

Multistate Tax Commission

Annual Report FY2006-07

Joe Huddleston, Executive Director



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

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

I submit to you the Annual Report of the Multistate Tax Commission, covering the Commission's activities for the fiscal year beginning July 1, 2006 and ending June 30, 2007.

Respectfully,

Joe Huddleston
Executive Director

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Overview of Actions Taken by Multistate Tax Commission

The Commission held its Annual Business Meeting, as required by Article VI of the Multistate Tax Compact, on August 17, 2006, in Topeka, Kansas (Note: Bylaw 4 requires this meeting to occur during July unless otherwise specified by the Executive Committee; the Executive Committee approved August 17th for the 2006 Annual Meeting during its meeting of November 10, 2005).

The Commission also held a special meeting on September 7, 2006, to reconsider uniformity proposals recommended by the Executive Committee pursuant to their September 1, 2006, teleconference.

The Commission took the following actions during July 1, 2006 – June 30, 2007:

- Approved the Commission Budget for 2006-2007.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Adopted a Model Combined Reporting Statute.
- Adopted a Model Statute Requiring Add-back of Certain Intangible and Interest Expenses.
- Adopted a Model Tax Avoidance Transaction Voluntary Compliance Program Statute.
- Adopted a Model Reportable Transactions Statute.
- Adopted a Model Compilation of State Tax Data Statute.
- Adopted Policy Resolution 06-01, *Resolution Regarding the Re-write of the Telecommunications Act of 1996.*
- Adopted Policy Resolution 01-01, *Resolution In Support of and Appreciation for the Work of the Congressional Budget Office.*
- Adopted Policy Resolution 01-02, *Renewing the Commitment of MTC Member States to Voluntary State Tax Uniformity.*
- Adopted Policy Resolution 01-03, *Resolution Maintaining the Integrity of State and Local Tax Appeals Processes.*
- Adopted Policy Resolution 01-05, *Resolution in Support and Appreciation of the Uniformity and Interstate Cooperation Projects of the Federation of Tax Administrators.*
- Adopted Policy Resolution 01-09, *Resolution Regarding the Preservation of the Integrity of State Property Tax Systems.*
- Adopted Resolution 06-01, *Resolution Authorizing and Convening a Task Force for the Development of a Uniform Format for Compilation of State Tax Return Data.*
- The Commission, as is its custom, also adopted a number of honorary resolutions recognizing individuals who made significant contributions to the work of the Commission throughout the year.
- Elected Joan Wagnon, Secretary of Revenue, Kansas Department of Revenue, as Chair.
- Elected Jan Goodwin, Secretary, New Mexico Tax & Revenue Department, as Vice Chair.
- Elected Dan Salomone, Commissioner, Minnesota Department of Revenue, as Treasurer.

- Elected Dan Bucks, Director, Montana Department of Revenue; Robert J. Kleine, State Treasurer, Michigan Department of Treasury; Selvi Stanislaus, Executive Director, California Franchise Tax Board; and Carole Keeton Strayhorn, Comptroller, Texas Comptroller of Public Accounts, as at-large members of the Executive Committee.

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

Executive Committee Report

The Executive Committee met five times during the period July 1, 2006, to June 30, 2007:

- August 17, 2006, in Topeka, Kansas (immediately before the 2006 Annual Meeting of the Commission)
- September 1, 2006, via teleconference
- November 16, 2006, in St. Louis, Missouri
- January 4, 2007, in San Diego, California
- May 10, 2007, in Washington, D.C.

The teleconference on September 1, 2006, was held specifically to consider re-referral of two draft model statutes back to the full Commission (at the 2006 Annual Meeting, the Commission voted to refer these statutes back to the Executive Committee). The remaining meetings were regular meetings of the committee. Through these meetings the committee has provided oversight and direction to the activities of the Commission.

[Note: The Executive Committee also met before the 2007 Annual Meeting of the Commission via teleconference on July 12, 2007, specifically to consider sovereignty membership for Georgia, Maryland, and West Virginia (each granted); associate membership for Indiana (granted); and to specify August 2nd as the date of the 2007 Annual Meeting.]

The Executive Committee experienced some changes in its membership in the course of the past year. In January, Dan Salomone became deputy commissioner in Minnesota coinciding with the appointment of Ward Einess as Minnesota Commissioner of Revenue. The change in Minnesota created a vacancy in the Commission's office of Treasurer which was filled by appointing Mr. Einess as Acting Treasurer (Mr. Salomone serving as his designated alternate). Later in January, Susan Combs replaced Carol Keeton Strayhorn as Comptroller in Texas which

created a vacancy on the committee. Ms. Combs was appointed to fill this vacancy. Both appointments were duly ratified by the Executive Committee.

The Executive Committee took the following actions during 2006-2007:

- Approved the 2006-2007 Commission expenditure budget.
- Authorized the Chair to contact the National Conference of Commissioners on Uniform State Laws (NCCUSL) about developing model uniform amendments to the Multistate Tax Compact, Art. IV, Sec. 17 (AKA UDITPA Sec. 17); and formed a working group composed of Bruce Johnson, Ben Miller, Elizabeth Harchenko, and Dan Bucks to develop a more structured proposal.
- Re-referred the proposed model reportable transactions statute back to the Commission for consideration at a special Commission meeting.
- Amended the proposed model compilation of state filing data statute to allow taxpayers to submit copies of state tax returns in lieu of preparing a spreadsheet and re-referred it back to the Commission for consideration at a special Commission meeting.
- Removed the restriction on the surplus Special Audit Fund balance of \$8,089 and designated these funds for future use by the Commission's Joint Audit Program.
- Adopted changes by the public hearing officer to the proposed "On Behalf of" Amendment to Model

Regulation IV.17 and recommended the proposed amendment to the Commission, authorizing a survey of the affected member states pursuant to Bylaw 7.

