Conference and Meetings.

II. Administration

The construction related to the expansion of the D.C. office into adjoining space was completed in December. This expands the size of the D.C. office from 5,906 square feet to 6,820 square feet. Furniture has been installed and this space is now occupied and in use.

Georgetown University Law Center and the MTC have partnered to provide a 20% tuition discount to state and local tax government attorneys and qualified non-attorney tax professionals who matriculate in Georgetown's LL.M., MSL, or SALT Certificate Distance Learning programs. The MTC verifies qualifying employment for applicants seeking the discount. This year, 6 applicants from 5 states took advantage of this discount program.

Dan Keating, senior auditor, retired in May 2019. Dan had been with the Commission since May 1999.

Keith Getschel retired in May of 2019, with 5 years of service to the Commission as the director of the Joint Audit Program. Before coming to the Commission, Keith had been the assistant commissioner for business taxes with the Minnesota Department of Revenue and participated in numerous Commission matters.

Holly Coon was hired on April 15, 2019, to replace Keith as director of the Joint Audit Program. Holly had been with the Alabama Department of Revenue since 2002, most recently serving as Business Tax Manager. Holly also has been actively involved in Commission efforts, including serving as the chair of the Uniformity Committee.

Technology Addendum

The operating system on the Checkpoint firewalls and firewall manager appliance in the D.C. data center has reached end of support by the manufacturer. Preparations are underway to upgrade the operating system in these critical pieces of equipment.

Security training was conducted during the training for Joint Audit Program staff in Boston. The training included a very limited live demonstration of a penetration testing tool that illustrated how vulnerable a user is on a wireless network. The same training was also conducted for D.C. office staff.

During the Joint Audit Program training in Boston, a specific issue with Excel was mentioned by several auditors. The network administrator has worked with audit staff to try to resolve the issue. Although the issue is still unresolved, ways to minimize the negative impact have been found and the network administrator continues to work directly with the auditors most affected to find a solution.

The need for an internal file sharing system for various departments, with varying requirements has been discussed. The executive director, deputy executive director, web content manager, and the network administrator met to discuss the use of SharePoint server (which we currently have with our Office 365 subscription) to provide a solution to each department's specific needs.

The Nexus Program director and staff, along with the network administrator, have begun the process of identifying a vendor to begin re-engineering the voluntary disclosure online application as well as the desktop application used by Nexus Program staff.

Projects and work previously completed include the replacement of laptops for all staff, the migration of the Commission's email service to Office 365 in the Microsoft government cloud, and equipment changes in the data center required by the D.C. office expansion and renovation.

The normal maintenance of server hardware in the D.C. and Chicago offices occurs on a regular basis through on-site visits by the network administrator.

III. Outside Presentations & Events

The executive director serves as a member of the following annual conference advisory boards: Georgetown University Law Center's State and Local Tax Institute, the Hartman State and Local Tax Forum, the New England State and Local Tax Forum, and New York University's State and Local Tax Institute.

The following are the programs, conferences, and other events of outside organizations at which members of the staff represented the Commission during the reporting period:

JULY

- 2018 SEATA Conference; *Market-Based Sourcing*, (Fort, panelist); Nashville, Tennessee (Matson)
- Webinar presentation for The Knowledge Group, *The Growing Importance of Sales Tax Automation: What You Need to Know* (Cram, panelist)
- NCSL 2018 Legislative Summit and Executive Committee Task Force on State and Local Taxation meeting; *States' Responses to the New Federal Tax Law* (Hecht, panelist); *Online Sales Taxes: What's Ahead for States* (Matson, panelist); Los Angeles, California (Shimkin)

AUGUST

- 2018 FTA Technology Conference and Exhibition; Kansas City, Missouri (Lane, Worthington)

- 2018 MSATA Conference; *Understanding the New IRS Partnership Rules* (Hecht, panelist); *Federal Tax Reform – How Have the States Reacted So Far?* (Hecht, panelist); Kansas City, Missouri (Stranburg)
- Council on State Taxation Mid-Atlantic Regional State Tax Seminar; (Matson, panelist); McLean, Virginia

