Multistate Tax Commission

Annual Report
FY09-10

Multistate Tax Commission

Message from the Director

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

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

I submit to you the Annual Report of the Multistate Tax Commission, covering the Commission's activities for the fiscal year beginning July 1, 2009 and ending June 30, 2010.

Respectfully,

Joe Huddleston
Executive Director

Table of Contents

Overview of Actions Taken by Multistate Tax Commission

The Commission held its Annual Business Meeting, as required by Article VI of the Multistate Tax Compact, on July 30, 2009, in Kansas City, Missouri.

The Commission took the following actions during July 1, 2009 to June 30, 2010:

- Approved the Commission Budget for 2009-2010.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Adopted Policy Statement 2009-01, *Tribal-State Tax Issues*.
- Elected Stephen M. Cordi, Deputy Chief Financial Officer for Tax & Revenue, District of Columbia, as Chair.
- Elected Tim Russell, Commissioner, Alabama, as Vice Chair.
- Elected Robert J. Kleine, State Treasurer, Michigan, as Treasurer.
- Elected Susan Combs, Comptroller, Texas Comptroller of Public Accounts; Cory Fong, State Commissioner, North Dakota; Ramon J. Hirsig, Executive Director, California State Board of Equalization; and Roxy Huber, Executive Director, Colorado Department of Revenue, as at-large members of the Executive Committee.

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

States which have adopted the Multistate Tax Compact

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

MTC Officers FY09-10

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

Tim Russell, *Vice-Chair*
Commissioner
Alabama Department of Revenue

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

Executive Committee Report

The Executive Committee met five times during the period July 1, 2008, to June 30, 2009:

- July 30th in Kansas City, Missouri (immediately before the 2009 Annual Meeting of the Commission)
- December 3rd in Orange Beach, Alabama
- January 21st via teleconference
- April 7th via teleconference
- May 7th via teleconference

The Executive Committee also met via teleconference on July 1, 2010, the actions from which will be included in this report.

The meetings were regular meetings through which the committee has 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 2009-2010:

- Chairman: Stephen M. Cordi (District of Columbia)
- Vice Chairman: Tim Russell (Alabama)
- Treasurer: Robert J. Kleine (Michigan)
- At-large: Susan Combs (Texas), Cory Fong (North Dakota), Ramon J. Hirsig (California State Board of Equalization), and Roxy Huber (Colorado)

In May, following Mr. Russell's departure from the Alabama Department of Revenue, Mr. Fong was appointed and elected to fill the position of Vice Chair for the remainder of the term. In June, Royce Chigbrow, Chairman, Idaho Tax Commission, was appointed by the Chair to fill Mr. Fong's vacant at-large position on the Executive Committee (in accordance with the bylaws, Mr. Chigbrow was elected by the committee during its teleconference on July 1st).

The Executive Committee took the following actions during 2009-2010:

- Referred a letter from the Organization for International Investment regarding the treatment of income from payments to non-U.S. affiliates by businesses operating in the states under the MTC model combined reporting statute's waters edge election to the Uniformity Committee for their consideration.

- Following the cessation of the Uniform Law Commission (ULC) UDITPA revision project, directed the Uniformity Committee to commence a project for revisions to Article IV of the Compact (specifically, the five areas the MTC suggested as focal points for ULC's revision project), and directed the Uniformity Committee to come back to the Executive Committee if the Uniformity Committee recommends the scope of issues be changed.

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding proposed repeal of Uniform Principles Governing State Transactional Taxation of Telecommunications – Vendor and Vendee Versions.

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding proposed Amendments to Uniform Regulation IV.18.(A) Amendments.

- Approved the audited financial statements as reported in an independent auditor report for fiscal year July 1, 2008 – June 30, 2009.

- Directed the Executive Director to survey affected members to determine if they will consider adoption of a proposed Model Statute on Tax Collection Responsibilities of Accommodations Intermediaries within their respective jurisdictions.

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding proposed repeal of Guideline Regarding Applicability of Sales and/or Use Tax to Sales of Computer Software.

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding a proposed Model Mobile Workforce Withholding Statute.

- Directed the Executive Director to survey affected members to determine if they will consider the proposed repeal of Uniform Principles Governing State Transactional Taxation of Telecommunications – Vendor and Vendee Versions within their respective jurisdictions.

- Directed the Executive Director to survey affected members to determine if they will consider adoption of a proposed Amendments to Uniform Regulation IV.18.(A) Amendments within their respective jurisdictions.

- Approved the proposed 2010-2011 revenue budget for the Commission.

- Directed the Executive Director to survey affected members to determine if they will consider the proposed repeal of Guideline Regarding Applicability of Sales and/or Use Tax to Sales of Computer Software within their respective jurisdictions.

- Referred a proposed Model Mobile Workforce Withholding Statute back to the Uniformity Committee for further consideration.

- Elected Corey Fong, North Dakota Tax Commissioner, to serve out the unexpired portion of Tim Russell's term as Commission Vice Chair.

- Elected Royce Chigbrow, Chairman of the Idaho Tax Commission, to serve out the unexpired portion of Corey Fong's position on the Executive Committee.

- Approved the proposed 2010-2011 expenditure budget for the Commission.

The Executive Committee undertook additional actions during 2009-2010 that are recorded in the minutes of its meetings.

Audit Committee Report

Janielle Lipscomb
Oregon Department of Revenue
Chair, Audit Committee

Rick DeBano
Wisconsin Department of Revenue
Vice Chair, Audit Committee

Les Koenig, Director
Director, MTC Joint Audit Program

The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2009-2010 fiscal year.

AUDIT COMMITTEE

The Audit Committee met four times in fiscal year 6/10. They first met on July 28, 2009 in Kansas City, MO. There were 35 members, guests and staff present at the meeting. There were 27 individuals representing 17 Audit Program States present. There were 4 members of the public present at the meeting.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 8 income tax and 4 sales tax audits that had significant issues. The Audit Committee expressed its satisfaction with the status of the audits in progress.

The Audit Director distributed an electronic waiver form to be used by taxpayers who do not want to use a secured email distribution. Many states use such a form when taxpayers agree to send company information through an email.

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

The Audit Committee met a second time via a teleconference on November 19, 2009. There were 39 members, and staff present at the meeting. There were 33 individuals representing 23 Audit Program States present. Since this was a closed session meeting, there were no members of the public present at the meeting.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 13 income tax and 2 sales tax audits that had significant issues. The Audit Committee expressed its satisfaction with the status of the audits in progress.

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

The Audit Committee met for a third time on March 4, 2010 in Denver, Colorado. There were 26 members of the committee representing 20 member states. There were no members of the public present at the meeting. The Audit Director reported that the MTC Audit program completed 7 and parts of 3 sales tax audits and 2 and parts of 10 income audits through January 31, 2010. The Audit Committee met in closed session and discussed 6 sales tax audits in progress. The Committee also discussed 10 income tax audits in progress.

