

ANNUAL REPORT



Multistate Tax Commission



FISCAL YEAR
2015-2016





MULTISTATE TAX COMMISSION

ANNUAL REPORT FOR FISCAL YEAR 2016

(July 1, 2015 – June 30, 2016)

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Message from the Executive Director

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



I am pleased to present the 2016 Annual Report of the Multistate Tax Commission, covering the activities of the Commission and its various committees and staff during the time period July 1, 2015, to June 30, 2016. This annual report presents a convenient compilation of reports presented to the Commission at its 2016 annual meeting in July, as well as the *Financial Statements and Report of Independent Certified Public Accountants for the Years Ended June 30, 2016 and 2015*.

The Multistate Tax Commission (MTC) is an intergovernmental state tax agency whose mission is to achieve fairness by promoting compliance and consistent tax policy and practice and to preserve the sovereignty of state and local governments over their tax systems. Our vision is that before the end of this decade, the MTC will be recognized as the “gold standard” for tax policy development, the primary authority for the public and public officials on issues of state and local tax uniformity and fairness, and the leading resource for ensuring equitable tax compliance.

During the period covered by this report, there were a number of changes in the staff of the Commission. In addition to my appointment as executive director, we had these new hires – a deputy executive director, a nexus program director, and an events and training manager. Two strategic planning projects were in progress and the arm’s-length adjustment service committee held its initial meeting. These efforts, in addition to the work of the audit and nexus programs, our uniformity projects, the litigation support provided to states, and the monitoring of federal developments that have state tax impacts, reflect the commitment we have to achieve our vision.

I ask for your continued input and support as the Commission continues its work in these areas, as well as when we undertake new programs and projects. The Annual Report of the Multistate Tax Commission – by nature, a backward look at the Commission’s activities – will provide you with information that will be helpful to you in providing us that input and support. I look forward to hearing from you.

Respectfully,

Gregory S. Matson
Executive Director





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

*Joint Audit Program Member
 †National Nexus Program Member

Overview of Actions Taken by the Multistate Tax Commission

The Commission held the Annual Business Meeting, as required by Article VI of the Multistate Tax Compact, on July 29, 2015, in Spokane, Washington.

The Commission took the following actions during July 1, 2015, to June 30, 2016:

- Approved the Commission Budget for 2015-2016.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Adopted an amendment to Bylaws regarding the process by which the Commission adopts Uniformity Recommendations.
- Adopted amendments to Compact Article IV (UDITPA) adding section 18(c), section 18(d), and section 18(e).
- Adopted conforming amendments to Compact Article IV (UDITPA).
- Adopted amendments to the Formula for the Apportionment and Allocation of Net Income of Financial Institutions.
- Adopted a *Resolution Recommending to States the ABA Model Transactional Tax Overpayment Statute*.
- Adopted a *Resolution Regarding Tax Fairness in the Proposed Federal Extension of the Moratorium on Taxation of Internet Access*.
- Elected Demesia Padilla, Secretary, New Mexico Taxation and Revenue Department, as Chair.
- Elected Rich Jackson, Chairman, Idaho State Tax Commission, as Vice Chair.
- Elected Ryan Rauschenberger, Tax Commissioner, North Dakota, as Treasurer.
- Elected Susan Combs, Texas Comptroller of Public Accounts; Mike Kadas, Director, Montana Department of Revenue; John L. Valentine, Chair, Utah State Tax Commission; and Stephen M. Cordi, Deputy Chief Financial Officer, District of Columbia Office of Tax and Revenue, as at-large members of the Executive Committee.
- Named Gregory S. Matson to succeed Joe Huddleston as Executive Director of the Commission.



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



Executive Committee Report

The Executive Committee met four times during the period July 1, 2015, to June 30, 2016:

- July 30, 2015, in Spokane, Washington;
- December 11, 2015, in Charleston, South Carolina;
- January 29, 2016, via teleconference; and
- May 12, 2016, in Washington, D.C.

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

The following members of the Commission were elected to serve as Commission officers and members of the Executive Committee for fiscal year 2016:

- Chair: Demesia Padilla, Secretary of Taxation and Revenue, New Mexico
- Vice Chair: Rich Jackson, Commissioner, Idaho Tax Commission
- Treasurer: Ryan Rauschenberger, Tax Commissioner, North Dakota
- At-Large: Stephen M. Cordi, Deputy Chief Financial Officer, D.C. Office of Tax and Revenue; Glenn Hegar, Texas Comptroller of Public Accounts, Mike Kadas, Director, Montana Department of Revenue; and John L. Valentine, Commission Chair, Utah State Tax Commission

The Executive Committee took the following actions during fiscal year 2016:

- Reviewed the efforts and completed work of the Strategic Planning Steering Committee for fiscal year 2015.
- Met with representatives of Streamlined Sales Tax Certified Service Providers (CSPs) on the benefits of using CSPs in non-Streamlined Sales Tax states.
- Considered the Hearing Officer's report regarding the proposed Sales and Use Tax Nexus (Engaging in Business) Model Statute and approved recommended consideration by the Commission, triggering the bylaw 7 survey process for this proposal.
- Took no action on the retained Model Sales and Use Tax Notice and Reporting proposal pending the final resolution of litigation in Colorado.
- Supported the establishment and work of the Taxpayer Outreach Project team.
- Oversaw activation of the Arm's-Length Adjustment Service Committee.
- Received the Uniformity Committee's recommendations with respect to proposed amendments to the Commission's General Allocation and Apportionment Regulations and directed that a public hearing be held on the proposed amendments. The Executive Committee considered the Hearing Officer's report on the proposed amendments, received public comments on the proposed amendments, and referred the proposed amendments back to the



Uniformity Committee to consider and report back to the Executive Committee on the Hearing Officer's report and public comments.

- Ratified a decision of the Uniformity Committee to discontinue the Model Whistleblower Statute Project.
- Held liaison discussions with representatives from the Tax Executives Institute on reporting of federal audit adjustments and audit procedures.
- Approved the audited financial statements as reported in an independent auditor report for fiscal year July 1, 2014 – June 30, 2015.
- Approved a proposed fiscal year 2016 – 2017 budget for the Commission.

The Executive Committee undertook additional actions during fiscal year 2016 that are recorded in the minutes of its meetings.



Audit Committee Report

Frank Hales, Chair, MTC Audit Committee

Lee Baerlocher, Vice Chair, MTC Audit Committee

Audit Committee

The audit committee has met three times in fiscal year 2016. The first meeting was in Spokane, Washington, on July 27, 2015. There were 52 members and staff present during the public session and 42 members and staff present during the closed session of the meeting. There were no members of the public present at the public session and there were 38 individuals representing 21 audit program states present during the closed session of the meeting.

The second meeting was held in Charleston, South Carolina, on December 9, 2015. There were 52 members, guests, and staff present during the public session and 52 members and staff present during the closed session of the meeting. There were two members of the public present at the public session and there were 41 individuals representing 20 audit program states present during the closed session of the meeting.

The third meeting was held in Salt Lake City, Utah, on March 3, 2016. There were 44 members, guests, and staff present during the public session and 44 members and staff present during the closed session of the meeting. There were no members of the public present at the public session and there were 36 individuals representing 20 audit program states present during the closed session of the meeting.

During the meeting in Spokane the audit committee reviewed the status of all the audits in progress. A discussion was held on 6 income tax and 8 sales tax audits that had significant issues. This discussion included a taxpayer refusing to sign waivers and to cooperate with MTC audit requests.

During the meeting in Charleston the audit committee discussed an audit referral from the Nexus Committee and agreed to put the case into the audit inventory. At the meeting, Greg Matson, Executive Director, discussed some recent challenges to the MTC's ability to conduct audits on behalf of the member states. He requested the states review a memorandum of understanding with the Commission and sign the MOU memorializing the information exchange procedures. As usual, the committee reviewed active cases and held the states' round table discussion. The committee also selected 14 sales tax cases to be added to the MTC's audit inventory.

During the meeting in Salt Lake City the committee reviewed and approved a new audit evaluation form. Again, the committee reviewed active cases and held the states' round table discussion.



Audit Program

Productivity

The Audit Program completed four income tax audits and parts of seven other income tax audits for the fiscal year 2016. The Audit Program also completed eleven sales tax audits and parts of six other sales tax audits for fiscal year 2016. Currently, there are seventeen (17) income and thirty-two (32) sales tax audits in progress.

