



MULTISTATE TAX COMMISSION

ANNUAL REPORT





MULTISTATE TAX COMMISSION

ANNUAL REPORT FOR FISCAL YEAR 2015

(July 1, 2014 – June 30, 2015)

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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

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 2015 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, 2014, to June 30, 2015. This annual report presents a convenient compilation of reports presented to the Commission at its 2015 annual meeting in July, as well as the *Financial Statements and Report of Independent Certified Public Accountants for the Years Ended June 30, 2015 and 2104*.

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, three strategic planning projects were in progress and nine states worked together as an advisory group to develop a program design for an arm’s-length adjustment service. 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



Overview of Actions Taken by the Multistate Tax Commission

The Commission held its Annual Business Meeting, as required by Article VI of the Multistate Tax Compact, on July 30, 2014, in Albuquerque, New Mexico.

The commission took the following actions during July 1, 2014, to June 30, 2015:

- Approved the Commission Budget for 2014-2015.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Adopted amendments to the Public Participation Policy regarding use of telecommunications in connection with an in-person meeting or meetings conducted entirely by telecommunications.
- Adopted amendments to Compact Article IV (UDITPA) section 1(a), section 1(g), section 9, section 17, and adding section 18(b) as uniformity recommendations to the states.
- Readopted Policy Statement 2009-01, *Tribal-State Tax Issues*.
- Elected Julie Magee, Commissioner, Alabama Department of Revenue, as Chair.
- Elected Demesia Padilla, Secretary, New Mexico Taxation and Revenue Department, as Vice Chair.
- Elected Rich Jackson, Chairman, Idaho State Tax Commission, as Treasurer.
- Elected Susan Combs, Texas Comptroller of Public Accounts; R. Kevin Clinton, State Treasurer, Michigan; Mike Kadas, Director, Montana Department of Revenue; and Carol K. Nelson, Director, Washington Department of Revenue, as at-large members of the Executive Committee.

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



Executive Committee Report

The Executive Committee met three times during the period July 1, 2014, to June 30, 2015:

- July 31st in Albuquerque, New Mexico
- December 12th in Nashville, Tennessee
- May 7th in Washington, D.C.

The Executive Committee also met via teleconference on July 2, 2015, the action from which will be included in this report.

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 2015:

- Chair: Julie Magee, Commissioner, Alabama Department of Revenue
- Vice Chair: Demesia Padilla, Secretary of Taxation and Revenue, New Mexico
- Treasurer: Rich Jackson, Commissioner, Idaho Tax Commission
- At-Large: Susan Combs, Texas Comptroller of Public Accounts; R. Kevin Clinton, State Treasurer, Michigan; Mike Kadas, Director, Montana Department of Revenue; and Carol K. Nelson, Director, Washington Department of Revenue

In September, Michigan repealed their Multistate Tax Compact, creating a vacancy in one of the four at-large positions on the Executive Committee. Stephen M. Cordi, Deputy Chief Financial Officer, D.C. Office of Tax and Revenue, was appointed by the Chair to fill the open position and elected by the committee.

At the end of 2014, Susan Combs's term of office as the Texas Comptroller of Public Accounts expired, creating a vacancy in one of the four at-large positions on the Executive Committee. Glenn Hegar, the newly elected Texas Comptroller of Public Accounts, was appointed by the Chair to fill the open position and elected by the committee.

In January, Carol K. Nelson left her position to return to the private sector, creating a vacancy in one of the four at-large positions on the Executive Committee. John L. Valentine, Chair of the Utah State Tax Commission, was appointed by the Chair to fill the open position and elected by the committee.



The Executive Committee took the following actions during fiscal year 2015:

- Reviewed the efforts and completed work of the Strategic Planning Steering Committee for fiscal year 2014.
- Considered the Uniformity Committee's recommendations with respect to the hearing officer's report regarding proposed Recommended Amendments to Compact Article IV, Section 18(c) and (d), and recommended consideration by the Commission, triggering the Bylaw 7 survey process for these provisions (along with section 18(e), which had been approved previously but held pending work on (c) and (d)).
- Took no action on the retained Model Sales & Use Tax Notice and Reporting proposal pending the final resolution of litigation in Colorado.
- Elected Stephen M. Cordi, Deputy Chief Financial Officer, D.C. Office of Tax and Revenue, to serve out an unexpired term as an at-large member of the Executive Committee.
- Approved the audited financial statements as reported in an independent auditor report for fiscal year July 1, 2012 – June 30, 2013.
- Reviewed of draft design for an Arm's-Length Adjustment Service
- Considered the hearing officer's report regarding proposed draft amendments to Formula for the Apportionment and Allocation of Net Income of Financial Institutions and recommended consideration by the Commission, triggering the Bylaw 7 survey process for this proposal.
- Considered a resolution on the model ABA Transaction Tax Overpayment Act as recommended by the Uniformity Committee, and referred it to the Resolutions Committee process for consideration by the Commission at its annual meeting.
- Elected John L. Valentine, Chair of the Utah State Tax Commission, to serve out an unexpired term as an at-large member of the Executive Committee.
- Elected Glenn Hegar, Texas Comptroller of Public Accounts, to serve out an unexpired term as an at-large member of the Executive Committee.
- Approved a proposed 2015-2016 budget for the Commission.
- Approved the final design for an Arm's-Length Adjustment Service, to be implemented when enough states committed to the program; commended and discharged the advisory group tasked with completing the program design.