SEPTEMBER

- New Mexico Legislature Revenue Stabilization and Tax Policy Committee, *Post Wayfair Gross Receipts Tax/Compensating Use Tax Administration Issues* (Hecht, Cram presenters)
- 2018 ABA Fall Tax Meeting; *Wayfair and the Way Forward* (Disque, panelist); Atlanta, Georgia
- 2018 NESTOA Conference; *Federal Tax Reform – How Have the States Reacted So Far?* (Fort, panelist); Baltimore, Maryland (Matson, Stranburg)
- 2018 WSAT Conference; *National Overview of SALT* (Matson, panelist); *State Tax Issues Implicated by Federal Tax Reform and IRS Partnership Audit Rules* (Hecht, panelist); Austin, Texas
- Collaborative Audit Group Meeting; Charlotte, North Carolina (Stranburg)

OCTOBER

- Streamlined Sales Tax Governing Board Meeting; St. Louis, Missouri (Cram, Stranburg)
- NCSL/NGA Meeting with Directing Marketing Representatives; St. Louis, Missouri (Cram, Stranburg)
- 2018 FTA Revenue Estimation and Tax Research Conference; San Diego, California (Dubin)
- 25th Annual Paul J. Hartman State and Local Tax Forum; *Designing a Better Sales and Use Tax* (Hecht, panelist); *Federal Tax Reform- International Issues* (Fort, panelist); Nashville, Tennessee (Matson)

NOVEMBER

- National Tax Association 111th Annual Meeting; New Orleans, Louisiana (Dubin)
- New England State and Local Tax Forum; *State Tax Impact of Federal Tax Reform – Overview* (Hecht, panelist); Newton, Massachusetts
- Bloomberg Tax Leadership Forum; *The State of State* (Stranburg, panelist); Washington, D.C.
- NCSL Executive Committee Task Force on State and Local Taxation meeting; *Marketplace Facilitator Laws* (Cram, panelist); Scottsdale, Arizona

- New Jersey Society of Certified Public Accountants Multistate Tax Conference; *Multistate Sales Use Tax Compliance and MTC Voluntary Disclosure Post-Wayfair* (Cram, panelist); Iselin, New Jersey

DECEMBER

- Webinar presentation for the Alabama Municipal Revenue Officers Association Winter Conference; *Wayfair Implementation and Marketplace Facilitators* (Cram)
- NCSL Capitol Forum; *Federal Tax Reform and the Impact on 2019 Legislative Sessions* (Hecht); Washington, D.C.
- NYU 37th Institute on State and Local Taxation; *Review and Preview of Federal Constitutional Issues* (Fort); *Due Process – Significant Current Issues* (Disque, panelist); *Federal Tax Reform: Domestic Issues and their Impacts on the States* (Fort, panelist); New York, New York
- Presentation to Idaho Legislative subcommittee on MTC Activities (GILTI and Marketplace Collection) (Fort); Boise, Idaho.

JANUARY

- FTA Midwinter and New Commissioner Meeting (Matson, Stranburg, Hecht); New Orleans, Louisiana
- Baker Botts The SALT Show Podcast; *State Transfer Pricing Primer Part 4* (Stranburg)
- New Jersey Tax Court; *Recent Nexus Law Developments* (Cram); *Sales and Use Tax Audits* (Yun); Newark, New Jersey
- NCSL Legislative Fiscal Academy; *Remote Sales Tax Collection: Wayfair, Streamlined Sales Tax and Marketplace Facilitators* (Cram, panelist); Honolulu, Hawaii
- Institute for Professionals in Taxation; *Income Tax Nexus – It Still Matters* (Hecht, panelist); Orlando, Florida
- Ernst and Young Webcast on Current Developments in State and Local Tax Controversy (Hecht, panelist)
- Urban-Brookings Tax Policy Center Conference - How Are States Responding to the Tax Cuts and Jobs Act?; *State Responses to TCJA'S International Provisions* (Hecht, panelist); *Perspectives of State Tax Administrators and Multistate Businesses on Post-TCJA State Taxation* (Fort, panelist); Washington, D.C.