The MTC Audit Program has proposed assessments of \$175,106,740 for the completed income tax audits and \$5,610,324 for the completed sales tax audits for the fiscal year end of June 2016.

Staffing

Pamela Downs resigned effective June 24, 2016. The position was posted and applications accepted through June 30, 2016. We are in the process of conducting interviews for this position. The position reports to the New York office.

Audit Committee

The audit committee has met three times in fiscal year 2016. The first meeting was at the MTC annual meeting on July 27, 2015, in Spokane, Washington. The second meeting, fall meeting, took place in Charleston, South Carolina, on December 9, 2015. The third meeting, winter meeting, took place in Salt Lake City, Utah, on March 3, 2016.

Training

Two statistical sampling classes were held this past spring. The first was in St. Paul, Minnesota, April 11th through the 14th, 2016. The second class was in Hoover, Alabama, May 2nd through the 6th, 2016. Bob Schauer and Harold Jennings were the instructors for these classes.

A corporate income tax class was held in Providence, Rhode Island, May 23rd through the 26th, 2016. Jeff Silver and Larry Shinder were the instructors for Part Two of this class.



TRENDS IN PRODUCTIVITY

MTC JOINT AUDIT PROGRAM

AUDIT HOUR ANALYSIS

6/99- 6/16

	6/99	6/00	6/01	6/02	6/03	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	6/13	6/14	6/15	6/16
Income Tax Total Audits	7	10	8	7	8	7	7	9	7	7	3	6	6	4	5	6	5	4
Total States Audited	186	251	131	166	165	266	196	175	141	209	79	152	309	131	150	103	79	64
Total Hours	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649	11937	12836	14413	11136	12893
Average Hours Per State	55	52	66	57	64	45	64	72	66	84	81	69	83	91	86	139	141	201
Sales Tax Total Audits	16	11	14	13	11	10	11	6	15	9	10	12	5	5	12	6	4	11
Total States Audited	184	102	158	159	145	154	160	77	187	97	120	147	65	59	163	63	48	108
Total Hours	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200	5000	13195	6570	5121	18155
Average Hours Per State	40	89	75	56	61	71	38	64	71	80	61	73	110	85	81	104	106	168
Total Both Taxes Total Audits	23	21	22	20	19	17	18	15	22	16	13	18	11	9	17	12	9	15
Total States Audited	370	353	289	325	310	420	336	252	328	306	199	299	374	190	313	166	127	172
Total Hours	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849	16937	26031	20983	16257	31048
Average Hours Per State	48	63	71	56	62	55	56	70	69	83	69	71	88	89	83	126	128	180

Litigation Committee Report

Clark Snelson, Litigation Committee Chair
Mark Wainwright, Litigation Committee Vice-Chair

The Litigation Committee met during the Commission’s July 2015 annual meeting in Spokane, Washington, and heard two presentations by Lila Disque and Bruce Fort, Counsel to the Commission: “Issues and Developments in the Taxation of Digital Goods and Services”; and “Equitable Apportionment: What’s Next on the Horizon”. The meeting was adjourned following these presentations so that members could attend an educational and informational session for state tax attorneys, where attendees heard presentations on issues and litigation of multistate interest.

The Litigation Committee met in Salt Lake City, Utah, on March 3 and 4, 2016. The committee listened to two presentations: “Beyond Quill and Congress, the Future of Consumption Tax Enforcement on Tangible and Digital Products,” by Lila Disque, Counsel to the Commission, and “An Academic Perspective on State Level Income Tax Shifting: Problems and Solutions,” by John A. Swain, Chester H. Smith Professor of Law, James E. Rodgers College of Law, University of Arizona, Tucson, Arizona. After the committee meeting, the attorneys in attendance in Salt Lake City also participated in an educational and informational session involving presentations on tax policy and enforcement issues facing states.

Paull Mines Award

The Litigation Committee selected Joe W. Garrett, Jr., Deputy Commissioner for the Alabama Department of Revenue for the Commission’s 2015 Paull Mines Award, citing his long commitment to the Uniformity Committee and the ALAS project and his willingness to travel and speak publicly at seminars and conferences on the perspectives of state tax administrators.



Joe W. Garrett, Jr. accepts the Paull Mines Award from MTC’s General Counsel Helen Hecht.



Nexus Committee Report

Lennie Collins, Nexus Committee Chair

The FY 2016 (July 1, 2015, through June 30, 2016) Multistate Voluntary Disclosure Program collections for National Nexus Program (NNP) member states and non-member states, executed contracts and average contract value are:

• NNP states' collections:	\$22,232,368	(\$13,850,712 for FY 2015)
• All states' collections:	\$22,264,213	(\$15,392,887 for FY 2015)
• NNP states' executed contracts:	443	(551 for FY 2015)
• All states' executed contracts:	459	(628 for FY 2015)
• NNP states' average contract value:	\$50,186	(FY 2015: \$25,137)
• All states' average contract value:	\$48,506	(FY 2015: \$24,511)

Interest on back taxes (billed and collected directly by the state) and the future value of newly enrolled taxpayers are not included. The difference between NNP states' collections and all states' collections has narrowed from the previous year because the NNP stopped accepting applications on behalf of non-member states on July 1, 2014. The small amount collected on behalf of non-member states to date in FY 2016 comes from disclosures begun before July 1, 2014.

The Nexus Committee met on July 27, 2015, in Spokane, Washington; December 9, 2015, in Charleston, South Carolina; and March 3, 2016, in Salt Lake City, Utah.

The Committee discussed the following issues at the July 27, 2015 meeting:

The Strategic Planning Project Team for the project to increase Program state membership issued its final report at this meeting, which was approved, completing this project.

The report contained several recommendations:

1. The NNP would benefit from additional marketing, including: extending the MTC outreach program to non-member states regarding benefits of the Program; the NNP Director should follow up directly with non-member states that have recently sent staff to nexus schools; and opportunities should be explored to partner with the Federation of Tax Administrators (FTA) and regional state tax associations to promote the NNP.
2. Offer a phased-in fee structure for states joining the NNP, similar to the approach used in the Multistate Joint Audit Program.



3. Expand the nexus training program.
4. NNP Director should continue to provide updates on nexus law developments at Committee meetings.
5. Consider a project to develop better tools for information sharing among the states on taxpayer discovery, audit results, and developing leads.

The Committee discussed the following issues at the December 9, 2015 meeting:

The Strategic Planning Project Team for the project to improve the Multistate Voluntary Disclosure Program presented its report, which was approved. The report made the following recommendations:

1. Three new projects should be considered: (1) review document submission processes and identify ways to further automate and avoid the Postal Service; (2) review MTC Multistate Voluntary Disclosure materials on the web site for clarity and ease of use; and (3) eliminate state-specific voluntary disclosure requirements in the agreement from the otherwise uniform process.
2. NNP staff should solicit information from the states on changes in laws, rules, policies, procedures, and amnesties.
3. NNP staff should host annual training for state personnel who work with voluntary disclosure to review MTC procedures and policies.
4. NNP staff should reach out to state, local, and regional practitioner groups to seek greater awareness of the Multistate Voluntary Disclosure Program.
5. Nexus Committee should have regular and on-going discussions concerning the performance of the Multistate Voluntary Disclosure Program.

The Committee formed a workgroup (Christi Daniken (Oregon), Randy Tilley (Idaho), and John Ryser (Washington)) to develop a priority ranking of new project recommendations for discussion and consideration at the March 2016 meeting.

The Committee reconsidered and voted not to change its policy implemented in July 2014 that NNP staff should not accept disclosure applications when the total estimated tax liability for all lookback years is estimated to be under \$500.



The Committee discussed the following issues at the March 3, 2016 meeting:

The priorities workgroup recommended the following priorities for possible projects:

1. First priority—review MTC Multistate Voluntary Disclosure materials on website for clarity and ease of use.
2. Second priority—review Multistate Voluntary Disclosure application and agreement format; or review MVDP document submission processes and identify ways to further automate these steps in the process.
3. Third priority—develop tools for nexus compliance information sharing among the states.

The Committee accepted the report and voted to proceed with the project to review MTC Multistate Voluntary Disclosure materials on the website for clarity and ease of use. Volunteers to commence this project were solicited, and the following persons are members of the Workgroup: Karolyn Bishop (Washington), Leader, Rebecca Johnston (Washington), Michael Christensen (Utah), and Deborah Lee (Alabama).

Christi Vandevender of Alabama was voted as the new Vice Chair for the Committee.