The MTC Litigation Committee joined the Audit Committee and held a 2 hour round table discussion. The group discussed 12 audit issues that have been discovered in various states.

The Audit Committee met for a fourth time via a teleconference on March 24, 2010. Twenty three members present representing twenty member states in a closed session. The sole purpose of this meeting was to formally select companies for the MTC audit inventory. The Committee selected 11 companies for income tax and 9 companies for sales tax.

JOINT AUDIT PROGRAM

PRODUCTIVITY

Audit Program completed 6 income tax audits and parts of 7 other income tax audits for fiscal year end 6/10. The Audit Program also completed 12 sales and parts of 1 other sales tax audits for fiscal year end 6/10. There are 21 income and 32 sales tax audits in progress. There were several income and sales tax cases that were delayed by the taxpayers due to turn over in their tax staffs or taxpayers being sold.

The MTC Audit Program proposed assessments of $120,203,436 for income tax and $13,532,715 for sales tax.

The Audit continued the process of revamping the Commission's Audit Manuals. There are two separate committees comprised of the Commission's Deputy Director, Audit Director, Audit Supervisors and auditors meeting weekly to complete this work. The income tax manual was distributed for review by the Audit Committee. It was also distributed to certain members of the public for comment. The draft of the sales tax manual was distributed to the Audit Committee and selected business community for comments.

The attached charts reflect the MTC Audit Program average hours per completed audits. Please note in interpreting the enclosed charts on productivity that declining numbers represent improvement.

STAFFING

Terry Daehn, income tax auditor resigned effective August 1, 2010. There is a hold on any future hiring until the budget is resolved.

TRAINING

There were statistical sampling classes held in September in Mitchell, South Dakota and another one in Chicago, Illinois in October 2009. Harold Jennings and Bob Schauer conduct the sampling classes. Cathy Felix, Jeff Silver and Larry Shinder participated as instructors in an income tax course in Alabama in May, 2010.

Audit Hour Analysis
Last Four Quarters

	9/09	12/09	3/10	6/10	**Total**
Income Tax Total Audits	1	1	1	3	6
Total States Audited	27	29	24	72	152
Total Hours	2080	2605	1544	4216	10445
Average Hours Per State	**77**	**90**	**64**	**59**	**69**
Sales Tax Total Audits	2	5	3	2	12
Total States Audited	26	62	36	23	147
Total Hours	1507	3868	4453	944	10772
Average Hours Per State	**58**	**62**	**124**	**41**	**73**
Total Both Taxes Total Audits	3	6	4	5	18
Total States Audited	53	91	60	95	299
Total Hours	3587	6473	5997	5160	21217
Average Hours Per State	**68**	**71**	**100**	**54**	**71**

MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/94- 6/10

	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	6/08	6/09	6/10
Income Tax Total Audits	9	9	9	10	9	7	10	8	7	8	7	7	9	7	7	3	6
Total States Audited	93	99	111	152	120	186	251	131	166	165	266	196	175	141	209	79	152
Total Hours	9016	9284	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440	10445
Average Hours Per State	**97**	**94**	**68**	**81**	**83**	**55**	**52**	**66**	**57**	**64**	**45**	**64**	**72**	**66**	**84**	**81**	**69**
Sales Tax Total Audits	13	15	13	14	10	16	11	14	13	11	10	11	6	15	9	10	12
Total States Audited	140	152	123	143	97	184	102	158	159	145	154	160	77	187	97	120	147
Total Hours	6818	8009	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265	10772
Average Hours Per State	**49**	**53**	**79**	**79**	**80**	**40**	**89**	**75**	**56**	**61**	**71**	**38**	**64**	**71**	**80**	**61**	**73**
Total Both Taxes Total Audits	22	24	22	24	19	23	21	22	20	19	17	18	15	22	16	13	18
Total States Audited	233	251	234	295	217	370	353	289	325	310	420	336	252	328	306	199	299
Total Hours	15834	17293	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705	21217
Average Hours Per State	**68**	**69**	**74**	**80**	**82**	**48**	**63**	**71**	**56**	**62**	**55**	**56**	**70**	**69**	**83**	**69**	**71**

Note: Change in policy occurred in 6/07. Audits are submitted on state by state basis rather than when entire audit is concluded. Audits are shown on this schedule when entire audit is completed. This results in a one year gap in completed audits for this reporting purpose in income tax.

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 the Committee's co-vice chairs. The Committee undertook the following activities during fiscal year 2010.

- **In-Person Meetings**

The Litigation Committee met July 27-28, 2009, in Kansas City, Missouri, with twenty-three representatives from twelve states attending. Our next meeting was March 4-5, 2010, in Denver, Colorado, where 23 representatives from sixteen states were in attendance. The March meeting included a special joint meeting with the MTC's Audit Committee that was productive and well-received by the attendees. At each meeting, the Committee adjourned, after a brief staff up-date and a U.S. Supreme Court report, to attend the Informational and Training Session for State Tax Attorneys, where attendees heard presentations on topics relevant to multistate litigation.

- **State Tax Attorney Teleconferences**

During this fiscal year, we continued to host our series of information and training sessions by teleconference. These teleconferences provide a forum for state attorneys general and revenue department attorneys to present recent significant legal developments in state tax law. The teleconferences were held on:

  - November 19, 2009;
  - April 20, 2010; and
  - May 4, 2010;

- **Paull Mines Award**

On July 29, 2009, Marshall Stranburg, General Counsel for the Florida Department of Revenue, was presented with the second annual Paull Mines Award for Contribution to State Tax Jurisprudence.

Marshall Stranburg
Florida Department of Revenue
Chair, Litigation Committee

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

Shirley K. Sicilian
MTC General Counsel

Nexus Committee Report

Lennie Collins
North Carolina Department of Revenue
Chair, Nexus Committee

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

This report reviews Nexus Committee activity in fiscal year 2010 (July 1, 2009 through June 30, 2010).

Committee Activities

The committee met twice during this period:

- July 28, 2009 in Kansas City, Missouri
- March 4, 2010 in Denver, Colorado

At each meeting the committee heard staff reports about activities of the National Nexus Program and offered general direction to Nexus program staff. The Executive Committee should be aware of the following items:

- Staff taught **three nexus training courses** during this period, in Topeka, Kansas; Loudoun County, near the District of Columbia; and Portland, Oregon. Each course lasted two days. Normally a state hosts a school, which consists chiefly of finding a venue, assisting with set up at the course, and agreeing to send a minimum number of students. The December school near DC was a trial to see whether Commission staff should itself host an annual school near the nation's capital. That school was attended by about half the usual number of students, all from the District of Columbia Office of Tax and Revenue. The low turn out may have been due to the unusual revenue situation. If demand for nexus training picks up, Nexus staff may offer a school at this location again. Montana will host a school in Helena in October 2010.