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding a proposed model uniform statistical sampling statute and proposed accompanying model regulation.
- Directed issuing RFP #2007-01, *Federal Governmental Affairs Services*, and directed the Commission officers and executive director to screen potential vendors and make a selection. [Note: Following review of all submitted proposals and subsequent interviews, Patuxent Consulting was selected.]
- Elected Ward Einess, Minnesota Commissioner of Revenue, to serve as Acting Treasurer to fill the vacancy created when the previous commissioner accepted an appointment to serve as deputy commissioner (Mr. Einess had been appointed before the meeting by the Commission Chair pursuant to Bylaw 3(c)).
- Adopted the audited financial statements for FY2006.
- Elected Susan Combs, Texas Comptroller of Public Accounts, to fill the Executive Committee vacancy left by the previous comptroller (Ms. Combs had been appointed before the meeting by the Commission Chair pursuant to Bylaw 3(c)).
- Approved the 2007-2008 Commission revenue budget, reflecting no increase in the general membership assessment and National Nexus Program fees, and a 5 percent increase in Joint Audit Program fees.

- At the request of the Audit Committee, tasked the Uniformity Committee to begin a priority project addressing an issue with the Commission's Bank and Financial Regulation related to assignment of receivable in the property factor and report back on the project at the Executive Committee's January 2008 meeting.
- After hearing a presentation by tax practitioners regarding the compliance burden associated with amended return filing following receipt of federal RAR, tasked the Uniformity Committee to establish a working group (including practitioners and industry) to convene during the Annual Meeting in Minneapolis July 29 – August 2, 2007, to build upon the earlier work of the Uniformity Committee in this area and develop solutions that may benefit both taxpayers and states by obviating numerous returns after a federal adjustment.
- Developed proposed amendments to Commission Bylaw 5, *Quorum, Voting, and Minutes*; Bylaw 6, *Executive Committee*; and Bylaw 11, *Parliamentary Authority*; and provided notice to the Commission in accordance with bylaws.

The Executive Committee undertook additional actions during 2006-2007 that are recorded in the minutes of its meetings.

The Executive Committee also held informational sessions in conjunction with its meeting in January 2007 at which it received presentations by representatives of the insurance industry on state tax issues; by the IRS on federal tax data pertaining to multi-tiered, multistate entities; by an accounting firm on the state tax implications of the new FIN 48 requirements; and by representatives of the telecommunications industry on the federal and state status of telecommunications taxes.

Audit Committee Report

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

The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2006-2007 fiscal year.

AUDIT COMMITTEE

The MTC Audit Committee met three times during the fiscal year. During the Annual Meeting in August, 2006 the Audit Committee reviewed the past year MTC audit activity. The Committee also selected 18 sales tax and 9 income tax audits for the audit program's inventory.

During the November, 2006 meeting, Income and Sales Tax Nomination Forms were distributed at this meeting to start the annual selection process. The Committee also selected one income tax audit for the audit program's inventory.

During the March, 2007 meeting, the Audit Committee reviewed the status of all audits in progress. The Committee also provided guidance on several key issues in several audits. The Committee also approved the MTC Sales Tax Audit Sampling Manual.

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

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

AUDIT PROGRAM

Productivity

The Audit Staff completed 15 sales tax audits for the fiscal year end 6/30/07. There are currently 24 sales tax audits in progress. The Audit Staff completed 7 income tax audits during this fiscal year. There are currently 21 income tax audits in progress.

The MTC Audit Program has increased the productivity of its audit work by over 39% since 1991, as measured by the number of staff hours per audit per state. In 1991, an MTC audit required 113 hours of staff time per audit per state. In 2007, that number was only 69. That represents improved efficiency for both states and taxpayers, who also benefit when tax auditors spend less time completing an audit.

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

Staffing

The MTC Audit Program hired one sales tax and one income auditor this year.

Automation

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

Note: Declining numbers on the following charts represent improvement

**MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/91 - 6/07**

	6/91	6/92	6/93	6/94	6/95	6/96	6/97	6/98	6/99	6/00	6/01	6/02	6/03	6/04	6/05	6/06	6/07
Income Tax Total Audits	9	7	12	9	9	9	10	9	7	10	8	7	8	7	7	9	7
Total States Audited	95	75	132	93	99	111	152	120	186	251	131	166	165	266	196	175	141
Total Hours	12646	11148	11208	9016	9284	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361
Average Hours Per State	133	148	85	97	94	68	81	83	55	52	66	57	64	45	64	72	66
Sales Tax Total Audits	8	9	14	13	15	13	14	10	16	11	14	13	11	10	11	6	15
Total States Audited	79	104	146	140	152	123	143	97	184	102	158	159	145	154	160	77	187
Total Hours	7069	12209	14323	6818	8009	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296
Average Hours Per State	89	117	98	49	53	79	79	80	40	89	75	56	61	71	38	64	71
Total Both Taxes Total Audits	17	16	26	22	24	22	24	19	23	21	22	20	19	17	18	15	22
Total States Audited	174	179	278	233	251	234	295	217	370	353	289	325	310	420	336	252	328
Total Hours	19715	23357	25531	15834	17293	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657
Average Hours Per State	113	130	92	68	69	74	80	82	48	63	71	56	62	55	56	70	69