Nexus Committee Workgroup Meetings and Report

The Nexus Committee Workgroup held three teleconference meetings on June 15, June 23, and July 6, 2016, to review the National Nexus Program website information and materials, making suggestions for revisions to enhance the visibility of the Multistate Voluntary Disclosure Program on the website, eliminate duplicative information, and improve the presentation and readability of provided information. The Workgroup completed its assignment and made its report to the Nexus Committee on July 25, 2016, recommending several changes to the Nexus Program website, most of which have been implemented. National Nexus Program staff, including Richard Cram, Director, Diane Simon-Queen, Voluntary Disclosure Program Manager, and Michelle Lewis, Paralegal, as well as MTC Website Manager Sabrina Worthington, have also participated in the workgroup teleconferences.



Report of the Training Program

Sherry Tiggett, Events & Training Manager

The Commission training program reached 305 participants during the year. This includes 214 participants at eight in-person training courses and 91 at the 2015 Annual Conference in Spokane, Washington. Details on training events from the past year and scheduled for the coming year follow.

Courses Offered in 2015-2016

The following MTC courses were offered during the year:

Statistical Sampling for Sales and Use Tax Audits

- September 21-24, 2015, in Des Plaines (Chicago area), Illinois, for 13 participants from Arkansas, Iowa, Kansas, New Jersey, South Dakota, Utah, and Wyoming.
- April 11–14, 2016, in St. Paul, Minneapolis, for 13 participants from Minnesota and Washington.
- May 2–5, 2016, in Hoover, Alabama, for 18 participants from Alabama, Maryland, and Virginia.

Computer Assisted Audit Techniques Using Excel

- October 6-7, 2015, in Trenton, New Jersey, for 16 participants from Colorado, Michigan, and New Jersey.

Nexus School

- November 17–18, 2015, in Helena, Montana, for 38 participants from Idaho, Montana, Oregon, and South Carolina.
- March 30–31, 2016, in Madison, Wisconsin, for 41 participants from the District of Columbia, Idaho, Illinois, Minnesota, Washington, and Wisconsin.

Corporate Income Tax

- (Part 1 only) December 14–15, 2015, in Kansas City, Missouri, for 49 participants from Alabama, Arkansas, Connecticut, Georgia, Iowa, Kansas, Kentucky, Maryland, Michigan, Missouri, New Hampshire, South Carolina, and South Dakota.
- May 23–26, 2016, in Providence, Rhode Island, for 26 participants from Maine, Minnesota, Illinois, and Rhode Island.



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

The training program also supported the 48th Annual Conference in Spokane, Washington, which was attended by 91 participants.

Courses Schedule for 2016-2017

The following courses are currently scheduled:

- Statistical Sampling for Sales and Use Tax Audits, Wheat Ridge, Colorado, September 19-22, 2016.
- Computer Assisted Audit Techniques Using Excel, Hoover, Alabama, October 18-19, 2016.

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

NASBA Certification and Continuation Education Credit

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

Training Fees and Host State Credit

The current fee schedule has been in place since October 2012 and no change in fees is expected for the coming year. The Commission provides a host state credit of up to \$3000 for each course. The credit is for course-related support and applies to tuition for host state participants.



Uniformity Committee Report

Wood Miller, Uniformity Committee Chair
Chris Coffman, Uniformity Vice-Chair

The Uniformity Committee met three times in person — in July 2015 in Spokane, Washington; in December 2015 in Charleston, South Carolina; and in March 2016 in Salt Lake City, Utah. Work groups established by the committee have met regularly by telephone. Those include the Compact Art. IV, Section 1 and Section 17 Work Groups, and the Compact Art. IV, Section 18 work group. The Committee also met by phone each week during June 2016.

Projects by Status

On the Agenda for the Commission:

- Model Sales and Use Tax Nexus (Engaging in Business) Statute

Before the Executive Committee:

- Model Sales and Use Tax Notice and Reporting Statute (tabled)
- Amendments to the MTC Model Allocation and Apportionment Regulations (Combining the work of the Section 1 and Section 17 Work Groups) – Report of the Committee on Issues Referred in May 2016

Current Uniformity Committee Projects:

- Art. IV, Section 18 Work Group
- Partnership Informational Project

Summaries of Projects

Model Sales and Use Tax Nexus (Engaging in Business) Statute - This is a separate item on the Commission's agenda.

Model Sales and Use Tax Notice and Reporting Statute (tabled) - The model would require remote sellers to notify in-state purchasers of a potential tax liability at the time of sale and make annual reports to each in-state purchaser and to the state. De minimis exceptions and penalties are provided. The Uniformity Committee approved a draft in March 2011. Later that month, the Executive Committee approved the draft for public hearing. The hearing was held, and the hearing officer's report and recommendations were presented to the Executive Committee, which recommended approval of a Bylaw 7 survey. The proposal came back before the Executive Committee in December 2011, after not passing the Bylaw 7 survey, and clarifications were requested. The Uniformity Committee made those clarifications and the Executive Committee took the matter up again in May 2012. During that meeting, the Executive Committee voted to retain the proposal pending a decision in *Direct Marketing Association v. Brohl*. The Tenth Circuit has now ruled that the Colorado statute is constitutional and that *Quill* does not apply to the information reporting requirements. *Direct Marketing Association v. Brohl*, 814 F.3d 1129 (2016). The Direct Marketing Association has been granted an extension to file a petition for certiorari with the U.S. Supreme Court - expiring August 29, 2016.



Amendments to the MTC Model Allocation and Apportionment Regulations (Combining the work of the Sec. 1 and Sec. 17 Work Groups) - Work on regulations to implement changes to Compact, Art. IV, Sections 1 and 17 was begun November 6, 2014. The work groups completed their work which takes the form of draft amendments to the MTC Model Allocation and Apportionment Regulations, and submitted a draft to the Uniformity Committee, which approved that draft with one minor change on December 10, 2015. The Uniformity Committee submitted the draft to the Executive Committee on December 11, 2015, for its consideration. The Executive Committee approved the draft for public hearing on January 29, 2016. On March 9, 2016, Brian Hamer, acting as the Commission's Hearing Officer, conducted a public hearing taking both written and oral comments and also extended the period for comments after the hearing. The report and recommendations of the Hearing Officer were made to the Executive Committee for consideration at its May meeting. The Executive Committee referred issues regarding the proposed amendments back to the Uniformity Committee and asked for a report back on July 28, 2016.

Art. IV, Section 18 Work Group – The Uniformity Committee formed a work group to consider issues created by the Commission's adoption of amendments to Compact Art. IV (both amendments to Section 18 itself and other sections) and to recommend rules or amendments to model rules to address those issues. Meetings of that work group were suspended while the Uniformity Committee considered issues referred by the Executive Committee related to proposed amendments to the model General Allocation and Apportionment Regulations. (See above.)

Partnership Informational Project – The Uniformity Committee has formed a work group to begin consideration of issues that affect the application of state taxes to partnerships and to consider the implications of new federal audit and adjustment rules. There have been informational sessions held which included the Uniformity and Audit Committees and there will likely be additional informational sessions before the work group determines the issues that may need to be taken up. States that have volunteered to participate in the work group include: Alabama, Georgia, Montana, New Hampshire, North Carolina, Oregon, Pennsylvania, Texas (and perhaps others).



Report of the Executive Director

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

This report is a summary of the Commission’s organizational and staff activities for the period July 1, 2015, through June 30, 2016 (unless otherwise noted).

I. Programs & Activities

A. Joint Audit Program

The Audit Program completed four income tax audit and parts of seven income tax audits for the fiscal year 2016. The Audit Program also completed eleven sales tax audits and parts of six other sales tax audits for this same period. There are 17 income and 32 sales tax audits in progress.

The MTC Audit Program has proposed assessments of \$175,106,740 for the completed income tax audits and \$5,610,324 for the completed sales tax audits for the fiscal year end of June 30, 2016.

The following chart summarizes hourly data for completed audits for fiscal year end June 30, 2016:

	Income & Franchise	Sales & Use	Total
Total Audits	4	11	15
Total States Audited	64	108	172
Total Hours	12,893	18,155	31,048
Average Hours per State	201	168	180

In September 2015, we added a new sales tax auditor, Bartt Stucki. Bartt came to us from the Utah Department of Revenue. At the end of December 2015, Marie Plesko retired. In January 2016, we filled the vacant position left with Marie’s retirement. Shawn Rao was then added to the income tax audit staff. Before coming to the Commission Shawn’s most recent employment was with the Illinois Department of Revenue. Pamela Downs resigned effective June 24, 2016. Applications to fill Pamela’s position were accepted through June 30, 2016 and we hope to fill the position soon.