- The committee concluded its markup of the draft **voluntary disclosure guidelines** and voted to approve them as amended. Similar to an audit manual, this document when implemented will provide guidance to Commission staff and taxpayers regarding state voluntary disclosure policies. Based on input from the Commission Chair and several Executive Committee members, however, the Nexus Committee reconsidered section 12, which would require Commission staff to disclose the identity of a voluntary disclosant to states that had not signed a voluntary disclosure agreement with that taxpayer when there is reason to believe that the taxpayer misrepresented its facts for the purpose of voluntary disclosure. This provision makes multi-state voluntary disclosure more risky to taxpayers than single state programs because staff of single-state programs will not know the taxpayer's identity before an agreement is signed. Commission staff, on the other hand, have this information from the moment that the first state signs and would be required to provide it to all states that received an offer from that taxpayer, whether or not accepted. A Nexus subcommittee met to examine the issue and it drafted substitute language for the full committee's consideration at its July 2010 meeting. The Nexus Committee will likely present a re-drafted version to the Executive Committee for consideration at its next meeting.

- The committee continued its oversight of the renovation and improvement of the Commission's **voluntary disclosure software**. Staff and the Commission's software vendor completed the first portion of this project, including implementation of the feature to improve the experience for disclosants by allowing them to apply for voluntary disclosure through the commission's website. Staff believes that the Commission is second only to New York in implementation of an online application. Staff is using the software to track disclosures (approximately one thousand potential state contracts at any given time) and manage work flow more efficiently.

  The committee asked staff to further develop the goals and general conceptual outlines of phase II of this project, which involves giving states and taxpayers access to the software so that they may perform some functions themselves, and facilitating anonymous electronic communication between states and taxpayers. The second portion remains an unfunded concept for now. Following up on this request, Nexus staff have retained the services of RSI, the information technology vendor that built the first part of the database, and are working with this vendor on improvements.

  The committee heard a staff presentation regarding the federal Business Activity Tax Simplification Act (**BATSA**).

- In closed session at its July meeting, the committee heard a **presentation from a member state attorney on nexus litigation**, which included discussion of suggested legal theories and strategies regarding current and future litigation. The committee then had a **roundtable discussion** of the presentation that also included discussion of audit leads and enforcement techniques, and the status of specific nexus audits in member states. The committee found roundtable discussion to be very useful and made it a central feature of its March meeting, too. The committee will likely retain this on its agenda going forward.

- Still in closed session, the committee considered at its July meeting whether to look further into the **nexus status of a specific business entity**. It asked staff to collect and present information for its consideration at its next meeting. Staff made the presentation at the March meeting and based on this the committee asked Nexus staff to survey states regarding the sales/use tax registration status of this entity and, if there is not universal registration, to request an explanation from the entity. Staff collected information from states regarding the sales/use registration status of this entity and the committee will consider additional action at its July 2010 meeting.

- The committee requested at its March meeting that staff conduct **discovery research on four industries** (2-3 businesses in each industry). The committee will hear the staff report at its July 2010 meeting.

- In closed session at its March meeting, Nexus staff presented research on an additional **business entity that may have nexus** in multiple states and may not be registered for sales and use tax collection. The committee discussed specific responses to the information, including sharing information pursuant to applicable law and information exchange agreements.

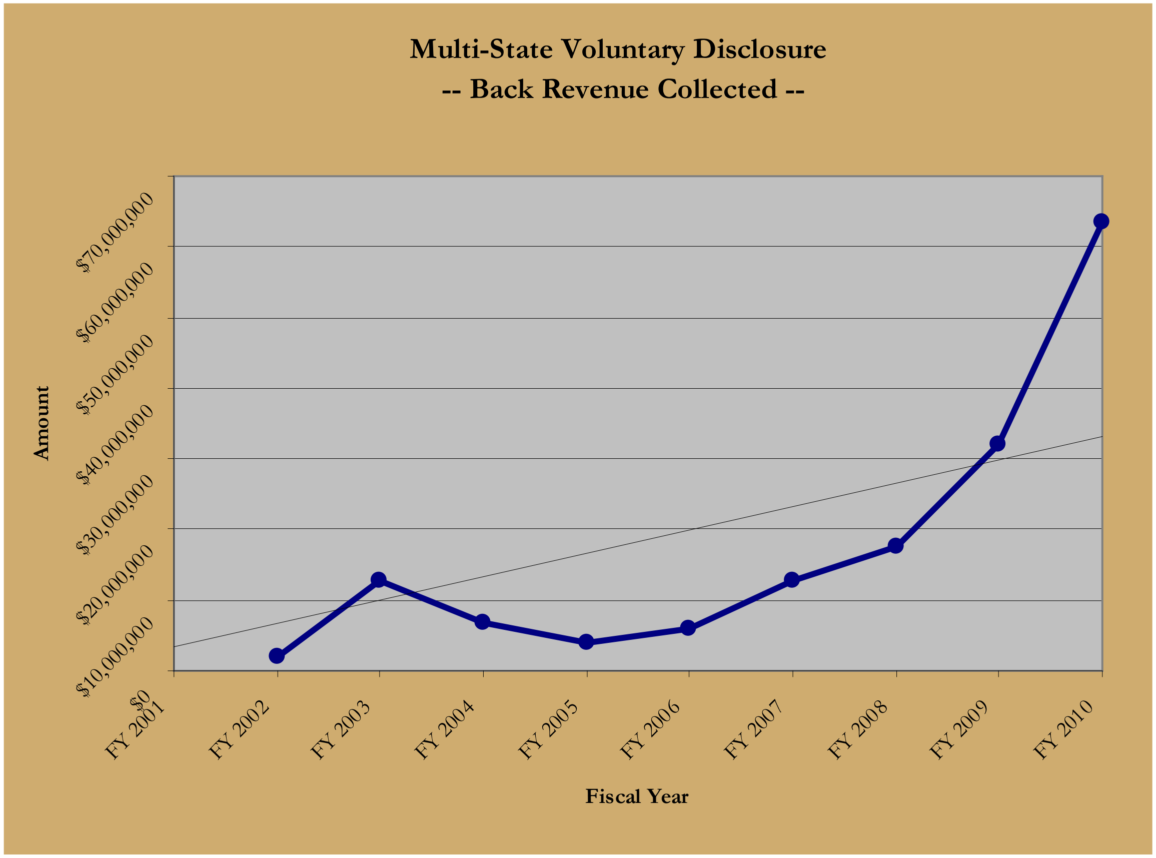
- Also in closed session at its March meeting, Nexus staff presented research findings about another **business entity that may have nexus** without benefit of sales and use tax registration. The committee asked that Nexus staff coordinate information sharing pursuant to applicable law and information exchange agreements.