Audit Hour Analysis Last Four Quarters

	9/06	12/06	3/07	6/07	Total
Income Tax					
Total Audits	1	3.5	2	.5	7
Total States Audited	15	66	47	13	141
Total Hours	147	5422	3289	503	9361
Average Hours Per State	10	82	70	39	66
Sales Tax					
Total Audits	5	3	0	7	15
Total States Audited	59	39	0	89	187
Total Hours	3673	1755	0	7868	13296
Average Hours Per State	62	45	0	88	71
Total Both Taxes					
Total Audits	6	6.5	2	7.5	22
Total States Audited	74	105	47	102	328
Total Hours	3820	7177	3289	8371	22657
Average Hours Per State	52	68	70	82	69

Litigation Committee Report

The MTC Litigation Committee is chaired by Marshall Stranburg, Florida Department of Revenue. Mark Wainwright and Clark Snelson, Utah Office of the Attorney General, are co-vice chairs.

In-Person Meetings

The Committee held in-person meetings August 14-15, 2006 and March 21-22, 2007. Approximately 25 people attended each meeting, representing nearly 20 states and the MTC staff. Both meetings included presentations from the MTC Legal Division and members on a range of topics including on-going litigation and implications of recent decisions regarding the dormant Commerce Clause, REITs, Economic Presence nexus, and many other current topics. As usual, we discussed recent Supreme Court action and recent state court decisions, and collaborated with respect to litigation pending in the states.

Bi-Monthly State Tax Attorney Teleconferences

We have begun hosting regular bi-monthly teleconferences for state tax attorneys. These teleconferences generally involve 2 presentations on topics of current interest to the states and allow time for discussion. All state tax attorneys are invited to attend. The teleconferences have been well attended.

Brief Bank

In March, the Litigation Committee received a presentation on the MTC's first version of its internet accessible state tax attorney brief bank. The brief bank is searchable by taxpayer

name or key word. We continue to work on a potential second version that would allow for text searches of the briefs.

Case by Case Collaboration

We have also worked to provide a forum for our Litigation Committee members to coordinate on cases and issues affecting multiple states on a case by case basis, especially with respect to cases arising from MTC joint audits.

Nexus Committee Report

The Nexus Committee of the Commission's National Nexus Program is chaired by Joe Thomas, Connecticut Department of Revenue Services. Lee Evans of New Jersey is vice-chair.

The committee held in-person meetings November 15, 2006 and March 22, 2007. Each meeting was attended by approximately 35 people. Most Nexus Program member states were represented. Highlights of the committee's activities in fiscal year 2007 are:

- Considered the costs and benefits of a uniformity action regarding how long nexus lasts, probably in cooperation with the Uniformity Committee. This is an on-going project.
- Suspended the lead-set program, which involved states sending nexus enforcement leads to the MTC, which consolidated the information and sent it back to the states. The value of the information was found to be insufficient in light of the cost of collection.
- Considered cooperative state action with respect to a specific sales/use tax enforcement issue and shared information with respect to another specific sales/use tax enforcement issue.
- Implemented the feed-back loop, in which states report to the MTC how much revenue in future years they receive from taxpayers who have completed a voluntary disclosure. The purpose is to allow MTC staff to provide

states revenue information with respect to the voluntary disclosure program without reliance on estimates.

- Oversaw three Nexus Schools: Michigan, Colorado, and Connecticut.
- Georgia, New Hampshire, and New Mexico joined the National Nexus Program and the committee.

Technology Committee Report

The Technology Committee monitors and advises the staff in respect of the coordination and optimization of information technology as it relates to overall goals of the member states and the Commission. The committee is chaired by Timothy R. Blevins of the Kansas Department of Revenue. Debbie Peterson of the Texas Comptrollers Office was the vice-chair but left state employment in March; the Commission Chair approved the committee's choice of Steve Wilson of Idaho State Tax Commission to succeed her as vice-chair.

During 2006-2007, the committee met 13 times:

- Teleconference on July 11, 2006
- Teleconference on July 27, 2006
- Meeting on August 13, 2006 in Topeka, Kansas
- Teleconference on August 29, 2006
- Teleconference on September 14, 2006
- Teleconference on October 4, 2006
- Teleconference on October 24, 2006
- Teleconference on November 21, 2006
- Teleconference on December 14, 2006
- Teleconference on February 1, 2007
- Teleconference on February 20, 2007
- Committee Meeting on March 21, 2007 in San Diego, California
- Teleconference on July 12, 2007

The majority of FY2007 was largely spent working on the redesign of the Commission's website. The committee is very pleased with the results of that project, a very important one not only because the website is the public face of the Commission but also because of the increased capability the Commission has in maintaining fresh and vibrant content on the site. The online registration component and contacts look-up