FEBURARY

- 2019 FTA Compliance and Education Workshop; *MTC Lawyers Explain Why You Do What You Have To Do When Auditing* (Disque and Barber, panelists); San Diego, California (Silver)

- D.C. Bar State and Local Tax Committee Lunch; *MTC Multistate Voluntary Disclosure Program* (Cram); Washington, D.C.
- Presentation to the staff of the National Governor's Association on legal and policy impacts of the Tax Cuts and Jobs Act (Fort, panelist – via phone)
- Testimony to the Kansas House Tax Committee on aspects of the Tax Cuts and Jobs Act (Hamer)

MARCH

- NYU SALT Luncheon Group; *MTC Update* (Matson); New York, New York
- ABA/IPT Advanced Income Tax Seminar; *State Income Tax Implications of Wayfair – Way Un-Fair?* (Stranburg, panelist); New Orleans, Louisiana
- Webinar presentation for The Knowledge Group; *The South Dakota v. Wayfair Decision: Your Business and the Evolving Sales Tax Landscape* (Cram, panelist)
- State Bar of Texas Tax Section Advanced Tax Workshop; *To Streamline or not to Streamline: Removing Undue Burden from Remote Sellers* (Hecht, moderator); Dallas, Texas
- Federal Bar Association 43rd Annual Tax Law Conference; *Federal Tax Reform Implications for States: A Focus on the More Difficult and Lingering Issues Arising from §965, GILTI, and §163(j)* (Hecht, moderator; Fort, panelist); Washington, D.C.

APRIL

- 12th Annual American Catalog Mailers Association National Catalog Forum; *It's a Wayfair World Now and We All Have to Live In It* (Stranburg, panelist); Washington, D.C.
- National Association of State Budget Officers Spring Meeting; *Online Sales Tax—State Updates* (Cram); Philadelphia, PA
- Testimony before the Vermont Legislative Tax Committee on market-based sourcing, combined filing reforms, 80/20 exclusions, repatriation income, and gross receipts taxes (Fort – via telephone).

MAY

- 16th Annual New Mexico Tax Research Institute Tax Policy Conference; *Ecommerce, Remote Sales, and the Modernization of the Sales Tax* (Cram, panelist); *Developments in State Taxes: Case Review and Evolving Issues* (Hecht); *Debate on Emerging State Tax Issues* (Hecht, Moderator); Albuquerque, New Mexico
- Georgetown 42nd Annual Advanced State and Local Tax Institute; *GILTI, the Transition Tax on Repatriated Income, and the State Taxation of Foreign Source Income after Federal Tax Reform* (Fort, panelist); *Analyses and Predictions on Marketplace Providers* (Cram, panelist); *Match Point: debate on All Topics SALT* (Matson, panelist); Washington, D.C. (Barber, Disque, Dubin, Hamer, Hecht, Shimkin, Stranburg)

- NCSL Executive Committee Task Force on State and Local Taxation; *Marketplace Facilitator Legislation* (Cram, panelist); Washington, D.C.
- 2019 ABA Tax Meeting; *The Taxation of the Digital Economy* (Disque, panelist); Washington, D.C.

<u>JUNE</u>

- Florida Institute of Certified Public Accountants Mega CPE Conference; *Multistate Tax Update* (Stranburg, panelist); Lake Buena Vista, Florida
- Federation of Tax Administrators Annual Meeting; *Legal Case Update* (Hecht, panelist); Indianapolis, Indiana (Matson, Hamer, Stranburg)
- Bloomberg Tax Webinar; *Wayfair: One Year Later* (Cram, panelist)

MULTISTATE TAX COMMISSION

Financial Statements, Supplementary Information and Independent Auditor's Report

For the Years Ended June 30, 2019 and 2018

LSWG
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

MULTISTATE TAX COMMISSION
Table of Contents
June 30, 2019 and 2018

CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

Independent Auditor's Report

To the Executive Committee of
Multistate Tax Commission

We have audited the accompanying financial statements of Multistate Tax Commission, which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of revenue and expenses and changes in fund balance; unappropriated funds, changes in fund balance; appropriated funds, changes in fund balance; restricted funds, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2019 and 2018, and the changes in its fund balances and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Linton Shafer Warfield & Garrett, P.A.