The audit program staff provided the training for “Statistical Sampling for Sales and Use Tax Audits” classes September 21 through 24, 2015, in Des Plaines, Illinois, in St. Paul, Minnesota, April 11 through 14, 2016, and in Hoover, Alabama, May 2 through 6, 2016. The audit program provided the training for a “Computer Assisted Audit Techniques using Excel” class in Trenton,



New Jersey, October 6 and 7, 2015. A second class for “Computer Assisted Audit Techniques using Excel” was scheduled for May 2016, but was cancelled due to lack of sufficient applicants to hold the class. The audit program also provided instructors for a corporate income tax training class held in Kansas City, Missouri, December 14 and 15, 2015, and another corporate income tax training class held May 23 through 26, 2016, in Providence, Rhode Island.

The MTC audit program supervisors and director met for a full day with Helen Hecht, Bruce Forte, and me on October 19, 2015, in Des Plaines, Illinois, to discuss audit issues and problems that have surfaced on some pending audits.

New Hampshire has joined the audit program effective December 1, 2015.

B. National Nexus Program

Multistate Voluntary Disclosure

Fiscal year 2016 has been a very productive one for National Nexus Program tax collections received through voluntary disclosures. From July 1, 2015, to June 30, 2016, the Commission recovered \$22,232,368 on behalf of NNP member states from 443 completed voluntary disclosure contracts (compared to \$13,850,712 recovered for FY 2015). In addition, the Commission recovered \$31,845 on behalf of non-member states. Since July 1, 2014, NNP staff no longer accepts voluntary disclosure applications for non-member states. The small amount collected on behalf of non-member states to date in FY 2016 comes from disclosures begun before July 1, 2014. The above amounts do not include interest on collected amounts (which the states bill directly), or the future value of newly enrolled taxpayers.

Strategic Planning

NNP staff supported the work of the Nexus Committee in completing two strategic planning projects: (1) to increase National Nexus Program state membership (completed at the July 27, 2015 meeting in Spokane); and (2) to improve the multistate voluntary disclosure process (completed at the December 9, 2015 meeting in Charleston). Staff will also be supporting the Nexus Committee’s work in commencing a new project (approved at the March 3, 2016 meeting in Salt Lake City) to review multistate voluntary disclosure program materials on the website for clarity and ease of use, which was a recommendation included in the final report on the project to improve the multistate voluntary disclosure process. The Workgroup met by teleconference on June 15, June 23, and July 6, 2016, completed its work and will have reported to the Nexus Committee at the July 25, 2016 meeting, making several recommendations to enhance the website, most of which have been implemented.



Membership

There are currently thirty-eight member states (including the District of Columbia) of the National Nexus Program. Delaware has joined the National Nexus Program, effective July 1, 2016, and we extend to them an enthusiastic welcome. Commission staff continues to reach out to non-members.

Outreach

Staff presented at the Institute for Professionals in Taxation's Annual Meeting in San Diego, California on July 1, 2015 (voluntary disclosure and update of nexus); Georgetown Law Center's annual Advanced State and Local Tax Institute in the District of Columbia on August 6, 2015 (voluntary disclosure and amnesty); and the ABA/IPT tax conference in New Orleans on March 2, 2016 (panel discussion on multistate voluntary disclosure).

A number of states have responded to staff requests to put a link to the NNP on their voluntary disclosure web pages. These links are an important way to get the word out to tax representatives who would not otherwise know of the program.

Nexus Schools

NNP staff co-taught a Nexus School in Helena, Montana on November 17 and 18, 2015, and another in Madison, Wisconsin on March 30 and 31, 2016. Please let a member of the Commission staff know if your state would like to host a school

Amnesties

The NNP posts on its web page a list of upcoming and current state tax amnesties. Please inform NNP staff if you would like the Commission to post your state's amnesty. Staff has been doing this since 2009. Most or all amnesties since 2009 are listed in the archive section of the amnesties page.

Staffing

The NNP staff presently has three full-time employees and one part-time employee. Richard Cram became the new Director on February 29, 2016, succeeding Thomas Shimkin, the long-time Director, who is now the Commission's legislative counsel. The other NNP staff members include Diane Simon-Queen, recently promoted to Voluntary Disclosure Program Manager, Michelle Lewis, Paralegal, and, Eva Wu, part-time administrative assistant, who started in January 2016. One position remains vacant.



Nexus Information

Staff continues to answer questions from the public and state personnel about nexus law. In addition, staff has focused on a new section of the National Nexus Director's Report to the Nexus Committee that summarizes activity in nexus to date in the fiscal year. It is organized by topic rather than jurisdiction or date.

C. Legal Division

The regular duties of the legal division include:

- Providing staff support to two standing committees, uniformity and litigation and related working groups;
- Consulting with state attorneys on litigation matters, filing amicus briefs in state and federal courts, and reviewing draft statutes, regulations, and other legal documents;
- Conducting regular state tax attorney informational and educational teleconferences, participating as speakers at conferences and symposiums, and helping teach the Commission's corporate income tax and nexus training courses; and
- Providing legal support to other parts of the organization, including administrative, audit and nexus functions and assisting with technical response to federal legislation.

Uniformity Work

Currently, the legal division is staffing the following uniformity projects:

- Partnership Information Project
- Art. IV, Section 18 Work Group
- Amendments to General Allocation and Apportionment Regulations (resulting from Section 1 and Section 17 Work Groups)
- Model Sales and Use Tax Notice and Reporting Statute

Litigation Committee Work

The Litigation Committee has held two in-person meetings this year – in Spokane, Washington in July 2015 and in Salt Lake City, Utah in March 2016. At the same meetings, the legal division also coordinated a state attorney training session.



Legal Assistance to States

The legal division consulted with individual states regarding significant on-going litigation strategy and briefs, draft legislation, and draft regulations, including:

- Review of proposed regulations – Pennsylvania
- Litigation support – Indiana
- Litigation support – District of Columbia
- Amicus brief on the merits in the *California Franchise Tax Board v. Hyatt* case before the U.S. Supreme Court, Docket No. 14-1175.
- Amicus brief on the merits in the Minnesota Compact case, *Kimberly-Clark v. Commissioner*, before the Minnesota Supreme Court, Docket No. A15-1322.
- Amicus briefs on the merits in the Ohio Commercial Activity Tax cases (*Crutchfield Corp. v. Testa*, *Newegg.com v. Testa* and *Mason Companies v. Testa*).
- Amicus brief in *First Marblehead Corporation v. Commissioner of Revenue*, before the Massachusetts Supreme Judicial Court, NO. SJC-11609 (on remand from the U.S. Supreme Court).
- Amicus brief in *Avnet, Inc. v. Dep't of Rev.*, before the Washington Supreme Court, NO. 92080-0.
- Assistance with states considering market-based sourcing and adoption of proposed model regulations on that subject.
- Review of proposed sales tax legislation - Alaska

Commission Support

The legal division provides support for the Commission's general administration by addressing open meetings issues, records requests, researching and making recommendations for record retention policies, resolving lease disputes, and filing corporate registrations and reports. The division responded to requests by the National Governors Association and the National Conference of State Legislatures on technical information related to federal legislation. The division provided legal assistance to the Commission's audit division on a number of challenging audit related issues. The legal division also participated in the Commission training by helping teach the following classes:

- Nexus School –November 17-18, 2015, in Helena, Montana;
- Corporate Income Tax School – December 14-15, 2015, Kansas City, Missouri;
- Nexus School – March 30-31, 2016, Madison, Wisconsin; and
- Corporate Income Tax School – May 23-26, 2016, in Providence, Rhode Island.

D. Policy Research

The policy research director supports Commission efforts in addressing federal legislation with implications for state and local taxation, monitors state adoption of MTC model statutes,



regulations, and guidelines. He is a member of the National Tax Association Advisory Board. During this timeframe, he has been a member of the strategic planning Central Staff Project Team, who are working with consultant Elizabeth Harchenko and pursuing a project on improving internal communications.

The policy research director had been working with Joe Garrett of the Alabama Dept. of Revenue, Don Richardson of the Kentucky Dept. of Revenue, and ALAS project facilitator Dan Bucks, in addition to me and Bruce Fort, in organizing visits with revenue agencies to recruit and develop additional state interest in implementing the ALAS program. He also participated in ALAS Committee teleconferences held this past spring.