- Approved a recommended amendment to Bylaw 7(g) for adoption by the Commission and directed that requisite notice be provided so that it would be considered at the Commission's annual business meeting scheduled for July 29, 2015.
- On a July 2, 2015, teleconference, approved the Chair's appointment of Gregory S. Matson to be the next executive director of the Multistate Tax Commission following the resignation of Joe Huddleston effective August 1, 2015.

The Executive Committee undertook additional actions during fiscal year 2015 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 met four times during fiscal year 2015. They first met on July 29, 2014, in Albuquerque, New Mexico. There were 44 members, guests, and staff present at the meeting. There were 38 individuals representing 20 audit program states present. There were no members of the public present at the meeting. The second meeting took place on October 30, 2014. This meeting was held via teleconference. Although the sole purpose of this meeting was to select income tax cases for MTC audits, a public meeting was also held. There were no members of the public present, so the audit selection was conducted in the closed session. There were 22 members and staff who called in and participated in this teleconference, with 19 individuals representing 14 income tax audit committee states. The third meeting took place in Nashville, Tennessee, on December 10, 2014. There were 56 members, guests, and staff present at the meeting. There were 43 individuals representing 26 audit program states present and there were two members of the public present during the public session. The fourth meeting was held in Kansas City, Missouri, on March 11, 2015. There were 35 members, guests and staff present at the meeting. There were 28 individuals representing 17 audit program states present. There were no members of the public present at the meeting.

During the meeting in Albuquerque the audit committee selected 13 sales tax cases to be added to the MTC's audit inventory. The committee reviewed the status of all active audits and discussed cases with significant issues. The committee thanked retiring MTC Audit Director Les Koenig for his many years of dedicated service to the Commission and welcomed Keith Getschel as the incoming Audit Director.

During the October teleconference, the audit committee selected 10 income tax cases to be added to the MTC's audit inventory. Since this was the sole purpose for this meeting, no further actions were taken.

During the meeting in Nashville the committee thanked Rick DeBano for his outstanding service as the chair of the MTC Audit Committee and wished him the best in his retirement. The committee recommended Frank Hales to replace Rick as committee chair and Lee Baerlocher as vice-chair of the committee. The audit committee reviewed the status of all the audits in progress.

The audit committee conducted a round table discussion regarding audit issues and how those issues were discovered.

During the meeting in Kansas City, Elizabeth Harchenko gave the committee an overview and update of the strategic planning project for the audit program. The audit committee reviewed the status of all the audits in progress. Discussion included a



taxpayer who originally was not very cooperative, but was being more cooperative than was previously reported. Harold Jennings informed the audit committee that two sales tax audits that were selected by the committee and referred for audit failed to garnish the necessary participation of states. With much discussion, the committee decided to drop the audit of one of the cases, but asked MTC staff to send a second round of audit requests to member states for the other case.

Audit Program

Productivity

Audit Program completed five income tax audits and parts of four other income tax audits for the fiscal year end of June 2015. The Audit Program also completed four sales tax audits and parts of eight other sales tax audits for the same period. There are 23 income and 40 sales tax audits in progress.

The MTC Audit Program has proposed assessments of \$85,153,922 for income tax and \$6,064,084 for sales tax for the fiscal year end of June 2015. One of the completed audits for income tax actually resulted in tax refunds of \$4,793,099, due to unclaimed research and development credits and payroll factor adjustments. In discussion with those states, it was decided to incorporate those credits in our audit to alleviate the burden on the taxpayer of having to file refund claims.

Staffing

During the fiscal year Iowa, Pennsylvania, Rhode Island, and Delaware joined the MTC audit program. We added four new income tax auditors this past year. Three of whom replaced resignations and/or retirements and one was added due to the joining of the states listed above. We are also in the process of hiring a sales tax auditor to replace a resignation. This position will be filled by September 1, 2015.