Multi-state Voluntary Disclosure

In fiscal year 2010 (June 30, 2009 through June 30, 2010) the National Nexus Program:

- Opened Files for 87 voluntary disclosure applicants and executed **440 contracts**. The average contract value in FY 2010 was $144,084. **States collected $63,396,870 in fy 2010**. Nexus staff will present each member state with its particular information regarding the revenue performance of the voluntary disclosure program.

  Please note: $63,396,870 includes only back tax actually collected (cash basis). It may also contain a trivial amount of penalty, interest, and miscellaneous fees if they were collected before conclusion of the voluntary disclosure. It does not include any tax, interest, penalty, or other thing of value collected after the voluntary disclosure process ended. States almost always collect substantial interest on back tax amounts after the end of the voluntary disclosure process, but the Commission does not include these amounts in its reports.



Technology Committee Report

Steve Wilson
Idaho State Tax Commission
Chair, Technology Committee

The Technology Committee chair position is vacant. Chair Steve Wilson, formerly of the Idaho State Tax Commission, accepted the position of Deputy State Controller, CIO, Office of the State Controller, effective February 1, 2010. The vice-chair position had been vacant since Steve became Chair.

The committee met July 27, 2009, in Kansas City, Missouri. The committee also held three teleconferences: September 13, 2009, November 20, 2009, and January 21, 2010.

The Commission's computing assets and information security structures are appropriately maintained and operational. An assessment and simplification of network infrastructure relying on virtualization technology is planned for later this year. Improvements to our secure connectivity process and access by remote staff are being implemented.

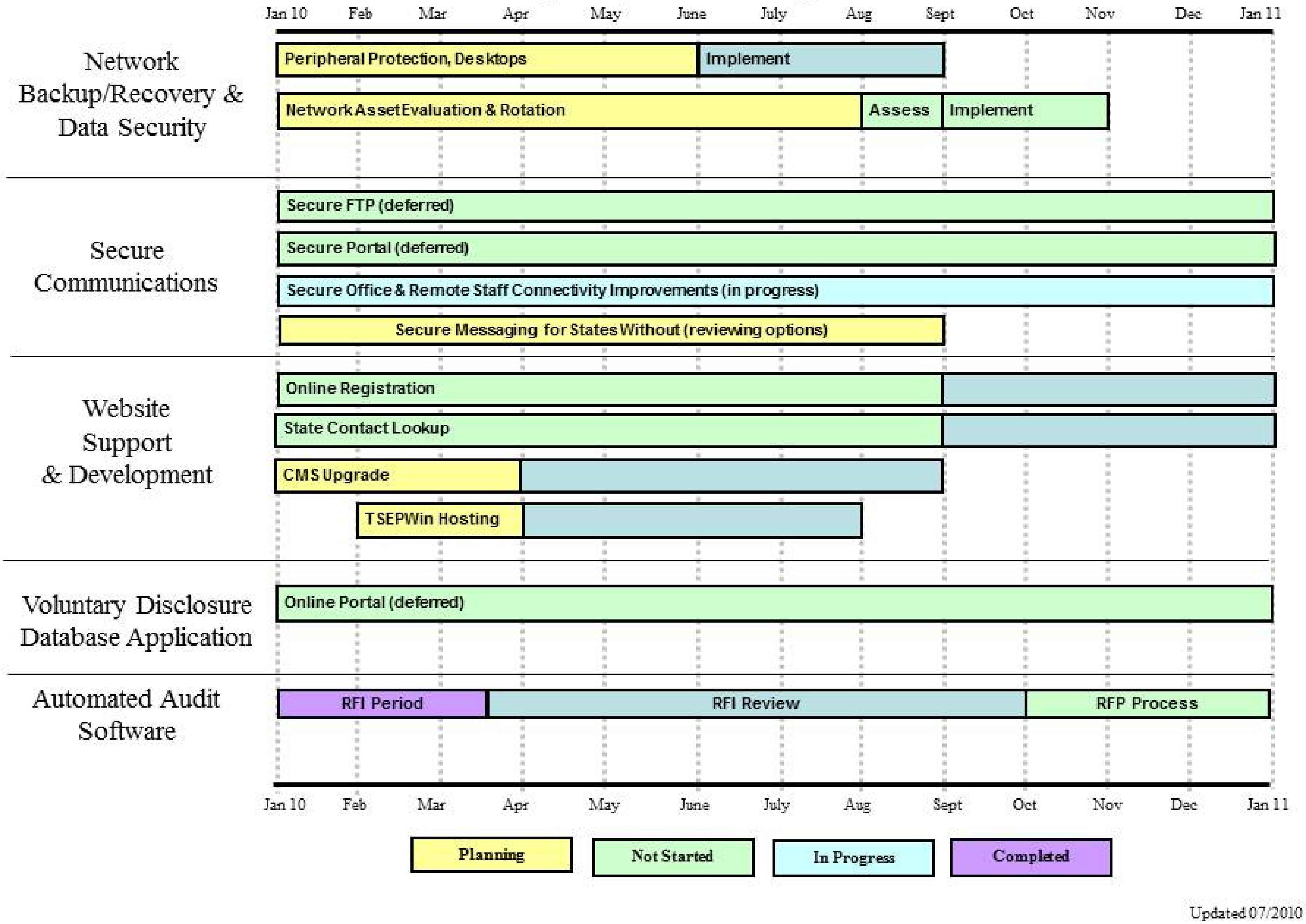
The website continues to be a key aspect of the Commission's public face, and an active resource for the states and stakeholders. An upgrade to the content management system (CMS) was initiated in April of this year; the upgrade has been completed pending testing. Currently, the upgrade site is being maintained in parallel with the live site; the upgraded site will be switch to live once we are sure the move will be reasonably transparent to website users. The CMS upgrade will facilitate long-standing goals, such as online payment in conjunction with registration, as well as better content management.

The Commission received three responses to its Request for Information for the Automated Audit Program Software Project. Commission staff has been reviewing these and they will be discussed at the scheduled Technology Committee meeting during the annual meeting week, July 25-29, in Hood River, Oregon.

The staff maintains a list of Technology Committee contacts, and there have been a few individuals who have expressed new or renewed interest (none in being chair, however). The committee has been an invaluable source of advice and input with respect to internal technology issues and projects.

An updated project roadmap for calendar year 2010 is attached.

MTC Technology Projects Roadmap for CY 2010



Training Program Report

Ken Beier
Director, MTC Training Program

The Commission offered six in person courses during the 2009-2010 fiscal year. These courses reached 97 participants--93 from the states, 2 from the Office of the Revenue Commissioners of Ireland, and 2 from the private sector. In addition, the 2009 Annual Conference in Kansas City attracted 60 attendees.