The policy research director organized the Tax Economists breakfast forum at the Hall of the States on July 15, 2015, *Impact of Federal Reform of International Taxation* and organized a session on state business income tax reform for National Tax Association Spring Symposium held on May 12, 2016. He also served as a last minute substitution for a speaker at the Commission's annual conference seminar, speaking on the topic of *The State of State Finances* with Scott Pattison, the executive director of NASBO.

The policy research director is writing a paper on state business taxation with Professor Joann Weiner-Martens and John Alvarino of George Washington University for the National Tax Association Annual Meeting in Baltimore this upcoming November on Comparison of Corporate Income Taxation in the European Union and the U.S. States. He is also writing an article on Trends in State and Local Government Finance for the Journal Multistate Taxation and Incentives

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

- Tax Economist breakfast forum at Heritage Foundation, July 1, *Effect of Eliminating State and Local Tax Deduction from Federal Adjusted Gross Income.*
- Participated in National Association of Business Economists August 17 online seminar on Chinese currency devaluation.
- Participated in Tax Policy Center Roundtable on State Budget Choices and State Fiscal Futures on September 17.
- Tax Economists Forum breakfast forum at Reed Smith LLC on October 5, *What Lies Ahead for Federal Legislation Affecting States.*
- American Enterprise Institute Forum on OECD Base Erosion and Profit Shifting (BEPS) on December 18.
- Tax Economist Forum Breakfast at Ernst & Young, *Shifting Burden of Taxation from Business Income to Individual Income.*
- Tax Economist Forum Breakfast, January 13 at Tax Foundation, Inc., critique of their new tax model.



- Tax Economist Forum Breakfast, January 20 at Center for American Progress, *Reducing Excess Burden of Taxation*.
- Tax Economist Forum Breakfast, February 9 at Hoover Institution, *Sensible Tax Reform*.
- Tax Policy Center, *What's New and What's Next in Tax Policy?*
- Tax Economist Forum Breakfast, March 9 at PwC, *Patent and Innovation Boxes as Incentives for Research*.
- Committee for a Responsible Federal Budget, March 10, *Scoring Federal Budgetary Changes*.
- Convergence Center for Policy Resolutions, March 29, *Including State/Local Government Concerns in Formulating Federal Budgets*.
- Tax Policy Center, March 31, *What Would Federal Tax Policy Look Like*
- Participated in Regional Economic Modeling Institute (REMI) webinar on Regional Impact of International Trade on April 5
- Tax Economist Forum Breakfast, April 6 at Ernst & Young, *Revenue Impact on States of Conforming to IRS Code*, Mark Robyn, PEW Research
- Met with German delegation of tax officials from Lower Saxony on April 26; Tom Shimkin and Marshall Stranburg also participated
- Attended Brookings Institution discussion, May 3, *Foreign Tax Changes and the Impact on U.S. Businesses*
- Participated in NTA Board meeting on May 12 and attended sessions on May 13
- Attended American Enterprise Institute (AEI) discussion on exploring options for reforming U.S. corporate income tax held on June 7
- Tax Economist Forum Breakfast, June 15 at Tax Foundation, Inc., critique of their new tax model by Alex Durante
- Participated in AEI/Tax Policy Center on their “new” corporate income tax model (partial integration) and exploring other reform options on June 17
- Hosted Tax Economist Forum Breakfast, June 29, *Impact of Taxation on Income Inequality*, Estelle Dauchy

Policy research intern Vishnu Jagdar of Hofstra University completed his internship in August 2015. Trevor Ahouse and Amelia Wang are research interns for summer 2016.

E. Training

The Events and Training staff has coordinated and supported the following activities since July 1, 2015:

- Statistical Sampling for Sales and Use Tax Audits
September 21-24, 2015, in Des Plaines (Chicago area), Illinois for 13 participants from Arkansas, Iowa, Kansas, New Jersey, South Dakota, Utah, and Wyoming;
- Computer Assisted Audit Techniques Using Excel
October 6-7, 2015, in Trenton, New Jersey for 16 participants from Colorado, Michigan, and New Jersey;



- Nexus School
November 17 – 18, 2015, in Helena, Montana for 38 participants from Idaho, Montana, Oregon, and South Carolina;
- Corporate Income Tax training (Part 1)
December 14 – 15, 2015, in Kansas City, Missouri for 49 participants from Alabama, Arkansas, Connecticut, Georgia, Iowa, Kansas, Kentucky, Maryland, Michigan, Missouri, New Hampshire, South Carolina, and South Dakota;
- Nexus School
March 30 – 31, 2016, in Madison, Wisconsin for 41 participants from the District of Columbia, Idaho, Illinois, Minnesota, Washington, and Wisconsin; and
- Corporate Income Tax training
May 23 – 26, 2016, in Providence, Rhode Island for 26 people: 1 from Maine, Minnesota, Illinois, Rhode Island.

Upcoming training includes:

- Statistical Sampling for Sales and Use Tax Audits, Wheat Ridge, Colorado, September 19 - 22, 2016; and
- Computer Assisted Audit Techniques Using Excel, Hoover, Alabama, October 18 and 19, 2016.

The events coordinator, Sherry Tiggett, is now handling registration and venue support for all MTC meetings and training courses.

The training director was the principal coordinator of the July 29, 2015 Annual Meeting Conference in Spokane, Washington, as well as planning and tracking registration for the 2016 Annual Conference and Committee Meetings and handling all administrative duties associated with planning the event.

The events coordinator attended the National Association of State Boards of Accountancy Registry Summit in Washington, DC on September 9-11, 2015, and the Society of Government Meeting Professionals Education Day on October 8, 2015.

Our director of training, Ken Beier, retired in February 2016 and a large part of his duties will be carried out by Sherry Tiggett in her new role as events and training manager. The events and training manager is the principal coordinator for the trainings, committee meetings, and the



annual conference and committee meetings. A temporary part-time employee, Wanda Dorsey Jenkins, has been providing support in planning training.

The events and training manager attended the March 2016 Nexus School in Madison, WI; and the Society of Government Meeting Professionals CGMP (Certified Government Meeting Professionals) Congress, February 22 – 24, 2016, in Arlington, VA.

II. Administration

Joe Huddleston resigned as executive director effective August 1, 2015, and I became the new executive director at that time, vacating the deputy executive director position.

Sherry Tiggett was hired August 3, 2015, as an events coordinator, filling the vacant training manager position.

Bart Stucki was hired September 14, 2015, as a sales tax auditor, filling a position vacated in March 2015. Bart came to us from the Utah Department of Revenue.

Marie Plesko, senior income tax auditor, retired December 31, 2015. Marie had been employed with the Commission since 2000.

Eva Wu started in January 2016 as a part-time administrative assistant with the National Nexus Program.

Ken Beier retired as director of training effective February 15, 2016. Ken began his employment with the commission in 1999 as manager of the Deregulation Project. A large part of his duties will be carried out by Sherry Tiggett. She was made events and training manager on February 16, 2016. Upon her request, a temporary part-time employee, Wanda Dorsey Jenkins, has been providing support in planning training and events.

Shawn Rao started as an income tax auditor on February 22, 2016, filling the position previously held by Marie Plesko. Shawn joined us from the state of Illinois where he had worked for both the Department of Revenue and the Department of Aging.

Richard Cram, formerly with the Kansas Department of Revenue and a long time participant in Commission activities, became the new director of the National Nexus Program on February 29, 2016. This allowed Tom Shimkin, the long-time director of the National Nexus Program, to shift into his new role as legislative counsel where he will be utilizing his governmental relations skills in dealing with legislative affairs

Marshall Stranburg joined us as deputy executive director on April 1, 2016. Marshall previously had been the Executive Director with the Florida Department of Revenue and served as the chair of the Commission's Litigation Committee for a number of years.



Diane Simon-Queen was promoted to Voluntary Disclosure Program Manager, National Nexus Program on May 1, 2016.

Pamela Downs, income tax auditor, resigned effective June 24, 2016.

In December 2015 we entered into an agreement with PGI to provide teleconference capabilities for seven key staff members that host conference calls. This is a fixed price agreement at \$526 per month regardless of the number of participants or length of the call, as long as the total minutes per month do not exceed 10,000 for each host. This monthly cost of \$526 is equivalent to \$6,312 on an annual basis. In the fiscal year ending June 30, 2015, we spent \$11,090 with PGI for teleconferences services on a cost structure that was dependent on the length of the call and the number of participants. Thus, we expect to save approximately \$5,000 per year under this new arrangement.