Office Relocation

We successfully moved the Chicago office from the downtown location 223 West Jackson Boulevard, to 2800 River Road, Des Plaines. Since our lease was up, it gave us the opportunity to reduce our leased space and move to a more convenient location, both of which resulted in reducing our lease expenses.



Audit Committee

During this fiscal year the Audit Committee met in Albuquerque, New Mexico on July 29, 2014, on October 30, 2014, via teleconference, in Nashville, Tennessee on December 10, 2014, and in Kansas City, Missouri, on March 11, 2015. We thanked Les Koenig for his many years of dedicated service as audit director and wished him the very best in his retirement. We thanked Rick DeBano for his service as audit committee chair and wished him the best in his retirement. We welcomed Frank Hales as the new audit committee chair and Lee Baerlocher as the new vice-chair of the committee.

Training

Jeff Silver and Larry Shinder participated as instructors in an income tax course in Burlington, Vermont in October 2014. Harold Jennings conducted a “Computer Assisted Audit Techniques using Excel” class in Washington, DC in October 2014. Bob Schauer conducted a statistical sampling class, with the assistance of Scott Elliot (from Minnesota) in Georgia in November 2014. Cathy Felix and Jeff Silver participated as instructors in an income tax course in Salem, Oregon, in April 2015. Harold Jennings and Bob Schauer conducted a statistical sampling class in April in St. Paul, Minnesota.

The MTC audit program held a training session for all staff in Chicago the week of May 11th. There were numerous issues and topics to cover with the addition of several states to the audit program. We were pleased that Joe Huddleston, Greg Matson, Helen Hecht, and Chris Lane were able to join us and provide some instruction and answer questions, as well.



TRENDS IN PRODUCTIVITY
MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/98- 6/15

	6/98	6/99	6/00	6/01	6/02	6/03	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	6/13	6/14	6/15
Income Tax Total Audits	9	7	10	8	7	8	7	7	9	7	7	3	6	6	4	5	6	5
Total States Audited	120	186	251	131	166	165	266	196	175	141	209	79	152	309	131	150	103	79
Total Hours	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649	11937	12836	14413	11136
Average Hours Per State	83	55	52	66	57	64	45	64	72	66	84	81	69	83	91	86	139	141
Sales Tax Total Audits	10	16	11	14	13	11	10	11	6	15	9	10	12	5	5	12	6	4
Total States Audited	97	184	102	158	159	145	154	160	77	187	97	120	147	65	59	163	63	48
Total Hours	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200	5000	13195	6570	5121
Average Hours Per State	80	40	89	75	56	61	71	38	64	71	80	61	73	110	85	81	104	106
Total Both Taxes Total Audits	19	23	21	22	20	19	17	18	15	22	16	13	18	11	9	17	12	9
Total States Audited	217	370	353	289	325	310	420	336	252	328	306	199	299	374	190	313	166	127
Total Hours	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849	16937	26031	20983	16257
Average Hours Per State	82	48	63	71	56	62	55	56	70	69	83	69	71	88	89	83	126	128

Litigation Committee Report

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

The Litigation Committee met during the Commission's July 2014 annual meeting in Albuquerque, New Mexico. The meeting was chaired by Clark Snelson and the agenda included (1) a congressional update from Roxanne Bland, MTC Counsel, (2) a U.S. Supreme Court update from Helen Hecht, MTC General Counsel, and (3) a discussion of one of the state tax cases to be heard by the Court in its 2015 term by representatives of Colorado, Grant Sullivan and Phil Horwitz, *Direct Marketing Association v. Brohl*, petition granted July 1, 2014. The meeting was adjourned following these presentations so that members could attend the information and training session for state tax attorneys, where attendees heard presentations on state litigation of multistate interest. Attendance was up again at this meeting, in keeping with a recent trend.

The Committee met again at the Winter meetings in March 2015, in Kansas City, Missouri. The meeting was chaired by Clark Snelson, and the agenda included (1) a briefing of the committee by Helen Hecht, MTC General Counsel, on the Commission's amicus filings, and (2) a presentation by federal Judge Duane Benton on tax issues before the Supreme Court and the *Direct Marketing Association* case in particular. The meeting was adjourned following these presentations so that the state attorneys in attendance could participate in an informational and training session.

Paull Mines Award

The late C.A. Daw, chief counsel for the Montana Department of Revenue, who lost a battle with cancer in May of this year, was awarded the 2014 Paull Mines Award for Contribution to State Tax Jurisprudence. His wife, Mari, was present to accept the award.



Mari Daw receives the Paull Mines Award, in honor of her late husband at MTC's Annual Conference in Albuquerque, New Mexico.