During the coming year, courses will be scheduled as interest is expressed by the states. The "host" arrangement may also be expanded to include private sector entities, particularly for the Statistical Sampling and Basic Random Sampling courses. We also hope to be able to use an online training platform to sponsor an initial online course in 2011.

Courses Offered in 2009-2010

The following MTC courses were offered during the year:

Corporate Income Tax
May 17-19, 2010 in Montgomery, Alabama for 39 students

Nexus School
October 19-20, 2009 in Topeka, Kansas for 14 students
December 7-8, 2009 in Washington, DC Metro Area
(National Conference Center in Lansdowne, Virginia) for 13 students
June 28-29, 2010 in Portland, Oregon for 21 students

Computer Assisted Audit Using Excel and Basic Random Sampling
September 14-18, 2009 in Mitchell, South Dakota for 19 students

Statistical Sampling for Sales and Use Tax Audits
October 19-22, 2009 in Chicago, Illinois for 6 students from the states, 2 students from the Office of the Revenue Commissioners of Ireland, and 2 students from the private sector.

Courses Schedule for 2010-2011

The following courses are currently scheduled:

Nexus School
October 26-27, 2010 in Helena, Montana (tentative)

Statistical Sampling for Sales and Use Tax Audits
March 2011 in Chicago, Illinois (tentative)

We anticipate scheduling additional course sessions as interest is expressed by the states. We are also discussing the hosting of the Statistical Sampling for Sales and Use Tax Audits and Basic Random Sampling courses by two private sector entities. Updates to our schedule as well as registration information can be found at www.mtc.gov or by contacting Antonio Soto at 202-508-3846.

Online Course Platform

Distance learning technology could support MTC teleconferences and hearings, in addition to online training for state personnel and MTC staff. Commission staff members have reviewed features and system requirements for several online training and web conferencing products and anticipate a trial of an online service in late August 2010. MTC staff teleconferences and software training for MTC staff are expected to utilize the system during the trail. If we proceed with using this service after the trial period, then it use can be expanded to include meetings and training for the states.

Financial Income Tax Audit Course

The states have expressed a need for a financial income tax audit course and MTC and state personnel are expected to start development of materials in late 2010 for this course. Topics will include computing income, use of pass through entities, auditing the apportionment formula, and special rules that apply to financial businesses.

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 45 states and the District of Columbia recognize NASBA certification for granting of CPE credit for in-person courses. The Commission also certifies attendance for CLE credit at Commission sponsored events.

Tuition and Host State Credit

The tuition schedule for 2010-2011 remains at the level established for 2007-2008. The current rates for Compact and Sovereignty member states reasonably reflect the cost of staff time and variable costs for our courses. Tuition for private sector participants in the Statistical Sampling and other courses is now set at 75% above the level for Compact and Sovereignty members. The "add-on" for Project Member States is 25% and Other States is 40%, relative to the fees for Compact and Sovereignty members. Fees for new courses will be set when they are scheduled.

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

Private Sector Participation

We had private sector participation at the Statistical Sampling for Sales and Use Tax Audits course in October 2009 and at Part 1 of the Corporate Income Tax course, held in West Virginia in April 2009.

Online Registration

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

Uniformity Committee Report

Ted Spangler
Idaho State Tax Commission
Chair, Uniformity Committee

Wood Miller
Missouri Department of Revenue
Chair, Income and Franchise Tax Uniformity Subcommittee

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

Shirley K. Sicilian
MTC General Counsel

The Uniformity Committee was chaired by Ted Spangler, Idaho, until his retirement from state service on March 31, 2010. Wood Miller, Missouri, has been appointed Chair. The Committee structure includes two standing Subcommittees: the Income & Franchise Tax Uniformity Subcommittee, chaired by Wood Miller, Missouri; and the Sales & Use Tax Uniformity Subcommittee, chaired by Richard Cram, Kansas. Mr. Miller agreed to continue as Acting Chair of the Income & Franchise Tax Subcommittee through this fiscal year. In addition, the Subcommittees have appointed Work Groups, Drafting Groups, and Study Groups, as needed. Lennie Collins, North Carolina, chairs the Work Group for the Financial Institutions Apportionment project. The Committee, together with its Subcommittees and Groups, worked on the following eleven projects during fiscal year 2010.

Summary

- **Sales & Use Tax Uniformity**

  1. Sales & Use Tax Notice and Reporting
  2. Administration of Telecommunications Transaction Tax
  3. Transactional Taxation of Telecommunications, Vendor-Vendee, Repeal
  4. Application of Sales and Use Tax to Computer Software, Repeal

- **Income & Franchise Tax Uniformity**

  1. Compact Art. IV, Amendment
  2. Section 18 Model Regulation (Distortion Relief), Amendment
  3. Withholding for Multistate Employees
  4. Entities with Affiliates that are Not Subject to Corporate Income Tax
  5. Financial Institutions Apportionment, Amendment
  6. Add-back Statute for Captive REIT Payments
  7. Combined Reporting Tax-Haven Provisions, Amendment

Description

Sales & Use Tax Uniformity Subcommittee

1. ***Sales and Use Tax Notice and Reporting.*** At its March, 2010 meetings, the Subcommittee voted to develop a model sales and use tax notice and reporting statute. The drafting group prepared a policy question list, and based on the Subcommittee's answers to those questions over the course of 3 teleconferences, prepared a first draft of a model statute for Subcommittee review. The draft requires sellers who are not collecting sales or use tax to notify purchasers of a potential tax liability at the time of sale if the product is to be delivered into the state. The draft also requires the seller to make annual reports to each such purchaser and an annual report to the state. The draft allows for certain de minimis exceptions and for penalties.

2. ***Administration of Telecommunications Transaction Tax.*** This project has three goals. First, develop "best practices" models for centralize administration of local telecommunications transaction taxes under 3 alternative state structures (state taxes distributed to locals, local taxes administered by state, or local taxes administered by centralized local authority). Second, adopt model telecommunications definitions and sourcing rules along the lines of those currently contained in SSUTA. And third, adopt model administrative procedures that would provide protections from class-action lawsuits as contained in SSUTA. The Subcommittee's drafting group, which includes representatives from both government and industry, has prepared a draft model statute for centralized administration of state and local telecommunications taxes which could apply in states where there is local authority to impose tax, but required administration at the state level (Proposal II).[1] Local government representatives have been invited to participate. Because proposed federal Streamlined legislation would require simplification of state and local telecommunications transactions tax administration, staff for the Streamlined Sales Tax Governing Board will also participate.