III. Outside Presentations & Events

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

JULY

- IPT Annual Conference; *A Voyage Review on the MTC* (Shimkin, panelist); San Diego, California
- SEATA 65th Annual Conference; Atlanta, Georgia (Huddleston)
- NYU Summer Institute in Taxation: State & Local Tax II; *A View From the State Tax Administrators* (Huddleston, panelist); New York, New York

AUGUST

- Georgetown 38th Annual Advanced State and Local Tax Institute; *On Terra Firma: State Approaches to Base Erosion and Profit Shifting* (Matson, panelist); *What's Mine is Yours: Understanding the Principles of Transfer Pricing* (Matson, panelist); *Raise the White Flag: Using Voluntary Disclosure Agreements and Tax Amnesty* (Shimkin, panelist); *Back to the future: Applying Existing Tax Laws to a New Economy* (Hecht, panelist); *Square Peg in a Round Hole: Analyzing Case Outcomes* (Hecht, panelist); Washington, D.C.
- 2015 MSATA Conference; Rapid City, South Dakota (Matson)
- Regional Economic Models, Inc. Monthly Policy Luncheon, *The Economic and Fiscal Impacts of Tax Inversions on States*; Washington, D.C. (Dubin)



SEPTEMBER

- NYU Law School's State and Local Tax Career Night; New York, New York (Hecht, panelist)
- COST Fall State Tax Workshop; Long Branch, New Jersey (Matson, Shimkin, Disque)
- 2015 WSATA Conference; *Updates from FTA and MTC* (Matson, panelist); Denver, Colorado
- 2015 NESTOA Conference; *Corporate - Transfer Pricing and Intercompany Transactions* (Dubin, panelist); *What Have We Done for You Lately: MTC/FTA* (Matson, panelist); *Sales & Use Tax Nexus, Developments, Outlook, and Enforcement Initiatives* (Hecht, moderator); *Legal Roundtable - Key State Tax Cases, Legislation, and Trends for 2016* (Hecht, panelist); Mystic, Connecticut (Getschel)
- ABA Tax Section 2015 Joint Fall CLE Meeting; *State Resident Tax Credits After the Supreme Court's Wynne Decision* (Fort, panelist); Chicago, Illinois

OCTOBER

- Crowell & Moring's Managing Tax Audits & Appeals Seminar; *A Primer on Multistate Tax Audits* (Matson, panelist); Washington, D.C.
- COST's 46th Annual Meeting; *Radical Views on the Nation's Most Significant Tax Policy Issues: Debate Forum* (Matson, panelist); Chicago, Illinois
- D.C. Bar Tax Section Luncheon on Inbound Transactions; Washington, D.C. (Shimkin)
- 22nd Annual Paul J. Hartman State and Local Tax Forum; *The State of So-Called Tax Havens - The Federal, International and State Response* (Hecht, panelist); Nashville, Tennessee

NOVEMBER

- American University Law Review Annual Symposium, Taxing Remote Sales in a Digital Age; *Panel 2: Problems and Proposed Solutions* (Hecht, panelist); Washington, D.C. (Disque, Dubin, Matson, Shimkin)
- NCSL Executive Committee Task Force on State and Local Taxation meeting; *Multistate Tax Commission* (Matson, speaker); Miami, Florida

DECEMBER

- Bloomberg BNA State and Local Tax Advisory Board dinner, New York, New York (Hecht, Matson)



JANUARY

- New York University State Tax Lunch Group meeting (Matson, speaker); New York, New York
- NCSL Executive Committee Task Force on State and Local Taxation meeting; Salt Lake City, Utah (Matson, Shimkin)
- PwC's 2016 Tax Policy and Economic Outlook briefing; Washington, D.C. (Matson)
- Ohio Tax Conference; *Major Business Taxation Trends* (Hecht, panelist); Columbus, Ohio
- ABA mid-year meeting; Commission's ALAS Project (Fort, panelist); Los Angeles, California

FEBRUARY

- ABA-IPT Advanced Income Tax Seminar; *Viva la Difference - The Roles of the Multistate Tax Commission and the Federation of Tax Administrators in Tax Administration* (Matson, panelist); New Orleans, Louisiana
- FTA Compliance Conference; *The Role of Arm's-Length Pricing Adjustments in Addressing State Base Erosion and Profit Shifting* (Fort, panelist); San Diego, California

MARCH

- ABA/IPT Tax Conference; Trends in Multistate Voluntary Disclosure (Shimkin, panelist); New Orleans, Louisiana
- Tax Analysts conference series; *Partnership Audits: Opportunities and Challenges*; Washington, D.C. (Disque, Hecht, Matson)
- Tax Policy Center forum; *What Would Federal Tax Reform Mean for the States?*; Washington, D.C. (Dubin, Matson)

APRIL

- UC Hastings Law School Tax Symposium; *State Tax Responses to Tax Planning Structures* (Fort, panelist); San Francisco, California

MAY

- ABA Section of Taxation May Meeting, *New IRS Partnership Audit Rules: Federal and State Tax Complexities*, (Fort, panelist) Washington, D.C. (Hecht, Matson, Stranburg)
- D.C. Bar Tax Section luncheon, *Meet the Multistate Tax Commission*, (Matson, Stranburg, Cram, Laskin, Dubin, Shimkin, speakers); Washington, D.C.



JUNE

- D.C. Bar Tax Section luncheon, *Transparency in State Tax Administration*, Washington, D.C. (Matson)
- Federation of Tax Administrators Annual Meeting, *State Transfer Pricing: Developments & Implications* (Stranburg, panelist); *Tax Litigation Update* (Laskin, panelist); *The New Federal (and State?) Partnership Audit Rules* (Hecht, panelist); Annapolis, Maryland (Cram, Matson, Shimkin)
- NCSL Executive Committee Task Force on State and Local Taxation meeting; Brooklyn, New York (Shimkin)
- SEATA 66th Annual Conference; Asheville, North Carolina (Matson)

Technology Addendum

The Commission's new Exchange 2010 email server is providing all email services for the Commission. The Exchange 2003 server and all supporting servers have been gracefully decommissioned, without incident.

The Commission continues to work with a vendor to develop a state contact portal. The vendor and the Network Administrator are working through some final fixes brought on by the network changes. All network changes that affect the state contact portal are complete and the final testing of the final fixes should take place soon. The migration from Exchange Server 2003 to Exchange Server 2010 has caused a rather large issue with the State Contact Portal. The way that contacts are created in Exchange 2010 is vastly different than it was in Exchange 2003. Progress has been made towards a solution to this issue.

The software vendor that worked on the voluntary disclosure application system was contracted to migrate the audit history database. The audit history application import and reporting issues have been resolved and the application is operational. The audit history database is being utilized by the audit director and his designees. Daily operations of the new database have raised some issues that need to be addressed. Data related issues are being handled by the Network Administrator, but there are some programmatic issues that will need the attention of a software developer. The Network Administrator has contacted the vendor that hosts our website to look into this and provide a quote for streamlining the application. The vendor that hosts our website has been working on programmatic changes to the Audit History application, specifically focusing on the preparation of the Annual Report. Coding has been completed and testing has just begun. The goal is to have these updated features available to the Director of Audit Programs to streamline the production of the Annual Report.



An initial attempt to migrate the NNP to Windows Server 2008 r2 has been made with a few issues discovered. These issues are being investigated by the Network Administrator and revolve around the required communication between the online Voluntary Disclosure Application and the NNP VDK server. Once the cause of these communication issues is fully identified, a determination will be made as to what the best course of action will be.

The Online Voluntary Disclosure application is in dire need of updating. This application was created in 2009 and no programmatic updates have been made to it since. This causes issues with browser compatibility for users attempting to fill out the Online Application. As browser technology has moved forward, the online application has not. The Network Administrator is waiting on the testing of the Audit History application before approaching the same vendor about doing this upgrade. All possible vendors will be considered, including the vendor that authored the application itself.

All virtual machines that were residing on the VMware environment have been temporarily migrated in order to rebuild the data storage. The memory upgrade in each of the host servers has been completed. The VMWare host servers have been upgraded and virtual machines are being migrated back to the reconfigured data storage. These upgrades have provided for better read and write capability for all Virtual machines as well as better data redundancy.