Nexus Committee Report

Lennie Collins, Nexus Committee Chair

Multistate Voluntary Disclosure

The Nexus Committee met on July 29, 2014, in Albuquerque, New Mexico; on December 10, 2014, in Nashville; and on March 11, 2015, in Kansas City, Missouri. It is scheduled to meet next in Spokane, Washington, on July 27, 2015; and Charleston, South Carolina, on December 9, 2015.

The committee continued its oversight of the multistate voluntary disclosure process and the other activities of the National Nexus Program. Revenue recovered in FY 2015 is shown below. Revenue shown for “all states” includes both member and non-member states of the National Nexus Program. The National Nexus Program at the Nexus Committee’s direction stopped opening new multistate voluntary disclosures for non-member states on July 1, 2014. The “all states” revenue figure contains revenue from disclosures that concluded in FY 2015 and were opened before the cut-off date.

- Nexus states’ collections: **\$13,838,804** (\$10,757,075 in FY 2014)
- All states’ collections: **\$15,380,979** (\$11,606,862 in FY 2014)

- Nexus states’ executed contracts: **360** (2,222 in FY 2014)*
- All states’ executed contracts: **542** (2,704 in FY 2014)*

- Nexus states’ average contract value: **\$38,441** (\$4,841 in FY 2014)
- All states’ average contract value: **\$28,378** (\$4,292 in FY 2014)

* The unusually large number of disclosure cases during FY 2014 was due to a single tax representative who represented about one hundred fifty clients, each client with multiple states.

Please Note: The above amounts include only amounts actually received before the Commission closes its File. Interest on back tax paid and the value of a new taxpayer, both substantial revenue producers, are not included.



Strategic Planning Projects

In support of the Multistate Tax Commission's overall strategic planning, the Nexus Committee has conceptualized, shaped, and continues to execute its vision to improve the National Nexus Program. The committee worked on two projects this fiscal year.

The Nexus committee appointed a project team for each project:

1. *Increase membership* by identifying barriers to membership; explore avenues to give member states a fuller appreciation of the benefits of membership. This team will present its final report to the Nexus Committee for consideration at its July 27, 2015 meeting in Spokane, Washington. If approved, the committee will present the report to the Steering Committee later that week.
2. *Identify improvements to the NNP's multistate voluntary disclosure process*. The project team expects to issue its final report for the Nexus Committee's consideration at its December 9, 2015 meeting.

Over its three meetings in FY 2015, the Nexus Committee focused in large part on its Strategic Planning efforts, notably:

- Revisited and dismissed the idea of suggesting to the Executive Committee that local governments be encouraged to join the NNP;
- Considered the two project ideas that the then-Nexus-Committee's Strategic Planning Project-Team recommended for referral to the MTC's Strategic Planning Steering Committee.
- Approved the motion to submit both projects to the MTC's Strategic Planning Steering Committee: (1) Increase membership in the National Nexus Program, and (2) Process Improvement for Voluntary Disclosure Program.
- Formed two project teams. The Membership Project Team members are: Christy Vandevender (AL), Deanna Munds-Smith (AR), Janice McGee (NM), Gene Walborn (MT). The Voluntary Disclosure Process Improvement Project Team members are: Myles Vosberg (ND), Mike Christensen (UT), Christi Daniken (OR), Anita DeGumbia (GA) and Ted Shiraishi (HI).
- The Membership Project Team has completed its work. Its report is based in large part on analysis of surveys of non-member states, conversations with their voluntary-disclosure personnel, and roundtable discussion at Nexus Committee meetings. The Nexus Committee will submit the report to the Strategic-Planning Steering Committee if it approves the report.



- The team of the Multistate Voluntary Disclosure Improvement Project expects to present its final report to the Nexus Committee at its December 9, 2015 meeting. Its report will make recommendations based on interviews with tax representatives who have used the service; discussions with member-state tax officials who are knowledgeable about their states' voluntary disclosure process and how well it meshes with the NNP's; identification of specific areas where there is opportunity for greater efficiency and speed based on analysis of NNP records; committee roundtable discussions; and analysis of the staff's internal processes.

Confidential Roundtable Discussions Regarding Compliance

The Committee had a roundtable discussion about compliance issues (including specific taxpayers) in closed session at each of its three meetings this fiscal year. Members have found these discussions to be very useful exchanges of information about compliance techniques and discovery leads. The Membership Project revealed that many members of the committee believe that the roundtable compliance discussions are the most useful part of Nexus Committee meetings.