Rockville, Maryland
October 24, 2019

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION
Balance Sheets
June 30,

ASSETS

	2019	2018
Current Assets		
Cash and cash equivalents	$ 1,396,280	$ 1,009,312
Accounts receivable	24,695	1,445
Accrued interest	-	3,669
Prepaid expenses	144,456	215,090
Total Current Assets	1,565,431	1,229,516
Property and Equipment - at Cost		
Office furniture and equipment	593,813	632,744
Leasehold improvements	429,396	228,572
Less: accumulated depreciation and amortization	(631,248)	(625,148)
Property and Equipment - Net	391,961	236,168
Other Assets		
Investments	4,785,643	4,856,118
Expense account advances	5,600	6,000
Deposits	2,200	2,200
Total Other Assets	4,793,443	4,864,318
TOTAL ASSETS	$ 6,750,835	$ 6,330,002

LIABILITIES

	2019	2018
Current Liabilities		
Accounts payable	$ 67,665	$ 36,891
Accrued salaries and vacation pay	446,325	447,386
Unearned membership, program and registration fees	232,183	205,705
Deferred lease liability - current portion	23,238	-
Total Current Liabilities	769,411	689,982
Long-Term Liabilities		
Deferred lease liability - net of current portion	151,044	-
Total Long-Term Liabilities	151,044	-
TOTAL LIABILITIES	920,455	689,982
Fund Balances		
Unappropriated	3,854,717	3,662,485
Appropriated	669,921	654,921
Restricted	1,305,742	1,322,614
Total Fund Balances	5,830,380	5,640,020
TOTAL LIABILITIES AND FUND BALANCES	$ 6,750,835	$ 6,330,002

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,

	2019	2018
Revenue - Unappropriated and Appropriated		
Membership assessments and program fees	$ 6,376,665	$ 6,210,240
Interest and dividends	162,194	121,586
Realized loss on sale of investments	(808)	-
Unrealized gain (loss) on investments	49,810	(40,358)
Other income (loss)		
Training fees	152,455	67,603
Conference fees	35,290	27,140
Gain on sale of equipment	804	-
Miscellaneous	16	3,062
Total Revenue	6,776,426	6,389,273
Expenses - Unappropriated and Appropriated		
Auditing and payroll services	17,660	17,071
Business insurance	17,254	13,921
Conferences and training schools	210,880	149,819
Depreciation	97,058	71,107
Bond amortization	2,808	27,557
Employee benefits	877,501	790,615
Payroll taxes	113,207	71,270
Miscellaneous	12,695	13,953
Consumable and durable supplies	50,417	38,349
Postage	6,729	8,591
Printing and duplicating	9,483	9,136
Professional services	92,842	129,206
Internet access	48,850	40,912
Rent	309,440	271,404
Repairs and maintenance	18,291	12,504
Defined contribution plans	423,522	436,252
Salaries	3,850,242	3,711,702
Software licenses	27,503	32,961
Staff training	25,914	83,889
Subscriptions, publications, dues	82,198	74,203
Telephone	42,850	44,705
Travel	360,216	221,193
Allocation of administrative expenses	(128,366)	(142,956)
Total Expenses	$ 6,569,194	$ 6,127,364

(continued)

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

	2019	2018
Excess of Revenue Over (Under) Expenses	$ 207,232	$ 261,909
Transfer (to) from Appropriated Fund Balance	(15,000)	57,720
Total Amount Transferred	(15,000)	57,720
FUND BALANCE - Unappropriated - Beginning of Year	3,662,485	3,342,856
FUND BALANCE - Unappropriated - End of Year	$ 3,854,717	$ 3,662,485

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, 2019 and 2018

	Equipment Reserve	Enterprise Automation Project	50th Anniversary Conference	Staff Development	Total
Fund Balance - June 30, 2017	$ 84,206	$ 555,715	$ 14,282	$ 58,438	$ 712,641
Transfer from Unappropriated Fund Balance	15,000	-	-	-	15,000
Transfer to Unappropriated Fund Balance	-	-	(14,282)	(58,438)	(72,720)
Net Amount Transferred (To) From Unappropriated Fund Balance	15,000	-	(14,282)	(58,438)	(57,720)
Fund Balance - June 30, 2018	99,206	555,715	-	-	654,921
Transfer from Unappropriated Fund Balance	15,000	-	-	-	15,000
Transfer to Unappropriated Fund Balance	-	-	-	-	-
Net Amount Transferred (To) From Unappropriated Fund Balance	15,000	-	-	-	15,000
Fund Balance - June 30, 2019	$ 114,206	$ 555,715	$ -	$ -	$ 669,921