The testing of file sharing/syncing software continues. A ‘proof of concept’ demo has been setup with CLEO, which provides an on premise file sharing solution. Staff members that will assist in testing this software have been identified.

The gateway router into the DC office was replaced with a newer, more robust model, nearly doubling the throughput speed of internet connectivity.

The SSL-VPN appliance that was nearing end of its life has been replaced. A new PulseSecure appliance has been purchased and put into production. PulseSecure has bought our previous SSL-VPN appliance company’s (Juniper) SSL-VPN business, so transitioning a new appliance was as seamless as possible.

Remote access between the Chicago and New York offices is now available for MTC staff in those offices. This facilitates the sharing of files between MTC staff that are geographically diverse. Access by remote workers to these offices has presented some authentication challenges. The network administrator is currently working on finding a resolution to these issues, but continues to install the required endpoint client on all remote staff computers so that when those issues are resolved, access can be made available as quickly as possible.

The A/C unit in the Data Center is being replaced. After several service calls and limited access to repair parts, a determination was made that the unit should be replaced. All duct work will remain in place, minimizing the overall cost. A new ‘smart’ thermostat will be installed to



monitor and report current temperature in the data center. This will replace the need for a service we currently pay a monthly fee.

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

The website serves as an essential destination for news and information about the Commission. We have increased our website database size to accommodate the website's growth. This will increase the database performance for our hosted content, documents, and images. The commission has added new content to the homepage to feature the most recent news, events and brief hearings. The homepage allow users to easily and quickly find useful information regarding our committee, programs and upcoming events. The website is monitored and updated on a daily basis by our website manager.

During the 48th Annual Conference and Committee Meeting in Spokane, Washington, our online registration process supported 119 registrants. On July 28th, during the annual conference and meetings, we received a total of 3,972 page views. The commission website hosted agendas and materials for committee meetings during the 2015 Fall Committee Meetings in Charleston, South Carolina, and 2016 Winter Committee Meetings in Salt Lake City, Utah. The Fall Committee webpage received 497 page views during views during December 9-11, 2015. The Winter Committee Meetings in March 2-4, 2016, schedule of events landing webpage received 417 page views.

The website manager has been working with the National Nexus Program to improve the Multistate Voluntary Disclosure Program website. The Nexus Committee has developed a workgroup to improve the content and layout of the webpages. The Nexus Committee has provided a detailed list of improvements that can be found in the Nexus Committee Workgroup Report. Nexus Committee website improvements are listed below:

- Homepage Slider – A slider has been added to the homepage to attract users to the Multistate Voluntary Disclosure Program. The slider will direct users to the programs overview webpage.
- Frequently Asked Questions – A webpage has been created to link from the Multistate Voluntary Disclosure Program Overview webpage.
- Nexus Program– This webpage has been consolidated with the Charter webpage contents.
- Nexus Committee – This webpage has been consolidated with the Nexus Committee Archive webpage contents.
- State Tax Amnesties – This webpage has been consolidated with State Tax Amnesties Archive.
- Nexus Program Navigation – The sub-navigation was re-ordered to reflect the webpages changes.



**Financial Statements and Report of Independent Certified
Public Accountants for the Years Ended June 30, 2016 and
2015**



MULTISTATE TAX COMMISSION

**Financial Statements, Supplementary
Information and Report
of Independent Certified
Public Accountants**

**For the Years Ended
June 30, 2016 and 2015**

LSWG

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

MULTISTATE TAX COMMISSION
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June 30, 2016 and 2015

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Report of Independent Certified Public Accountants

To the Executive Committee of
Multistate Tax Commission

We have audited the accompanying financial statements of Multistate Tax Commission, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of revenue and expenses and changes in fund balance – unappropriated funds, changes in fund balance – appropriated funds, changes in fund balance – restricted funds and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Multistate Tax Commission as of June 30, 2016 and 2015, and the changes in its fund balances and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Linton Shafer Warfield & Garrett

Rockville, Maryland
November 28, 2016

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

ASSETS

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 2,261,590	\$ 951,850
Accounts receivable	34,495	204
Accrued interest	18,073	22,180
Prepaid expenses	46,777	28,521
Total Current Assets	<u>2,360,935</u>	<u>1,002,755</u>
Property and Equipment - at Cost		
Office furniture and equipment	469,115	546,106
Leasehold improvements	212,722	236,147
Less: accumulated depreciation and amortization	<u>(554,103)</u>	<u>(622,352)</u>
Property and Equipment - Net	<u>127,734</u>	<u>159,901</u>
Other Assets		
Investments	3,424,640	4,507,923
Expense account advances	6,400	6,000
Deposits	5,484	5,484
Total Other Assets	<u>3,436,524</u>	<u>4,519,407</u>
TOTAL ASSETS	<u>\$ 5,925,193</u>	<u>\$ 5,682,063</u>

LIABILITIES

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	\$ 19,085	\$ 30,785
Accrued salaries and vacation pay	372,454	378,749
Unearned membership, program and registration fees	<u>151,371</u>	<u>150,495</u>
Total Current Liabilities	<u>542,910</u>	<u>560,029</u>
 TOTAL LIABILITIES	 <u>542,910</u>	 <u>560,029</u>
 Fund Balances		
Unappropriated	3,484,371	3,376,052
Appropriated	624,921	612,421
Restricted	<u>1,272,991</u>	<u>1,133,561</u>
Total Fund Balances	<u>5,382,283</u>	<u>5,122,034</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 5,925,193</u>	 <u>\$ 5,682,063</u>

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>2016</u>	<u>2015</u>
Revenue - Unappropriated and Appropriated		
Membership assessments and program fees	\$ 5,619,890	\$ 5,808,700
Interest and dividends	138,658	146,743
Realized gain on investments	4,904	2,942
Unrealized gain (loss) on investments	34,175	(24,901)
Other income (loss)		
Training fees	171,579	286,926
SITAS fees	9,904	55,884
Conference fees	23,225	20,085
Loss on disposal of fixed assets	(12,690)	(4,777)
Total Revenue	<u>5,989,645</u>	<u>6,291,602</u>
Expenses - Unappropriated and Appropriated		
Auditing and payroll services	17,293	17,143
Business insurance	20,516	21,574
Conferences and training schools	98,806	152,021
Depreciation	41,106	72,086
Bond amortization	62,026	76,010
Employee benefits	837,469	788,234
Miscellaneous	29,046	26,759
Consumable and durable supplies	55,343	74,586
Postage	17,569	19,485
Printing and duplicating	13,496	25,918
Professional services	224,878	307,438
Publications and electronic resources	38,324	43,592
Recruitment	750	1,500
Rent	270,946	233,804
Repairs and maintenance	10,678	16,529
Retirement plan	417,365	438,415
Salaries	3,398,360	3,562,694
Software licenses	32,825	7,014
Staff training	13,264	15,474
Subscriptions, publications, dues	43,624	46,478
Unified communications	32,002	31,933
Travel	301,788	372,798
Allocation of administrative expenses	(108,648)	(143,127)
Total Expenses	<u>\$ 5,868,826</u>	<u>\$ 6,208,358</u>

(continued)

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

	<u>2016</u>	<u>2015</u>
Excess of Revenue Over (Under) Expenses	\$ 120,819	\$ 83,244
Transfer (to) from Appropriated Fund Balance	<u>(12,500)</u>	<u>(12,500)</u>
Total Amount Transferred	<u>(12,500)</u>	<u>(12,500)</u>
 FUND BALANCE - Unappropriated - Beginning of Year	 <u>3,376,052</u>	 <u>3,305,308</u>
 FUND BALANCE - Unappropriated - End of Year	 <u>\$ 3,484,371</u>	 <u>\$ 3,376,052</u>

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, 2016 and 2015

	Equipment Reserve	Enterprise Automation Project	Total
Fund Balance - June 30, 2014	\$ 44,206	\$ 555,715	\$ 599,921
Transfer (to) from Unappropriated Fund Balance	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Net Amount Transferred (To) From From Unappropriated Fund Balance	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Fund Balance - June 30, 2015	56,706	555,715	612,421
Transfer (to) from Unappropriated Fund Balance	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Net Amount Transferred (To) From From Unappropriated Fund Balance	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Fund Balance - June 30, 2016	<u>\$ 69,206</u>	<u>\$ 555,715</u>	<u>\$ 624,921</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, 2016 and 2015