Nexus School

Nexus staff provided on-site coordination and instruction at Nexus Schools, including:

- Little Rock on September 15-16, 2014
- Trenton on November 13-14, 2014
- Prattville, Alabama, (near Montgomery) on February 2-3, 2015
- Atlanta on April 15-16, 2015

There are no additional Nexus Schools scheduled yet. Please let the Commission staff member know if your state would like to host a school.



Report of the Training Program

Ken Beier, Training Director

The Commission training program reached 451 participants during the year. This includes 363 participants at ten in-person training courses, and the 2013 Annual Conference in Albuquerque, New Mexico. Details on training events from the past year and scheduled for the coming year follow.

Courses Offered in 2014-2015

The following MTC courses were offered during the year:

Computer Assisted Audit Techniques Using Excel

- September 25-26, 2014, in Washington, DC, for 36 participants.

Corporate Income Tax

- October 20-23, 2014, in Burlington, Vermont, for 51 participants.
- April 20-23, 2015, in Salem, Oregon, for 64 students.

Statistical Sampling for Sales and Use Tax Audits

- November 17-20, 2014, in Atlanta, Georgia, for 31 participants.
- April 13-16, 2015, in St. Paul, Minnesota, for 25 participants.

Nexus School

- September 15-16, 2014, in Little Rock, Arkansas, for 30 participants.
- November 13-14, 2014, in Trenton, New Jersey, for 21 participants.
- February 2-3, 2015, in Montgomery, Alabama, for 37 participants.
- April 15-16, 2015, in Atlanta, Georgia, for 38 participants. (This session of the course was hosted by the Florida Department of Revenue.)

Related Party Transactions

- March 31-April 1, 2015, in Raleigh, North Carolina, for 30 participants. This session was suggested by states involved with the Arm's Length Adjustment Service Advisory Group. The course was taught by personnel from Royalty Stat, LLC.

All participants for these courses were state and local government personnel, except for the statistical sampling course, where there were eight private sector attendees.

The training program also supported the 46th Annual Conference in Albuquerque, New Mexico which was attended by 88 participants.



Courses Schedule for 2015-2016

The following courses are currently scheduled:

Statistical Sampling for Sales and Use Tax Audits

September 21-24, 2015, in Des Plaines (Chicago area), Illinois

Computer Assisted Audit Training Using Excel

October 6-7, 2015, in Trenton, New Jersey (pending final arrangements)

Corporate Income Tax (Part One)

December 14-15, 2015, in Kansas City, Missouri

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 Training Director at 954-372-0381.

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

Richard Cram, Sales & Use Tax Uniformity Subcommittee Chair

**Robynn Wilson, Income & Franchise Tax Uniformity
Subcommittee Chair**

The commission develops model state tax laws for states to consider adopting. Proposed model laws may be suggested by our executive committee, a standing committee, one or more states, a taxpayer or taxpayer group, or any other member of the public. Once the committee has identified a model to develop, initial drafting takes place in subcommittees or workgroups. Richard Cram, Kansas Department of Revenue, chairs a workgroup to draft a model sales and use tax nexus statute. Mr. Cram also chairs a membership/industry workgroup to address private litigation involving transaction tax under- and over collection. Michael Fatale, Massachusetts Department of Revenue, chairs a workgroup drafting model Article IV (UDITPA) Section 17 market sourcing regulations. Jennifer Hays, Kentucky Legislative Research Commission, chairs a workgroup drafting model Article IV (UDITPA) Section 1 “receipts” regulations. All meetings and calls of the committee, subcommittees, and workgroups are public and public participation is encouraged.

Through June 30, 2015, the committee and subcommittees have met three times in person— in July 2014 in Albuquerque, NM, in December 2014 in Nashville, TN, and in March 2015 in Kansas City, MO. The committee met several times by teleconference and drafting workgroups have met regularly by telephone.

The members and leadership of the Uniformity Committee would especially like to thank Robyn Wilson, Alaska, for her service to the committee and the Income and Franchise Tax Subcommittee, which she has chaired for a number of years. Robyn has stepped down as chair effective July 1, 2015.