3. ***Transactional Taxation of Telecommunications – Vendor and Vendee Versions, Repeal.*** This MTC model, titled "Principles Governing State Transactional Taxation of Telecommunications — Vendor and Vendee Versions," was adopted in 1993. The Uniformity Committee determined the model is inconsistent with the regulatory structure adopted under the federal Telecommunications Act of 1996 and should therefore be repealed. The Subcommittee determined there was no need to replace the provision at this time, since a current model is provided by the SST Agreement. In December, 2009, the Executive Committee voted to approve this proposed repeal to public hearing. The public hearing was held on February 8, 2010 and on April 7 the Executive Committee approved the proposed repeal for a bylaw 7 survey. Thirteen Compact member states responded affirmatively and none responded negatively. The proposed repeal is on the Commission 2010 business meeting agenda.

4. ***Application of Sales and Use Tax to Computer Software, Repeal.*** This model, titled "Guideline Regarding Applicability of Sales and/or Use Tax to Sales of Computer Software," was promulgated in 1988. The Subcommittee determined it is outdated and should be repealed. The Subcommittee also determined it was not necessary to produce a revised version at this time since a current model is provided by the SST Agreement. A public hearing was held on May 11, 2010. On May 24, 2010 the Executive Committee approved the proposal for a bylaw 7 survey. Eleven Compact member states responded affirmatively and none responded negatively. The proposed repeal is on the Commission 2010 business meeting agenda.

[1] *Proposal I could apply in states where tax imposition and administration are solely at the state level. Proposal III could apply in states where authority to tax as well as centralized administration are at the local level. The Subcommittee directed the Drafting Group to concentrate on development of Proposal II first.*

Income & Franchise Tax Uniformity Subcommittee

1. ***Compact Art. IV, Amendment.*** In July, 2009, the Executive Committee directed the Uniformity Committee to begin drafting amendments for 5 Compact Art. IV provisions (Section 17, Definition Gross Receipts, Definition Business Income, Factor weighting, Clarification Sec. 18), and instructed the Uniformity Committee to report back if it recommends the scope of review be changed. In December, 2009, Richard Pomp, Prentiss Willson, and Michael McIntyre provided an educational foundation of UDITPA background and apportionment concepts for the Subcommittee. The Subcommittee then held a series of teleconferences to give the drafting group direction for a first draft of a new section 17. In June 2010, the drafting group (including representatives from OR, ID, MA, CA and AL) produced a first full draft. The Subcommittee will consider this draft at its July 2010 meeting.

2. ***Section 18 Model Reg. (Distortion Relief), Amendment.*** The proposed amendment would delete language limiting Section 18 relief to "unusual fact situations (which ordinarily will be unique and non-recurring)." It would retain the language limiting relief to "limited and specific cases" that produce "incongruous results." In July, 2009, the Uniformity Committee voted to recommend amendment favorably to Executive Committee for public hearing. In December, Executive Committee approved a public hearing, which was held on January 25, 2010. In April 2010, the Executive Committee approved the model for a bylaw 7 survey. Eleven Compact member states responded affirmatively and one responded negatively. The proposed amendment is on the Commission 2010 business meeting agenda.

3. ***Withholding for Multistate Employees.*** This is a priority project to develop a uniform state withholding threshold for non-resident employees. A work group held 3 teleconferences in August, 2009, to develop a policy question list. The Subcommittee then held three teleconferences in September, October and November of 2009 to answer those questions. Based on the Subcommittee's policy choices, staff produced a draft model statute which was further amended by the Subcommittee at in-person and teleconference meetings held December 2009, January 2010, and March 2010. The Subcommittee received valuable input from the Council on State Taxation, the American Payroll Association, and other business representatives. In March, 2010, the Subcommittee voted to approve the model and the Uniformity Committee then voted to recommend it favorably to the Executive Committee for public hearing. In April, 2010, the Executive Committee approved the model for public hearing. A public hearing was held on May 10, 2010, and a hearing officer's report was provided to the Executive Committee on May 18, 2010. The proposed model sets a *de minimis* threshold, based on number of days in the state, for both employer withholding responsibility and employee individual income tax filing responsibility; includes a

reciprocity provision (though it would not supersede existing reciprocity agreements), and; provides exceptions for professional entertainers, professional sportsmen and women, certain other high-income individuals, and any person who earns any type of income other than wage income in the state. At its May 24, 2010 teleconference, the Executive Committee voted to return the model to the Uniformity Committee for further consideration.

4. ***Entities with Affiliates Not Subject to Corporate Income Tax.*** This project addresses tax gap issues that arise when a pass-through entity is owned by another entity that is not subject to corporate income tax. The Subcommittee has considered several alternative approaches to the issues and received significant helpful input from the insurance industry. The Subcommittee will receive additional industry input and consider two alternative draft model statutes during its meeting in Hood River in July.

5. ***Financial Institutions Apportionment, Amendment.*** The Subcommittee's work group, which includes representatives from several states and the banking industry, identified problems with the current MTC financial institutions model and proposed conceptual amendments for addressing them. The amendments included clarifications to the property factor rule for sourcing loans (based on SINAA – solicitation, investigation, negotiation, approval and administration); new receipts factor rules for sourcing ATM fees, merchant discounts, and trust account fees; and revisions to the receipts factor rule that requires use of COP for sourcing any receipts not otherwise specified. The Subcommittee agreed with the work group's conceptual recommendations, and directed the work group to draft amendments accordingly. The work group has completed a draft of recommended changes to the receipts factor. The next step is for the Subcommittee to review these recommendations and to decide whether to accept them or return them to the work group for further development. The work group will also begin drafting amendments for the property factor.

6. ***Model Add-back Statute for REITs.*** This model requires taxpayers to "add back" rental payments made to majority-owned ("captive") Real Estate Investment Trusts (REITs). The model addresses issues that arise for separate entity states and that are not already addressed through either the MTC model add-back statute or the MTC model captive REIT statute. On May 13, 2010, the proposed model was approved by the full Uniformity Committee. On July 29, 2010, the Executive Committee will consider whether to approve the model for public hearing.

7. ***Combined Reporting Tax-Haven Provisions, Amendment.*** The MTC model combined reporting statute requires world-wide combination but allows a water's-edge election. The election limits the combined group to domestic, and some foreign, unitary affiliates. At the request of Organization for International Investment and a number of jurisdictions that had been identified as "tax havens" by the OECD, the Executive Committee requested the Uniformity Committee considered whether to review 3 water's-edge provisions. The Uniformity Committee determined it should initiate a project on one of the three, the Tax-Haven provisions. Staff has gathered background information and possible options for the Subcommittee to consider at its July 2010 meetings.