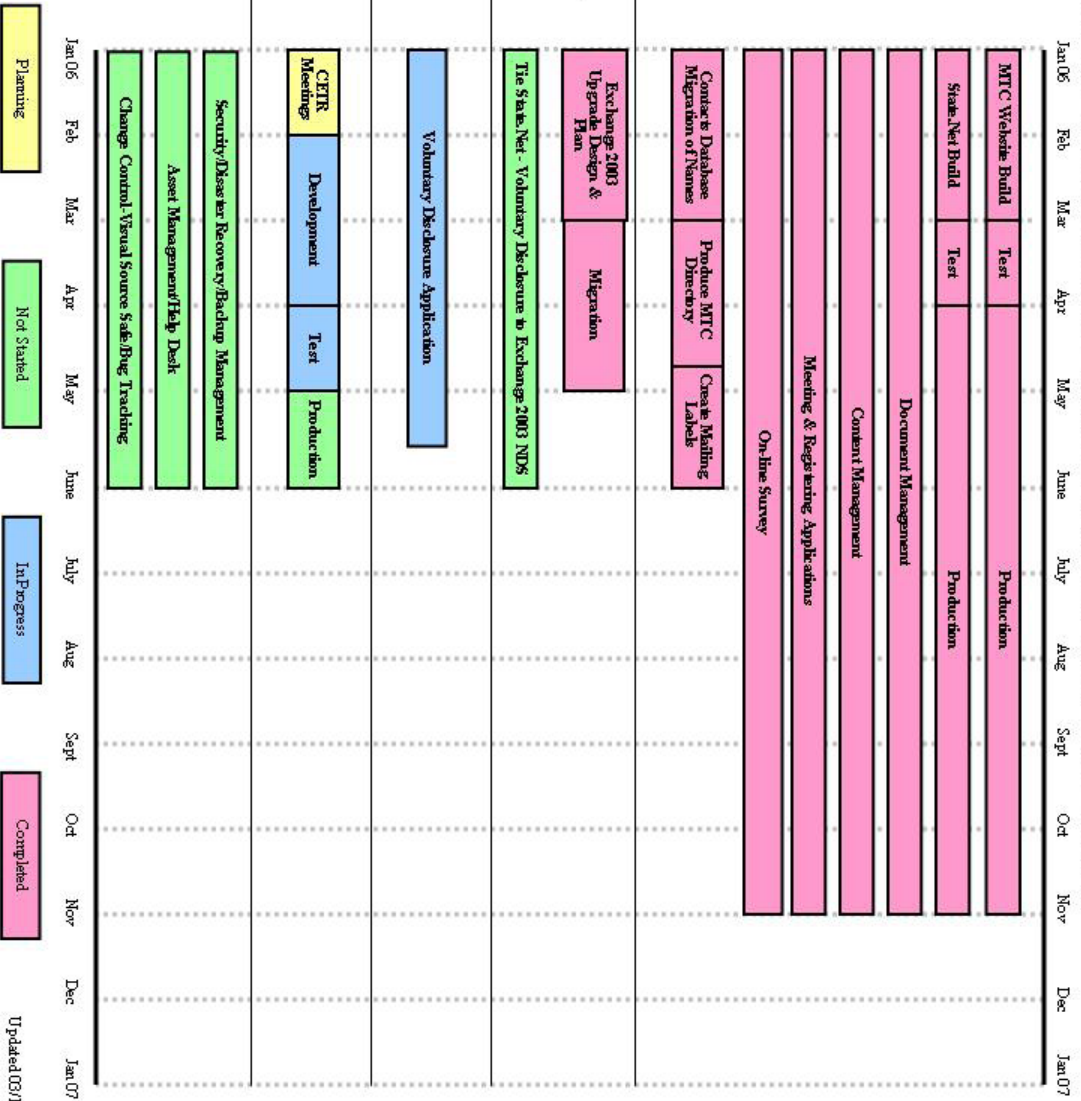
component are the two remaining significant features of the site still in progress, and the committee will continue to monitor the site's development.

Two charts are attached showing the planning and progress of the Commission's technology projects during 2006 and 2007.

The following are the projects that the committee is focused on currently:

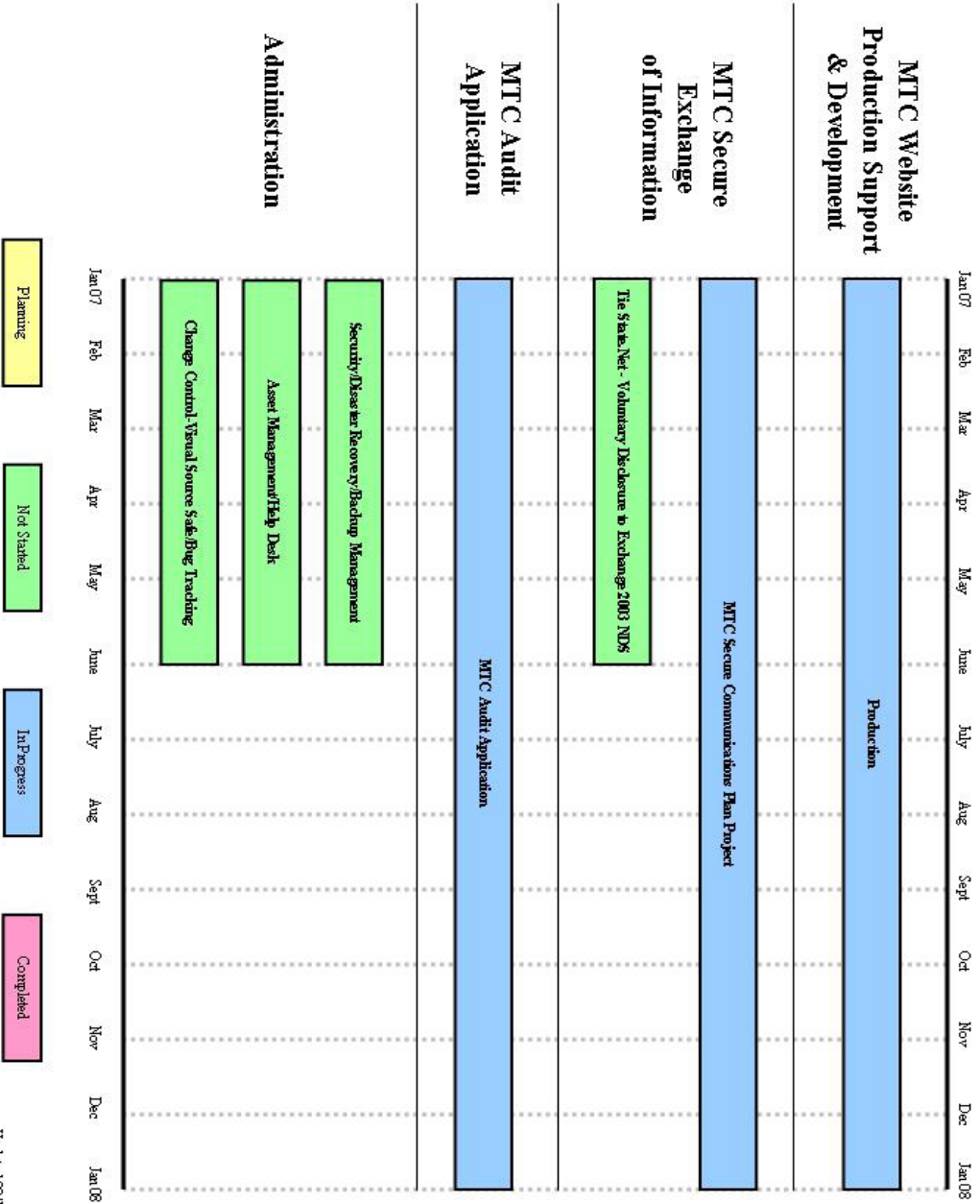
- Secure communications plan project (near completion)
- Network back-up and recovery improvements (near completion)
- Voluntary Disclosure Program database migration project
- Implementation of the secure communications plan (including enhancing the Commission's website as a robust portal for tax administration)
- Automated audit management system for the Join Audit Program

MTC IT PROJECT ROADMAP for CY 2006



Updated 03/19/2007

MTC IT PROJECT ROADMAP for CY 2007



Training Program Report

MTC offered 11 courses during the 2006-07 fiscal year, and a similar level of activity is anticipated for the 2007-08. Recently developed MTC sampling software is being used to support our sampling courses and we are anticipating opening a session of the Statistical Sampling course to the private sector during the coming year.

Courses Offered in 2006-07

The following MTC courses were offered during the year:

Nexus School

October 4-5, 2006 in Little Rock, Arkansas for 36 students
December 5-6, 2006 in Lansing, Michigan for 62 students
April 24-25, 2007 in Denver, Colorado for 46 students
June 5-6, 2007 in Hartford, Connecticut for 39 students

Corporate Income Tax

October 2-5 in Salem, Oregon for 61 students (37 in Part 2)
February 5-8, 2007 in Oklahoma City, Oklahoma for 43 students (34 in Part 2)

Non-Statistical Sampling

August 28-September 1, 2006 in Oklahoma City, Oklahoma for 25 students
April 23-27, 2007 in New Orleans, Louisiana for 24 students

Statistical Sampling

July 17-21, 2006 in Oklahoma City, Oklahoma for 20 students
October 30-November 3, 2006 in Oklahoma City, Oklahoma for 29 students

Computer Assisted Audit Techniques
May 7-11, 2007 in Oklahoma City, Oklahoma for 30 students

Current Schedule of Courses and Events

The following courses and events are currently anticipated:

2007 FTA / MTC AUDIT AND COMPUTER TECHNOLOGY WORKSHOP, September 23-26, 2007 in Nashville, Tennessee (registration is being handled by FTA)

NEXUS SCHOOL

October 29-30, 2007 in Nashville, Tennessee
First half of 2008, Maryland (date and city to be determined)

Updates on our schedule as well as registration information can be found at www.mtc.gov or by contacting Antonio Soto at 202-508-3846.

NASBA Certification and Continuation Education Credit

The Commission is registered with the National Association of State Boards of Accountancy (NASBA) as a CPE sponsor. This registration is for "group-live" programs. Accounting boards in 44 states recognize NASBA certification for granting of CPE credit for in-person courses. The Commission also certifies attendance for CLE credit at Commission sponsored events.

Changes for Sampling and Computer Assisted Audit Techniques Courses

The recently developed MTC sampling software will be utilized in future sampling courses. We

are still expecting to open a session of the Statistical Sampling course to the private sector during the year. The Computer Assisted Audit Techniques course is now a two-day course. The introductory sampling course has been shortened from 4 ½ days to 2½ days and is now identified as Basic Random Sampling (formerly Non-Statistical Sampling). We are encouraging states to host both the Computer Assisted Audit Techniques and Basic Random Sampling within the same week.

Tuition and Host State Credit

The tuition schedule for 2007-08 has been adjusted since it was presented to the MTC Executive Committee in May 2007. The adjustments reflect shortening of the basic random sampling course from 4 ½ days to 2 ½ days and larger expected class sizes for sampling and computer assisted audit courses. Fees for private sector participants in sampling or other courses will be determined as these courses are scheduled.