Projects by Status

Currently before the Commission:

- Recommended Amendments to the Formula for the Apportionment and Allocation of Net Income of Financial Institutions
- Recommended Amendments to Section 18 of the Article IV [UDITPA]
- Recommended Conforming Amendments to Article IV [UDITPA]

Under Development or consideration at the Uniformity Committee and Subcommittees:

- Model Sales and Use Tax Nexus (Engaging in Business) Statute
- UDITPA Sec. 17 Market Sourcing Model Regulations
- UDITPA Sec. 1 “Receipts” Model Regulations
- Model Provisions Concerning Class Action and False Claims – Model Whistleblower Statute
- Possible Project on Federal Adjustments



Project Summaries

Before the Commission

- *Recommended Amendments to the Formula for the Apportionment and Allocation of Net Income of Financial Institutions*

In 2007, a workgroup was charged with reexamining the Commission's 1994 model statute for the apportionment of income realized by financial institutions, and recommending amendments to the subcommittee. These changes were caused both by the deregulation of the industry as a result of the repeal of Glass-Steagall, and by technological innovations that allow financial institutions to provide a full range of services, such as mortgage loan and credit card application processing, credit approval and account servicing, entirely online. The workgroup, which includes representatives from several states and the banking industry, identified revisions that are needed to the current MTC financial institutions model. The revisions include, among other things:

- clarifying the property factor rule for sourcing loans (currently based on SINAA – solicitation, investigation, negotiation, approval and administration);
- creating new receipts factor rules for sourcing ATM fees, merchant discounts, and trust account fees; and
- revising the receipts factor rule that requires use of “cost of performance” for sourcing any receipts not otherwise specified.

The subcommittee agreed with the workgroup's conceptual recommendations for making these improvements, and directed the workgroup to draft amendments accordingly. The workgroup completed a draft of recommended changes to the receipts factor and certain definitions, which the subcommittee has reviewed, amended, and preliminarily approved. The workgroup then began work on the property factor and the use of SINAA for sourcing of loans. At its July 2013 meeting, the subcommittee directed the workgroup to move forward with the approach of the property factor being real and tangible personal property and eliminating any aspect of SINAA from the property factor. In December 2013, the subcommittee completed its work on the property factor. At the meeting of the Executive Committee held December 12, 2014, the Committee approved the Proposed Draft Amendments to Formula for the Apportionment and Allocation of Net Income of Financial Institutions (without accepting a proposed revision by the Hearing Officer). The staff of the Commission subsequently sent out a Bylaw 7 survey to the states and a majority of the states responded that they would consider the proposed revisions. The proposed revisions are now on the agenda for the July 2015 Commission meeting.

- *Recommended Amendments to Section 18 of Article IV [UDITPA]*

The Commission's executive committee approved for public hearing the Uniformity Committee's draft amendments to Article IV (UDITPA) in December 2012, including one amendment to Section 18 (Subsection 18 (b)). Section 18 provides that if the allocation and



apportionment provisions of the Article do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition for or the tax administrator may require the use of other methods. A public hearing was held on the draft amendments on March 28, 2013, with Professor Richard Pomp serving as the hearing officer. The hearing officer suggested four additional amendments to Section 18. The executive committee referred the hearing officer's report to the Uniformity Committee for its consideration. That committee subsequently declined to make the hearing officer's suggested amendments part of its draft amendments.

The Uniformity Committee's draft amendments were again presented to the executive committee at its meeting on May 8, 2014. The executive committee heard testimony in favor and against the hearing officer's additional suggested amendments to Section 18. The committee voted not to recommend one of the suggested amendments (requiring the tax administrator to issue regulations in certain cases). It voted to recommend two of the other suggested amendments (before the Commission now as Subsections 18 (c) and (e)) substantially as written. It also voted to recommend a fourth suggested amendment (Subsection 18 (d)) conditioned on a modification that was asserted to be necessary by Uniformity Committee representatives. That fourth recommended amendment was referred back to the Uniformity Committee with instructions to make the modification as discussed.

Subsequently, the executive committee's recommended amendments to Article IV, including the Uniformity Committee's amendment to Section 18 (Subsection 18 (b)), but excluding the recommended amendments in Subsections 18 (c), (d) and (e), were sent to the compact members as part of a bylaw 7 survey. A majority of Compact members responded to the survey that they would consider adopting the recommended amendments and consequently those amendments were placed on the Commission's agenda for its July 2014 meeting, and they were subsequently approved. The following day, the Executive Committee considered and approved the Uniformity Committee's modification to the recommended amendment in Subsection 18 (d). Subsequently, the recommended amendments in Subsections 18 (c), (d) and (e) were included in a second bylaw 7 survey. A majority of Compact members responded they would consider adopting the recommended amendments. These recommended amendments are now before the Commission.