MULTISTATE TAX COMMISSION

Financial Statements and Report of Independent Certified Public Accountants

For the Years Ended June 30, 2010 and 2009

LSWG

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

Financial Statements and
Report of Independent Certified Public Accountants

MULTISTATE TAX COMMISSION
Table of Contents
June 30, 2010 and 2009

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

Jennifer P. Clingan, CPA
Edward T. Garrett, CPA
Meredith C. Harshman, CPA
Paul D. Hemme, CPA
Kevin R. Hessler, CPA
Lisa D. Landaverde, CPA
Donald C. Linton, CPA, CFP, PFS
Joseph M. McCathran, CPA
Brian E. Rippeon, CPA
Barbara Cline-Roman, CPA
Ronald W. Shafer, CPA
Douglas C. Warfield, CPA, CVA

Report of Independent Certified Public Accountants

Executive Committee
Multistate Tax Commission

We have audited the accompanying balance sheets of Multistate Tax Commission as of June 30, 2010 and 2009 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Linton Shafer Warfield & Garrett

November 16, 2010

932 Hungerford Drive, Suite 29B • Rockville, Maryland 20850-1752 • 240-314-7075 • FAX 240-314-7079
ROCKVILLE • FREDERICK • ANNAPOLIS
www.lswgcpa.com

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION
Balance Sheets
June 30,

ASSETS

	2010	2009
Current Assets		
Cash and cash equivalents	$ 1,508,621	$ 2,847,135
Accounts receivable		
Schools	36,764	3,580
Members	218,760	82,035
Accrued interest	21,794	10,066
Prepaid expenses	45,991	49,197
Total Current Assets	1,831,930	2,992,013
Property and Equipment - at Cost		
Office furniture and equipment	667,604	647,487
Leasehold improvements	236,147	236,147
Less: accumulated depreciation and amortization	(588,418)	(566,646)
Property and Equipment - Net	315,333	316,988
Other Assets		
Investments	2,874,531	1,177,308
Expense account advances	7,200	7,600
Deposits	6,165	6,643
Total Other Assets	2,887,896	1,191,551
TOTAL ASSETS	$ 5,035,159	$ 4,500,552

LIABILITIES

	2010	2009
Current Liabilities		
Accounts payable	$ 70,870	$ 14,369
Payroll taxes withheld and accrued	32,128	32,472
Accrued salaries and vacation pay	331,719	346,432
Current portion of capital lease obligation	-	4,417
Deferred assessments and audit reimbursements	488,078	293,405
Total Current Liabilities	922,795	691,095
TOTAL LIABILITIES	922,795	691,095
Commitments and Contingencies - Note 3		
Fund Balances		
Unappropriated	2,674,348	2,533,759
Appropriated	490,714	473,214
Restricted	947,302	802,484
Total Fund Balances	4,112,364	3,809,457
TOTAL LIABILITIES AND FUND BALANCES	$ 5,035,159	$ 4,500,552

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,

	2010	2009
Revenue - Unappropriated and Appropriated		
Assessments	$ 5,380,022	$ 5,689,086
Interest	90,040	48,847
Realized gain on investments	1,021	-
Unrealized gain on investments	70,377	-
Other income		
Training fees	90,794	174,647
Miscellaneous	18,865	24,391
Total Revenue	5,651,119	5,936,971
Expenses - Unappropriated and Appropriated		
Accounting	17,491	17,211
Bonds and insurance	19,556	18,442
Conferences and training schools	106,262	121,711
Depreciation and amortization	82,458	92,783
Bond amortization	25,108	1,283
Employee benefits	869,166	793,585
Miscellaneous	13,392	13,623
Consumable supplies	26,886	42,244
Postage	25,801	28,408
Printing and duplicating	22,671	24,098
Professional services	210,409	189,880
Publications and electronic resources	30,374	32,299
Recruitment	-	2,450
Rent	234,725	269,868
Repairs and maintenance	9,619	8,712
Retirement plan	394,137	391,900
Salaries	3,166,641	3,247,327
Software licenses	15,747	19,303
Staff training	5,228	10,659
Subscriptions, publications, dues	38,951	39,538
Telephone	56,861	53,331
Travel	234,683	282,558
Allocation of administrative expenses	(113,136)	(186,316)
Total Expenses	$ 5,493,030	$ 5,514,897

(continued)

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

	2010	2009
Excess of Revenue Over Expenses	$ 158,089	$ 422,074
Transfer to Appropriated Fund Balance	(17,500)	(17,500)
Transfer from Restricted Fund Balance	-	-
Total Amount Transferred	(17,500)	(17,500)
FUND BALANCE - Unappropriated - Beginning of Year	2,533,759	2,129,185
FUND BALANCE - Unappropriated - End of Year	$ 2,674,348	$ 2,533,759

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

THIS PAGE LEFT BLANK INTENTIONALLY.

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

	State Tax Compliance	Federalism At Risk	Equipment Reserve	Enterprise Automation Project	Nexus Activities	Membership Development and Relations	Total
Fund Balance - June 30, 2008	$ 23,918	$ 25,146	$ -	$ 287,795	$ 90,000	$ 28,855	$ 455,714
Transfer to Unappropriated Fund Balance	-	-	17,500	-	-	-	17,500
Net Amount Transferred (To) From Unappropriated Fund Balance	-	-	17,500	-	-	-	17,500
Fund Balance - June 30, 2009	23,918	25,146	17,500	287,795	90,000	28,855	473,214
Transfer from Unappropriated Fund Balance	-	-	17,500	-	-	-	17,500
Net Amount Transferred (To) From Unappropriated Fund Balance	-	-	17,500	-	-	-	17,500
Fund Balance - June 30, 2010	$ 23,918	$ 25,146	$ 35,000	$ 287,795	$ 90,000	$ 28,855	$ 490,714

The accompanying notes are an integral part of these statements.

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

	4R Project	Nexus Program	Total
Fund Balance - June 30, 2008	$ 42,694	$ 858,739	$ 901,433
Revenue	-	816,831	816,831
Expenses	-	915,780	915,780
Excess (Deficiency) of Revenue Over Expenses	-	(98,949)	(98,949)
Fund Balance - June 30, 2009	42,694	759,790	802,484
Revenue	-	791,130	791,130
Expenses	-	646,312	646,312
Excess (Deficiency) of Revenue Over Expenses	-	144,818	144,818
Transfer to Unappropriated Fund Balance	-	-	-
Fund Balance - June 30, 2010	$ 42,694	$ 904,608	$ 947,302

The accompanying notes are an integral part of these statements.