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, 2019 and 2018

	4R Project	National Nexus Program	Total
Fund Balance - June 30, 2017	$ 42,694	$ 1,339,881	$ 1,382,575
Revenue	-	825,533	825,533
Expenses	-	842,800	842,800
Revenue Over (Under) Expenses	-	(17,267)	(17,267)
Restricted funds released	(42,694)	-	(42,694)
Fund Balance - June 30, 2018	-	1,322,614	1,322,614
Revenue	-	807,030	807,030
Expenses	-	823,902	823,902
Revenue Over (Under) Expenses	-	(16,872)	(16,872)
Fund Balance - June 30, 2019	$ -	$ 1,305,742	$ 1,305,742

The accompanying notes are an integral part of these statements.

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

	2019	2018
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	$ 190,360	$ 244,642
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	97,857	71,107
Bond amortization	2,808	27,557
Restricted funds released	-	(42,694)
Unrealized (gain) loss on investments	(49,810)	40,358
Realized loss on sale of investments	808	-
Gain on sale of equipment	(804)	-
Changes in assets and liabilities		
Accounts receivable	(23,250)	760
Prepaid expenses and accrued interest	74,303	(82,470)
Expense account advances and deposits	400	3,104
Accounts payable	30,774	(10,353)
Accrued salaries and vacation pay	(1,061)	21,460
Deferred lease liability	174,282	-
Unearned membership, program and registration fees	26,478	185,265
Net Cash Provided by Operating Activities	523,145	458,736
Cash Flows From Investing Activities		
Purchase of property and equipment	(256,426)	(142,723)
Proceeds from sale of equipment	3,580	-
Purchase of investments	(115,706)	(1,298,742)
Proceeds from sale of investments	232,375	1,336,250
Net Cash (Used in) Investing Activities	(136,177)	(105,215)
Net Increase in Cash and Cash Equivalents	386,968	353,521
Cash and Cash Equivalents - Beginning of Year	1,009,312	655,791
Cash and Cash Equivalents - End of Year	$ 1,396,280	$ 1,009,312
Supplemental Disclosures		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -

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

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies

The Multistate Tax Commission (the Commission) was organized in 1967**.** It was established by the Multistate Tax Compact, which became effective August 4, 1967**.** The Commission is an intergovernmental state tax agency working on behalf of states and taxpayers to administer, equitable and efficiently, tax laws that apply to multistate and multinational enterprises.

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

Property and equipment are defined as assets with an initial, individual cost of more than $1,000 and an estimated useful life of one year or more. All property and equipment is stated at cost and depreciated using straight-line basis based upon estimated useful lives as follows: Leasehold Improvements – 5 to 7 years and 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.

Unearned Membership, Program and Registration Fees

Membership assessments and program fees 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. Membership assessments and program fees 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 or 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 Plans

Effective June 30, 1986, the Commission adopted the Multistate Tax Commission 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. Effective January 1, 2018, this Plan was closed to any newly hired employees.

On January 1, 2018, the Commission adopted the Multistate Tax Commission Social Security Participant Defined Contribution Plan, coincident with the Commission's participation in Social Security. To participate in this plan, participants must be hired after January 1, 2018 and work at least 1,000 hours per year. The Plan also includes certain employees from the Commission staff who opted to be covered by Social Security during an election process held in late 2017. The Plan is to be funded at the rate of 6.2% of each participant's individual annual salary.

The total expense relating to the defined contribution plans for the years ended June 30, 2019 and 2018 was $469,119 and $480,787, respectively.

3. Commitments

The Commission rents its office facilities in Washington, D.C., and Illinois under lease agreements with terms expiring on various dates through December 31, 2026. In March 2018, the Commission amended its Washington D.C. lease to increase the office space and extend the lease to December 31, 2026. In addition, the landlord provided the Commission with $185,901 of tenant improvement allowance, which is accounted for in leasehold improvements and deferred lease liability on the balance sheet. These leases provide for the following minimum annual base rentals exclusive of utility charges and certain escalation charges:

Fiscal Year Ended:	Minimum Annual Payment
2020	$ 427,085
2021	401,060
2022	398,636
2023	398,636
2024	398,636

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, 2019 and 2018 was $428,642 and $392,352, respectively.