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

Training Brochure

The 2007-2008 Training Brochure will be mailed to MTC contacts in early September 2007.

Uniformity Committee Report

The Commission's Uniformity Committee is chaired by Ted Spangler, Office of the Idaho Attorney General. The Committee is divided into two subcommittees. Wood Miller, Missouri Department of Revenue, chairs the Income & Franchise Tax Subcommittee and Richard Cram, Kansas Department of Revenue, chairs the Sales & Use Tax Subcommittee.

The Committee held in-person meetings November 13-14, 2006 and March 20-21, 2007. Each meeting was attended by approximately 40 people, representing nearly 20 states, a number of taxpayer representatives and groups, the state tax press, and the MTC staff. Subcommittees also met twice by telephone.

Income and Franchise Tax Subcommittee

- **Special Rule for Telecommunications Apportionment.**

After extensive work, this long-standing project is nearing. It is possible that in July it will be referred to the full Committee and then to Executive Committee for consideration for public hearing.

- **Model Statutes for Real Estate Investment Trusts (REITs) and Regulated Investment Companies (RICs)**

After extensive discussions with industry representatives, the subcommittee voted to divide the project into two parts. Two proposals, dealing with abusive REITs and RICs respectively, are currently under development

- **Amendment of Model Rule for Financial Institutions Apportionment**

The subcommittee is working to develop language to address new issues that have arisen with respect to the property factor.

- **Administrative of Federal Revenue Agent Reports (RARs)**

A taxpayer group has asked the subcommittee to consider a project for alleviating administrative burdens associated with reporting of federal RARs.

- **Possible New Project on Amendments to MTC Model Regulations for Section 18**

This potential new project is currently under consideration.

- **Possible New Project on Development of Apportionment Rule for Intangible Holding Companies**

This potential new project is currently under consideration.

Sales and Use Tax Subcommittee

- **Proposed Model Statute Regarding Hotel Intermediaries**

The subcommittee is working on two alternative proposals.

- **Possible Project on Telecommunications Transactions Taxes**

Representatives of the telecommunications industry have asked the committee to consider a project for model centralized administration of telecommunication transaction taxes, sourcing rules and definition. In addition the group asks for consideration of a "best practices" model for posting of local tax rates and associated "hold harmless" provisions for providers that collect at the posted rates.

- **Statistical Sampling Statute and Regulation**

At the November, 2006 meeting, this proposal was referred to the full Uniformity Committee for its approval and then approved by the Executive Committee for public hearing. A hearing officer's report will be submitted in July.

**MULTISTATE TAX
COMMISSION**

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

**For the Years Ended
June 30, 2007 and 2006**

MULTISTATE TAX COMMISSION
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June 30, 2007 and 2006

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Report of Independent Certified Public Accountants

Executive Committee
Multistate Tax Commission

We have audited the accompanying balance sheets of Multistate Tax Commission as of June 30, 2007 and 2006 and the related statements of revenue and expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Multistate Tax Commission as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Linton Shafer Woolfield & Bennett

October 26, 2007

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 3,501,058	\$ 2,430,467
Accounts receivable		
Schools	15,000	9,995
Prepaid expenses	<u>52,371</u>	<u>39,434</u>
Total Current Assets	<u>3,568,429</u>	<u>2,479,896</u>
Property and Equipment - at Cost		
Office furniture and equipment	806,398	887,245
Leasehold improvements	109,857	109,857
Less: accumulated depreciation and amortization	<u>(730,235)</u>	<u>(803,923)</u>
Property and Equipment - Net	<u>186,020</u>	<u>193,179</u>
Other Assets		
Expense account advances	7,200	7,700
Deposits	<u>10,861</u>	<u>10,861</u>
Total Other Assets	<u>18,061</u>	<u>18,561</u>
TOTAL ASSETS	<u>\$ 3,772,510</u>	<u>\$ 2,691,636</u>

LIABILITIES

	2007	2006
Current Liabilities		
Accounts payable	\$ 68,420	\$ 55,289
Payroll taxes withheld and accrued	28,574	26,727
Accrued salaries and vacation pay	278,721	230,396
Accrued self insurance	56,000	-
Current portion of capital lease obligation	4,764	6,671
Deferred assessments and audit reimbursements	549,465	267,650
Total Current Liabilities	985,944	586,733
Long-Term Liabilities		
Capital lease obligation	9,452	-
Total Long-Term Liabilities	9,452	-
TOTAL LIABILITIES	995,396	586,733
Commitments and Contingencies - Note 3		
Fund Balances		
Unappropriated	1,594,297	1,128,567
Appropriated	521,435	592,685
Restricted	661,382	383,650
Total Fund Balances	2,777,114	2,104,902
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,772,510	\$ 2,691,636

The accompanying notes are an integral part of these statements.