	<u>4R Project</u>	<u>Nexus Program</u>	<u>Total</u>
Fund Balance - June 30, 2014	\$ 42,694	\$ 1,127,948	\$ 1,170,642
Revenue	-	797,921	797,921
Expenses	-	835,002	835,002
Revenue Over (Under) Expenses	-	(37,081)	(37,081)
Fund Balance - June 30, 2015	42,694	1,090,867	1,133,561
Revenue	-	813,801	813,801
Expenses	-	674,371	674,371
Revenue Over (Under) Expenses	-	139,430	139,430
Fund Balance - June 30, 2016	<u>\$ 42,694</u>	<u>\$ 1,230,297</u>	<u>\$ 1,272,991</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	\$ 260,249	\$ 46,163
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	41,106	75,575
Bond amortization	62,026	76,010
Loss on disposal of property and equipment	12,690	11,537
Unrealized (gain) loss on investments	(34,175)	24,901
Realized (gain) loss on sale of investments	(4,904)	(2,942)
Changes in assets and liabilities		
Accounts receivable	(34,291)	(204)
Prepaid expenses and accrued interest	(14,149)	(4,210)
Expense account advances and deposits	(400)	2,281
Accounts payable	(11,700)	(26,530)
Accrued salaries and vacation pay	(6,295)	17,285
Unearned membership, program and registration fees	876	(105,558)
Net Cash Provided by Operating Activities	271,033	114,308
Cash Flows From Investing Activities		
Purchase of property and equipment	(21,829)	(70,758)
Proceeds from sale of property and equipment	200	-
Purchase of investments	(137,547)	(151,559)
Proceeds from sale of investments	1,197,883	51,467
Net Cash Provided by (Used in) Investing Activities	1,038,707	(170,850)
Net Increase (Decrease) in Cash and Cash Equivalents	1,309,740	(56,542)
Cash and Cash Equivalents - Beginning of Year	951,850	1,008,392
Cash and Cash Equivalents - End of Year	\$ 2,261,590	\$ 951,850
Supplemental Disclosures		
Income taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

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

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies

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

Cash Equivalents

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

Accounts Receivable

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

Property and Equipment

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

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

Unearned Membership, Program and Registration Fees

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

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Income Taxes

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

Fair Value

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

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

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

- Level 1 - inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 - inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2016 and 2015

2. Defined Contribution Plan

Effective June 30, 1986, the Commission adopted a defined contribution plan to be funded at a rate of 12.4% of each participating individual's annual salary. To participate in this plan, employees are required to work more than certain pre-determined hourly and monthly levels throughout the plan year. The total expense relating to the defined contribution plan for the years ended June 30, 2016 and 2015 was \$448,491 and \$480,239, 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 July 30, 2020. 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>
2017	\$ 363,726
2018	369,258
2019	377,770
2020	238,061
2021	-

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, 2016 and 2015 was \$416,689 and \$386,126, respectively.

4. Appropriated Fund Balances

The Commission's Executive Committee authorized the Enterprise Automation Project fund in the amount of \$73,000 during the year ended June 30, 1997. An additional \$882,218 has been authorized in subsequent years. The purpose of this fund is to provide support, through professional services, for developing enterprise-wide applications for managing the Commission information resources in a manner that enhances its operations. As of June 30, 2016 and 2015 the Enterprise Automation Project fund balance was \$555,715.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2016 and 2015

4. Appropriated Fund Balances (continued)

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 \$92,500 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. As of June 30, 2016 and 2015, the Equipment Reserve fund balances were \$69,206 and \$56,706, respectively.

5. Restricted Fund Balances

During the year ended June 30, 1988, the 4R Project was established whereby contributions received are restricted to use for supporting education, lobbying and legal expenses related to this property tax project. The purpose of the project is to provide for research activities as well as to seek favorable changes in Federal laws which are related to property tax restrictions of state and local governments. As of June 30, 2016 and 2015, the 4R Project fund balances was \$42,694.

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. As of June 30, 2016 and 2015, the National Nexus program fund balances were \$1,230,297 and \$1,090,867, respectively.

6. Deferred Compensation Plan

The Commission offers employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. In accordance with federal law, participants' deferred compensation under the plan is 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, and the plan provides approximately fifteen investment options or a combination thereof. The participants make the choice of the investment option(s).

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2016 and 2015

7. Investments

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

	Cost 2016	Market 2016	Cost 2015	Market 2015
Investments				
Mutual funds	\$ 1,455,032	\$ 1,488,053	\$ 1,463,859	\$ 1,417,088
Money market funds	15,564	15,564	52,143	52,143
Corporate bonds	287,707	290,146	298,707	298,502
Corporate stock	-	-	276,299	332,834
US Government and Agency securities	1,617,931	1,630,877	2,386,638	2,407,356
Total Investments	<u>\$ 3,376,234</u>	<u>\$ 3,424,640</u>	<u>\$ 4,477,646</u>	<u>\$ 4,507,923</u>

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. For the years ended June 30, 2016 and 2015, the Commission paid investment fees of \$21,789 and \$24,667, respectively.

8. Allocation of Administrative Expenses

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

9. Use of Estimates

In preparing financial statements in conformity with 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.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2016 and 2015

10. Concentration of Credit Risk

Cash held by the Commission in bank accounts may at times exceed the Federal Deposit Insurance Corporation (FDIC) coverage limit. Management believes the Commission is not exposed to any significant credit risk related to cash.

11. Subsequent Events

Management has evaluated subsequent events through November 28, 2016, the date that the financial statements were available to be issued. There were no significant events to report.

SUPPLEMENTARY INFORMATION



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

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

To the Executive Committee of
Multistate Tax Commission

We have audited the financial statements of Multistate Tax Commission as of and for the year ended June 30, 2016, and our report thereon dated November 28, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

The schedule of expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Linton Shafer Warfield & Garrett

Rockville, Maryland
November 28, 2016

MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2016

	Unappropriated and Appropriated Funds				Restricted Funds			
	General Expenses	Audit Program	Administrative Expenses	Training and Education	Unappropriated and Appropriated Funds	National Nexus Program	Total Restricted Funds	Total All Funds
Auditing and payroll services	\$ 12,000	\$ -	\$ 5,293	\$ -	\$ 17,293	\$ -	\$ -	\$ 17,293
Business insurance	-	-	20,516	-	20,516	-	-	20,516
Conferences and training schools	68,148	9,880	1,501	19,277	98,806	12,170	12,170	110,976
Depreciation	-	15,418	25,688	-	41,106	-	-	41,106
Bond amortization	62,026	-	-	-	62,026	-	-	62,026
Employee benefits	135,806	553,633	127,934	20,096	837,469	63,045	63,045	900,514
Miscellaneous	809	5,672	19,531	3,034	29,046	3,627	3,627	32,673
Consumable and durable supplies	12,046	11,990	26,230	5,077	55,343	1,778	1,778	57,121
Postage	2,519	9,647	2,983	2,420	17,569	7,102	7,102	24,671
Printing and duplicating	2,616	2,193	36	8,651	13,496	-	-	13,496
Professional services	198,351	7,140	13,677	5,710	224,878	-	-	224,878
Publications and electronic resources	1,474	22,469	14,381	-	38,324	-	-	38,324
Recruitment	-	500	250	-	750	250	250	1,000
Rent	83,282	61,095	126,569	-	270,946	145,743	145,743	416,689
Repairs and maintenance	122	826	9,730	-	10,678	-	-	10,678
Retirement plan	72,787	271,743	63,789	9,046	417,365	31,126	31,126	448,491
Salaries	624,172	2,211,587	489,652	72,949	3,398,360	276,169	276,169	3,674,529
Software licenses	233	1,619	25,655	5,318	32,825	-	-	32,825
Staff training	4,220	2,060	6,134	850	13,264	835	835	14,099
Subscriptions, publications, dues	24,616	10,487	7,796	725	43,624	8,608	8,608	52,232
Unified communications	10,292	14,974	6,679	57	32,002	3,878	3,878	35,880
Travel	71,245	174,001	26,554	29,988	301,788	11,392	11,392	313,180
Allocation of administrative expenses	264,427	647,503	(1,020,578)	-	(108,648)	108,648	108,648	-
Total Expenses	\$ 1,651,191	\$ 4,034,437	\$ -	\$ 183,198	\$ 5,868,826	\$ 674,371	\$ 674,371	\$ 6,543,197

The accompanying notes are an integral part of this schedule.

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