4. Appropriated Fund Balances

The Commission's Executive Committee authorized the Enterprise Automation Project 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. As of June 30, 2019 and 2018, the Enterprise Automation Project fund balance was $555,715.

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 $110,000 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. As of June 30, 2019 and 2018, the Equipment Reserve fund balances were $114,206 and $99,206, respectively.

The Commission's Executive Committee authorized the 50^{th} Anniversary Conference fund in the amount of $15,000 during the year ended June 30, 2017. The purpose of the fund is to provide additional support for the Commission's 50^{th} anniversary conference during August of 2018. As of June 30, 2019 and 2018, the 50^{th} Anniversary Conference fund balances were $0 and $0, respectively.

The Commission's Executive Committee authorized the Staff Development fund in the amount of $60,000 during the year ended June 30, 2017. The purpose of the fund is to provide the financial resources for a two-day staff development meeting to be held in August 2018. As of June 30, 2019 and 2018, the Staff Development fund balances were $0 and $0, respectively.

5. Restricted Fund Balances

During the year ended June 30, 1988, the 4R Project 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 fiscal year 2018, the Commission approved closing this fund and gave the State members who contributed to the fund a credit on their Member dues for fiscal year 2018. As of June 30, 2019 and 2018, the 4R Project fund balance was $0 and $0, respectively.

5. Restricted Fund Balances (continued)

During the year ended June 30, 1992, 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. As of June 30, 2019 and 2018, the National Nexus program fund balances were $1,305,742 and $1,322,614, respectively.

6. 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, and the plan provides approximately fifteen investment options or a combination thereof. The participants make the choice of the investment option(s).

7. Investments

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

	Cost 2019	Market 2019	Cost 2018	Market 2018
Investments				
Mutual funds	$ 2,547,160	$ 2,544,999	$ 2,486,573	$ 2,437,238
Money market funds	2,240,644	2,240,644	2,199,087	2,199,087
Corporate bonds	-	-	107,547	106,368
US Government and Agency securities	-	-	113,509	113,425
Total Investments	$ 4,787,804	$ 4,785,643	$ 4,906,716	$ 4,856,118

7. Investments (continued)

The Commission invests in an investment portfolio that consists of a mutual fund and a money market fund. 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 could materially affect investment balances and the amounts reported in the financial statements. For the years ended June 30, 2019 and 2018, the Commission paid investment fees of $305 and $9,250, respectively.

8. Allocation of Administrative Expenses

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

9. Use of Estimates

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

10. Concentration of Credit Risk

Cash held by the Commission in bank accounts may at times exceed the Federal Deposit Insurance Corporation (FDIC) coverage limit. Management believes the Commission is not exposed to any significant credit risk related to cash. The Commission maintains a money market account with an investment company that is not insured by FDIC. The balance of the money market account at June 30, 2019 and 2018 was $1,179,509 and $884,352, respectively.
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11. Subsequent Events

Management has evaluated subsequent events through October 24, 2019, the date that the financial statements were available to be issued. There were no significant events to report.

SUPPLEMENTARY INFORMATION

CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

To the Executive Committee of
Multistate Tax Commission

We have audited the financial statements of Multistate Tax Commission as of and for the year ended June 30, 2019, and our report thereon dated October 24, 2019, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted 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 as a whole.

Linton Shafer Warfield & Garrett, P.A.