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

	2010	2009
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	$ 302,907	$ 323,125
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	86,312	98,181
Bond amortization	25,108	1,283
Loss on disposal of property and equipment	358	762
Unrealized loss (gain) on investments	(70,377)	1,147
Realized gains on sale of investments	(1,021)	-
Changes in assets and liabilities		
Accounts receivable		
Schools	(33,184)	45,156
Members	(136,725)	(82,035)
Prepaid expenses and accrued interest	(8,522)	(3,009)
Expense account advances	400	(400)
Deposits	478	-
Accounts payable	56,502	(28,225)
Payroll taxes withheld and accrued	(344)	2,145
Accrued salaries and vacation pay	(14,713)	27,386
Accrued self insurance	-	(66,000)
Deferred assessments and audit reimbursements	194,673	173,250
Net Cash Provided by Operating Activities	401,852	492,766
Cash Flows From Investing Activities		
Purchase of property and equipment	(85,015)	(41,703)
Proceeds from sale of property and equipment	-	225
Purchase of investments	(1,850,934)	(1,179,738)
Proceeds from sale of investments	200,000	-
Payments on capital lease	(4,417)	(5,036)
Net Cash Used in Investing Activities	(1,740,366)	(1,226,252)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,338,514)	(733,486)
Cash and Cash Equivalents - Beginning of Year	2,847,135	3,580,621
Cash and Cash Equivalents - End of Year	$ 1,508,621	$ 2,847,135
Supplemental Disclosures		
Income taxes paid	$ -	$ -
Interest paid	$ 114	$ 400

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

1. Summary of Significant Accounting Policies

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

Cash Equivalents

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

Accounts Receivable

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

Property and Equipment

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

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

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

Deferred Assessments and Audit Reimbursements

Assessments and audit reimbursements are due from the respective states on July lst of each year (unless other specific arrangements are made with a State) and cover the following twelve-month period. Assessments received prior to July 1st for the following year are unearned and considered deferred income until recognized as revenue in the following year.

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.

Fair Value

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

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

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

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

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

1. Summary of Significant Accounting Policies (Continued)

Fair Value - continued

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

2. Retirement Plan

Effective June 30, 1986, the Commission adopted a defined contribution plan to be funded at a rate of 12.4% of each participating individual's annual salary. To participate in this plan, employees are required to work more than certain pre-determined hourly and monthly levels throughout the plan year. The total pension expense relating to the defined contribution plan for the years ended June 30, 2010 and 2009 was $424,945 and $421,319, respectively.

3. Commitments

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

Fiscal Year Ended:	Minimum Annual Payment
2011	$ 338,951
2012	341,773
2013	311,717
2014	203,993
2015	48,474

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, 2010 and 2009 was $377,804 and $374,724, 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 culminated in a written report published in 2003.

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

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.

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

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

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

8. Investments

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

	Cost 2010	Market 2010	Cost 2009	Market 2009
Investments				
Certificates of deposit	$ 258,058	$ 258,058	$ 250,000	$ 250,000
US Government and Agency securities	2,546,796	2,616,473	928,456	927,308
Total Investments	$ 2,804,854	$ 2,874,531	$1,178,456	$1,177,308

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

9. Allocation of Administrative Expenses

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

10. Use of Estimates

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

11. Concentration of Credit Risk

The Commission maintains cash balances in two banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at each bank. The Commission has a collateral agreement with one bank to cover amounts uninsured by FDIC. At June 30, 2010 and 2009, there was uninsured cash balances of $18,186 and $10,031, respectively. The Commission has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

12. Capital Lease

The Commission acquired certain equipment under the provisions of a long-term lease. Once the lease expired in 2010, the Commission purchased the equipment at fair market value, with no additional required lease payments.

13. Subsequent Events

Management has evaluated subsequent events through November 16, 2010, the date that the financial statements were available to be issued. There were no significant events to report.

SUPPLEMENTARY INFORMATION

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

JENNIFER P. CLINGAN, CPA
EDWARD T. GARRETT, CPA
MEREDITH C. HARSHMAN, CPA
PAUL D. HEMME, CPA
KEVIN R. HESSLER, CPA
LISA D. LANDAVERDE, CPA
DONALD C. LINTON, CPA, CFP, PFS
JOSEPH M. McCATHRAN, CPA
BRIAN E. RIPPEON, CPA
BARBARA CLINE-ROMAN, CPA
RONALD W. SHAFER, CPA
DOUGLAS C. WARFIELD, CPA, CVA

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, 2010. 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 is presented for purposes of additional analysis and is not a required part of the basic 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 basic 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 basic financial statements taken as a whole.

Linton Shafer Warfield & Garrett

November 16, 2010

932 Hungerford Drive, Suite 29B • Rockville, Maryland 20850-1752 • 240-314-7075 • FAX 240-314-7079
ROCKVILLE • FREDERICK • ANNAPOLIS
www.lswgcpa.com

MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2010

	Unappropriated and Appropriated Funds					Restricted Funds		
	General Expenses	Audit Program	Administrative Expenses	Training and Education	Total Unappropriated and Appropriated Funds	National Nexus Program	Total Restricted Funds	Total All Funds
Accounting	$ 10,500	$ -	$ 6,991	$ -	$ 17,491	$ -	$ -	$ 17,491
Bonds and insurance	-	-	19,556	-	19,556	-	-	19,556
Conferences and training schools	83,338	3,826	149	18,949	106,262	3,826	3,826	110,088
Depreciation and amortization	-	14,929	67,529	-	82,458	3,854	3,854	86,312
Bond amortization	9,541	15,567	-	-	25,108	-	-	25,108
Employee benefits	180,992	521,985	154,546	11,643	869,166	71,551	71,551	940,717
Miscellaneous	1,252	4,244	5,703	2,193	13,392	-	-	13,392
Consumable supplies	4,191	9,399	12,026	1,270	26,886	610	610	27,496
Postage	2,049	15,016	6,971	1,765	25,801	3,608	3,608	29,409
Printing and duplicating	8,200	4,281	1,259	8,931	22,671	-	-	22,671
Professional services	157,195	10,566	38,328	4,320	210,409	10,313	10,313	220,722
Publications and electronic resources	2,503	10,253	16,220	1,398	30,374	-	-	30,374
Recruitment	-	-	-	-	-	5,697	5,697	5,697
Rent	33,991	77,417	123,317	-	234,725	143,079	143,079	377,804
Repairs and maintenance	8	323	9,288	-	9,619	-	-	9,619
Retirement plan	99,096	230,081	60,467	4,493	394,137	30,808	30,808	424,945
Salaries	790,333	1,854,788	483,789	37,731	3,166,641	246,687	246,687	3,413,328
Software licenses	-	1,420	14,327	-	15,747	695	695	16,442
Staff training	1,121	424	3,683	-	5,228	40	40	5,268
Subscriptions, publications, dues	20,850	11,788	5,138	1,175	38,951	3,548	3,548	42,499
Telephone	20,750	23,293	11,402	1,416	56,861	3,318	3,318	60,179
Travel	63,805	132,936	17,198	20,744	234,683	5,542	5,542	240,225
Allocation of administrative expenses	318,611	626,140	(1,057,887)	-	(113,136)	113,136	113,136	-
Total Expenses	$ 1,808,326	$ 3,568,676	$ -	$ 116,028	$ 5,493,030	$ 646,312	$ 646,312	$ 6,139,342