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

	<u>2007</u>	<u>2006</u>
Revenue - Unappropriated and Appropriated		
Assessments	\$ 4,784,487	\$ 4,524,769
Less amounts from restricted funds	-	-
Interest	161,958	97,158
Other income		
Training fees	259,838	193,545
Miscellaneous	22,419	25,280
Total Revenue	<u>5,228,702</u>	<u>4,840,751</u>
Expenses - Unappropriated and Appropriated		
Accounting	15,259	14,546
Bonds and insurance	15,072	22,259
Conferences and training schools	121,839	127,438
Database services	-	100,000
Depreciation and amortization	78,241	93,600
Employee benefits	519,121	489,410
Miscellaneous	20,530	12,513
Office supplies	65,247	30,840
Postage	30,911	29,542
Printing and duplicating	45,087	33,192
Professional services	349,293	364,305
Publications and electronic resources	26,557	25,429
Recruitment	3,928	4,132
Rent	247,536	242,542
Repairs and maintenance	4,824	5,790
Retirement plan	320,391	293,165
Salaries	2,722,291	2,465,546
Software licenses	14,672	19,455
Staff training	11,891	14,284
Subscriptions, publications, dues	37,855	35,333
Telephone	51,896	53,949
Transfer - database services	-	(100,000)
Travel	268,727	284,375
Allocation of administrative expenses	(128,856)	(117,078)
Total Expenses	<u>\$ 4,842,312</u>	<u>\$ 4,544,567</u>

(continued)

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

	2007	2006
Excess of Revenue Over Expenses	\$ 386,390	\$ 296,184
Transfer from Appropriated Fund Balance	71,250	45,681
Transfer from Restricted Fund Balance	8,089	-
Total Amount Transferred	79,339	45,681
 FUND BALANCE - Unappropriated - Beginning of Year	 1,128,567	 786,702
 FUND BALANCE - Unappropriated - End of Year	 \$ 1,594,297	 \$ 1,128,567

The accompanying notes are an integral part of these financial statements

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

	<u>State Tax Compliance</u>	<u>Federalism At Risk</u>
Fund Balance - June 30, 2005	\$ 23,918	\$ 25,146
Transfer to Unappropriated Fund Balance	-	-
Net Amount Transferred (To) From Unappropriated Fund Balance	-	-
Fund Balance - June 30, 2006	23,918	25,146
Transfer to Unappropriated Fund Balance	-	-
Net Amount Transferred (To) From Unappropriated Fund Balance	-	-
Fund Balance - June 30, 2007	<u>\$ 23,918</u>	<u>\$ 25,146</u>

Enterprise Automation Project	Nexus Activities	Membership Development and Relations	Total
\$ 470,447	\$ 90,000	\$ 28,855	\$ 638,366
<u>(45,681)</u>	<u>-</u>	<u>-</u>	<u>(45,681)</u>
<u>(45,681)</u>	<u>-</u>	<u>-</u>	<u>(45,681)</u>
424,766	90,000	28,855	592,685
<u>(71,250)</u>	<u>-</u>	<u>-</u>	<u>(71,250)</u>
<u>(71,250)</u>	<u>-</u>	<u>-</u>	<u>(71,250)</u>
<u>\$ 353,516</u>	<u>\$ 90,000</u>	<u>\$ 28,855</u>	<u>\$ 521,435</u>

The accompanying notes are an integral part of these statements.

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

	<u>4R Project</u>	<u>Nexus Program</u>	<u>Special Audit</u>	<u>Total</u>
Fund Balance - June 30, 2005	\$ 42,694	\$ 186,953	\$ 8,089	\$ 237,736
Revenue	-	829,583	-	829,583
Expenses	<u>-</u>	<u>683,669</u>	<u>-</u>	<u>683,669</u>
Excess (Deficiency) of Revenue Over Expenses	<u>-</u>	<u>145,914</u>	<u>-</u>	<u>145,914</u>
Fund Balance - June 30, 2006	42,694	332,867	8,089	383,650
Revenue	-	904,671	-	904,671
Expenses	<u>-</u>	<u>618,850</u>	<u>-</u>	<u>618,850</u>
Excess (Deficiency) of Revenue Over Expenses	-	285,821	-	285,821
Transfer to Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>(8,089)</u>	<u>(8,089)</u>
Fund Balance - June 30, 2007	<u>\$ 42,694</u>	<u>\$ 618,688</u>	<u>\$ -</u>	<u>\$ 661,382</u>

The accompanying notes are an integral part of these statements.

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

	2007	2006
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	\$ 672,211	\$ 442,099
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation and amortization	80,943	96,302
Loss on disposal of property and equipment	11,479	583
Changes in assets and liabilities		
Accounts receivable		
Schools	(5,005)	23,622
Special projects	-	9,565
Prepaid expenses	(12,937)	114
Expense account advances	500	-
Accounts payable	13,131	(14,898)
Payroll taxes withheld and accrued	1,847	1,503
Accrued salaries and vacation pay	48,325	(6,200)
Accrued self insurance	56,000	-
Deferred assessments and audit reimbursements	281,815	(129,646)
Net Cash Provided by Operating Activities	1,148,309	423,044
Cash Flows From Investing Activities		
Purchase of property and equipment	(85,263)	(10,709)
New capital lease	14,964	-
Payments on capital lease	(7,419)	(6,176)
Net Cash Used in Investing Activities	(77,718)	(16,885)
Net Increase in Cash and Cash Equivalents	1,070,591	406,159
Cash and Cash Equivalents - Beginning of Year	2,430,467	2,024,308
Cash and Cash Equivalents - End of Year	\$ 3,501,058	\$ 2,430,467
Supplemental Disclosures		
Income taxes paid	\$ -	\$ -
Interest paid	\$ 409	\$ 1,444

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

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2007 and 2006

1. Summary of Significant Accounting Policies

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

Cash Equivalents

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

Accounts Receivable

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

Property and Equipment

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

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

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

Deferred Assessments and Audit Reimbursements

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

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2007 and 2006

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

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

Capital Lease

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

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

2. Retirement Plan

Effective June 30, 1986, the Commission adopted a defined contribution plan to be funded at a rate of twelve percent of each participating individual's annual salary. To participate in this plan, employees are required to work more than certain pre-determined hourly and monthly levels throughout the plan year. The total pension expense relating to the defined contribution plan for the years ended June 30, 2007 and 2006 was \$352,355 and \$331,692, respectively.