Rockville, Maryland
October 24, 2019

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MULTISTATE TAX COMMISSION

Schedule of Expenses

For the Year Ended June 30, 2019

	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
Auditing and payroll services	$ 13,000	$ -	$ 4,660	$ -	$ 17,660	$ -	$ -	$ 17,660
Business insurance	-	-	17,254	-	17,254	-	-	17,254
Conferences and training schools	168,663	25,245	1,131	15,841	210,880	24,939	24,939	235,819
Depreciation	-	10,676	86,382	-	97,058	799	799	97,857
Bond amortization	2,808	-	-	-	2,808	-	-	2,808
Employee benefits	148,746	612,786	103,677	12,292	877,501	60,584	60,584	938,085
Payroll taxes	21,277	74,010	16,606	1,314	113,207	9,669	9,669	122,876
Miscellaneous	515	4,316	5,130	2,734	12,695	-	-	12,695
Consumable and durable supplies	4,149	11,840	31,551	2,877	50,417	1,952	1,952	52,369
Postage	1,969	2,291	1,785	684	6,729	7,275	7,275	14,004
Printing and duplicating	3,274	229	-	5,980	9,483	-	-	9,483
Professional services	7,356	-	82,986	2,500	92,842	-	-	92,842
Internet access	3,980	24,827	20,043	-	48,850	31	31	48,881
Rent	119,202	64,221	126,017	-	309,440	119,202	119,202	428,642
Repairs and maintenance	-	1,417	16,874	-	18,291	859	859	19,150
Defined contribution plans	86,514	277,462	53,861	5,685	423,522	45,597	45,597	469,119
Salaries	766,811	2,537,833	494,236	51,362	3,850,242	400,993	400,993	4,251,235
Software licenses	869	980	25,654	-	27,503	-	-	27,503
Staff training	11,147	13,167	1,600	-	25,914	250	250	26,164
Subscriptions, publications, dues	64,460	16,444	1,294	-	82,198	4,902	4,902	87,100
Telephone	15,107	19,121	8,622	-	42,850	4,987	4,987	47,837
Travel	113,453	194,866	31,948	19,949	360,216	13,497	13,497	373,713
Allocation of administrative expenses	286,671	716,274	(1,131,311)	-	(128,366)	128,366	128,366	-
Total Expenses	$ 1,839,971	$ 4,608,005	$ -	$ 121,218	$ 6,569,194	$ 823,902	$ 823,902	$ 7,393,096

The accompanying notes are an integral part of this schedule.

LSWG

Certified Public Accountants & Business Consultants

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October 24, 2019

To the Executive Committee of
Multistate Tax Commission

We have audited the financial statements of Multistate Tax Commission (the Commission) for the year ended June 30, 2019, and have issued our report thereon dated October 24, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated July 3, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Multistate Tax Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2019. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

> The Commission's operating expenses have been allocated between program and supporting services based on direct identification when possible and allocation of estimated time if a single expenditure benefits more than one function.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following **material** misstatements detected as a result of audit procedures were corrected by management:

- Record unrealized gain on investments of approximately $50,000.
- Record tenant improvement allowance and liability of approximately $186,000.
- Record fixed asset activity, increase related expenses of approximately $25,000.
- Adjust beginning fund balance and decrease related expenses approximately $72,000.

The net effect of **all** misstatements was to reduce net income by approximately $45,000.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

FASB Accounting Standards Update No. 2014-09

The Financial Accounting Standards Board (FASB) has issued ASU 2014-09, *Revenue from Contracts with Customers*, which will have an effective date of June 30, 2020. The purpose of the new standard is to provide consistent guidance for revenue recognition. There is a new five step process in which revenue is to be recognized.

- Identify the contract with the customer
- Identify the separate performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when the entity satisfies the performance obligation.

All entities are affected by the new standard.

Contributions are exempt because they lack commercial substance. However, certain types of exchange transactions (dues, tuition etc.) will fall under the new standard. The treatment of grants is still being considered by the FASB. In addition, there are new disclosure requirements. Also, if comparative financial statements are required, they will need to be retroactively restated.

We suggest the following to help assist you with the implementation of the new standard:

- Educate yourself
- Form a committee to assist with the implementation
- Communicate with all those that will impacted by the new standard (staff, stakeholders/BODs, accountant)
- Evaluate current and future contracts
- Determine if the current accounting systems can handle the changes
- Look to see how loan covenants will be affected and discuss with the bank(s)

FASB Accounting Standards Update No. 2016-02

The Financial Accounting Standards Board has issued ASU 2016-02, Leases, which will have an effective date of June 30, 2022. The new standard requires that all leases with lease periods greater than one year be recognized as a right of use asset which will have a corresponding liability for the lease payments required during the lease period. Essentially, it treats the majority of leases as capital leases. The increase in the statement of financial position assets and liabilities may have an impact on debt covenant ratios required by banks.

This information is intended solely for the use of the Executive Committee and management of Multistate Tax Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Linton Shafer Warfield & Garrett, P.A.