- *Recommended Conforming Amendments to Article IV [UDITPA]*

The Commission's executive committee approved for public hearing the Uniformity Committee's draft amendments to Article IV (UDITPA) in December 2012, with the understanding that such amendments would necessitate conforming changes to Article IV if the amendments were ultimately adopted. A public hearing was held on the draft amendments on March 28, 2013, and the executive committee referred hearing officer report to the Uniformity Committee for consideration. On May 8, 2014, the executive committee's recommended amendments to Article IV were sent to the compact members as part of a bylaw 7 survey, again, with the understanding that such amendments would necessitate conforming changes to Article IV. A majority of Compact members responded to the survey that they would consider adopting the recommended amendments and consequently those amendments were placed on the Commission's agenda for its July 2014 meeting, and they were subsequently approved. Subsequently, the conforming amendments were submitted to the Compact members in a bylaw



7 survey and a majority of the members responded that they would consider adopting the amendments. These recommended conforming amendments are now before the Commission.

Before the Executive Committee

- Model Sales and Use Tax Notice and Reporting Statute (tabled).

This project is on hold pending the constitutional challenge to the Colorado use tax information reporting statute. At its March, 2010 meetings, the sales and use tax subcommittee initiated two projects related to sales and use tax education and enforcement: (1) a sales and use tax notice and reporting model, and (2) an associate nexus model (the associate nexus model is discussed below). The subcommittee determined it would work first on the sales and use tax notice and reporting model.

The resulting proposal requires sellers who are not collecting sales or use tax to notify purchasers of a potential tax liability at the time of sale if the product is to be delivered into the state. Sellers are also required to make annual reports to each such purchaser and an annual report to the state. De minimis exceptions and penalties are provided. The Uniformity Committee approved a draft in early March, 2011. Later that month, the executive committee approved the draft for public hearing. The hearing was held, and the hearing officer's report and recommendations were presented to the executive committee, which recommended approval of the proposal to the commission. The proposal was not placed on the commission's agenda, however, because it had not passed the bylaw 7 survey at that point. The proposal came back before the executive committee in December, 2011, and clarifications were requested. The Uniformity Committee made those clarifications and the executive committee took the matter up again in May, 2012.

During that meeting, the executive committee voted to retain the proposal pending further discussion after the U.S. Court of Appeals for the 10th Circuit issued its opinion in *Direct Marketing Ass'n v. Brohl*, 735 F.3d 904 (10th Cir. 2013), and held that the federal Tax Injunction Act barred the Court from hearing the case. DMA filed a petition for certiorari in the U.S. Supreme Court on March 5, 2014. DMA also filed a separate action in the District Court for the City and County of Denver, which essentially tracks the issues in the federal action. On February 18, 2014, the state district court granted DMA's motion for preliminary injunction, staying the enforcement of the statute pending trial.

The U.S. Supreme Court granted the petition for certiorari July 1, 2014 and rendered its decision on April 6, 2015, finding that the Tax Injunction Act did not bar the 10th Circuit from hearing the case. *Direct Mktg. Ass'n v. Brohl*, 135 S. Ct. 1124 (2015). The case was remanded for further proceedings and is now pending in the 10th Circuit after extensive supplemental briefing on the merits.



Under Development or Consideration at the Uniformity Committee and Subcommittees

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

Richard Cram, Kansas Department of Revenue, chairs this workgroup. A first draft of a proposed New York style “associate nexus” statute was presented during the Uniformity Committee teleconference in October, 2011. That draft largely followed so-called “Amazon” legislation first adopted in New York. A second draft was prepared for the July 2012 meeting that also largely followed the New York legislation and included aspects of the similar legislation adopted by California. The subcommittee has benefited considerably from comments and input by representatives from New York and California.

The subcommittee held a teleconference in October, 2012 which resulted in a third draft incorporating elements of the MTC affiliate nexus statute (which the Commission failed to adopt). This draft was reviewed and discussed during the December 2012 meeting. During that meeting, the subcommittee voted to expand the project to create a model sales and use tax remote seller nexus statute. A workgroup was formed that reviewed nexus research, developed a policy checklist, and identified state legislation that could serve as a template for the model. The workgroup met several times in 2013.

At the subcommittee’s meetings in March, July and December 2013, the subcommittee reviewed the drafts prepared by the workgroup and returned them with suggested amendments. At its March, 2014 meeting, the subcommittee reviewed the draft prepared by the workgroup, but raised concerns that some of the provisions applied to more than just remote sellers. The subcommittee sent it back to the workgroup for further revisions.

A draft prepared by the workgroup and approved by the subcommittee was presented to the Uniformity Committee at its meeting July 2014. Additional changes were recommended regarding the model statute, which was returned to the workgroup. The workgroup presented its revised model to the subcommittee at the December 2014 meeting. At the December 2014 and March 2015 meetings, the Committee made additional changes and also sent the draft back to the workgroup. The workgroup has held additional phone calls refining the provisions and responding to the Committee’s suggestions. The model was again before the Uniformity Committee at its meeting on July 28, 2015. (If approved in substantially the form presented, it is expected that the committee will present the draft model to the Executive Committee at its meeting on July 30, 2015.