3. Commitments

The Commission rents its office facilities in Washington, D C , Texas, New York, and Illinois under lease agreements with terms expiring on various dates through January 31, 2014. These leases provide for the following minimum annual base rentals exclusive of utility charges and certain escalation charges:

<u>Fiscal Year Ended:</u>	<u>Minimum Annual Payment</u>
2008	\$ 302,347
2009	303,101
2010	285,019
2011	267,559
2012	268,821

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2007 and 2006

3. Commitments (Continued)

The leases include certain escalation charges based on various factors including utility, operating expense and property tax increases from a base year. Rent expense, exclusive of utility charges and real estate taxes, for the years ended June 30, 2007 and 2006 was \$319,584 and \$306,155, respectively.

4. Appropriated Fund Balances

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

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

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

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

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

5. Restricted Fund Balances

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

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2007 and 2006

5. Restricted Fund Balances (continued)

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

6. TaxNet Governmental Communications Corporation (TaxNet)

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

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

7. Deferred Compensation Plan

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

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

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

8. Allocation of Administrative Expenses

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

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2007 and 2006

9. Use of Estimates

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

10. Concentration of Credit Risk

The Commission maintains cash balances in one bank. Accounts at the other bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The Commission has a collateral agreement with the bank to cover amounts uninsured by FDIC. At June 30, 2007 and 2006, the uninsured and uncollateralized cash balance was \$0 and \$143,286 respectively. The Commission has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

11. Capital Lease

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

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

<u>Year Ended</u>	
2008	\$4,764
2009	5,036
2010	4,416

12. Self Insurance

During the fiscal year, the Commission modified its employee health insurance coverage to adopt a self insurance element. The terminal cost represents an estimate of the Commission's liability for claims during the terminal protection period. As of June 30, 2007 the estimated terminal cost accrued is \$56,000.

SUPPLEMENTARY INFORMATION

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

Executive Committee
Multistate Tax Commission

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Multistate Tax Commission for the year ended June 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenses for the year ended June 30, 2007, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lenton Shafer Warfield & Bennett

October 26, 2007

MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2007

Unappropriated and Appropriated Funds

	General Expenses	Audit Program	Administrative Expenses	Enterprise Automation
Accounting	\$ 10,000	\$ -	\$ 5,259	\$ -
Bonds and insurance	-	-	15,072	-
Conferences and training schools	79,573	6,391	858	-
Depreciation and amortization	-	16,429	52,540	9,272
Employee benefits	69,086	310,701	123,356	37
Miscellaneous	2,267	2,662	14,838	-
Office supplies	8,888	26,951	24,427	-
Postage	3,132	15,225	7,469	-
Printing and duplicating	8,637	8,725	9,885	-
Professional services	225,295	-	15,776	92,962
Publications and electronic resources	3,247	7,391	15,919	-
Recruitment	928	2,176	824	-
Rent	37,929	94,091	115,516	-
Repairs and maintenance	-	941	3,883	-
Retirement plan	61,808	184,071	64,552	-
Salaries	542,074	1,557,977	542,629	-
Software licenses	-	1,177	12,800	-
Staff training	2,288	3,748	5,156	-
Subscriptions, publications, dues	16,030	16,013	5,739	-
Telephone	11,285	29,232	11,365	-
Temporary help	-	-	-	-
Travel	61,109	151,056	22,933	-
Allocation of administrative expenses	302,400	639,540	(1,070,796)	-
Total Expenses	\$ 1,445,976	\$ 3,074,497	\$ -	\$ 102,271

		<u>Restricted Funds</u>			
	Total				
Training and Education	Unappropriated and Appropriated Funds	National Nexus Program	Total Restricted Funds	Total All Funds	
\$ -	\$ 15,259	\$ -	\$ -	\$ 15,259	
-	15,072	-	-	15,072	
35,017	121,839	5,588	5,588	127,427	
-	78,241	2,702	2,702	80,943	
15,941	519,121	63,570	63,570	582,691	
763	20,530	176	176	20,706	
4,981	65,247	3,458	3,458	68,705	
5,085	30,911	4,120	4,120	35,031	
17,840	45,087	1,393	1,393	46,480	
15,260	349,293	-	-	349,293	
-	26,557	2,109	2,109	28,666	
-	3,928	1,656	1,656	5,584	
-	247,536	72,048	72,048	319,584	
-	4,824	-	-	4,824	
9,960	320,391	31,964	31,964	352,355	
79,611	2,722,291	261,030	261,030	2,983,321	
695	14,672	-	-	14,672	
699	11,891	2,861	2,861	14,752	
73	37,855	7,038	7,038	44,893	
14	51,896	2,736	2,736	54,632	
-	-	19,140	19,140	19,140	
33,629	268,727	8,405	8,405	277,132	
-	(128,856)	128,856	128,856	-	
<u>\$ 219,568</u>	<u>\$ 4,842,312</u>	<u>\$ 618,850</u>	<u>\$ 618,850</u>	<u>\$ 5,461,162</u>	