- UDITPA Sec. 1 Workgroup – “Receipts”

Work on regulations to implement changes to Sec. 1(g) of Art. IV of the model Compact was begun November 6, 2014 and is continuing. . Jennifer Hays, Kentucky, chairs the group. The workgroup consists of Donnita Wald, North Dakota; Steve Wynn, Idaho; Joseph DiNicola, Oregon; and Scott Fryer, Arkansas. Others have also participated in the workgroup. The workgroup has recently begun meeting weekly via teleconference for extended meetings, and plans to do so until the project is completed.



- UDITPA Sec. 17 Workgroup – Model Market-Sourcing Regulations

Work on regulations to implement changes to Sec. 17 of Art. IV of the model Compact was begun November 5, 2014 and is continuing. Michael Fatale, Massachusetts, chairs the group. The workgroup consists of Chris Coffman, Washington; Phil Skinner, Idaho; Aaishah Hashmi, District of Columbia; Jeffrey Henderson, Oregon; Holly Coon, Alabama; Nirmail Dhaliwal, District of Columbia, and Ben Miller. Others have participated in the workgroup meetings. The workgroup meets weekly via teleconference, and plans to do so until the project is completed.

- Model Provisions Concerning Class Actions and False Claims - Model Whistleblower Statute.

This project began as an extension of the Model Provisions Concerning Class Actions and False Claims. The False Claims model was originally requested by the telecommunications industry. Industry representatives gave a presentation in July 2012 on issues arising from class actions for alleged over-collection of tax from communications customers. In December, 2012, after hearing input from COST and others, the project was expanded to include all industries, not just communications, and to include a look at false claims acts actions for alleged under-collection of tax. The subcommittee met with the litigation committee in February, 2013, to review a class action model recommended by the American Bar Association. In March, 2013, the subcommittee directed staff to provide an overview of state laws on class action and false claims acts in the state tax context. That research was reviewed by the subcommittee at its July 2013 meeting. An industry-state workgroup was formed. The workgroup focused on nuisance lawsuits, and in April 2014 the subcommittee considered a resolution endorsing the ABA Model Transactional Tax Overpayment Act. The subcommittee referred the resolution back to staff for further drafting. The draft was approved by the committee. The draft was then referred to the MTC Resolution Committee. That committee has recommended to the Commission that it adopt the resolution.

In the course of the workgroup’s consideration of the issues involved in class action and false claims act cases with respect to state taxes, the group determined that there were situations in which states might benefit from whistleblower or false claims act processes for uncovering tax liabilities that would otherwise be difficult to identify. Staff reviewed potential solutions, and narrowed them to four options:

- (1) for the Commission to develop a model state tax whistleblower statute (the IRS model, IRC §7623);
- (2) for the Commission to develop a model state tax false claims act statute (the New York model);
- (3) for the Commission to develop both a model state tax whistleblower statute and a false claims act statute; or
- (4) to terminate the project.



At its May 7, 2015 meeting, the official guidance from the Executive Committee was to focus on the whistleblower portion at this time, in accordance with Option 1. The workgroup will proceed accordingly.

- Possible Project on Federal Adjustments

The Uniformity Committee has been asked by industry and practitioners to consider model statutory language that might simplify the filing of state tax adjustments triggered by federal and adjustments. The committee directed staff to consider the proposed project. Staff has reported that they have taken input from practitioners and reviewed the existing MTC model statute (which does not appear to have been adopted by any states). Staff is also consulting with the FTA standards group on whether the issue might be addressed, at least in part, by a technology change in electronic filing requirements allowing filing information that would allow certain adjustments to be made more simply.



Report of the Executive Director

Joe Huddleston, Executive Director
Gregory S. Matson, Deputy Director

This report is a summary of the Commission's organizational and staff activities for the period July 1, 2014, through June 30, 2015.

I. Programs & Activities

A. Joint Audit Program

Audit Program completed five income tax audits and parts of four other income tax audits for the fiscal year end of June 2015. The Audit Program also completed four sales tax audits and parts of eight other sales tax audits for the same period. The MTC Audit Program has proposed assessments of \$85,153,922 for income tax and \$6,064,084 for sales tax for the fiscal year end of June 2015. One of the completed audits for income tax actually resulted in tax refunds of \$4,793,099, due to unclaimed research and development credits and payroll factor adjustments.

The following chart summarizes hourly data for completed audits for fiscal year end June 30, 2015:

	Income & Franchise	Sales & Use	Total
Total Audits	5	4	9
Total States Audited	79	48	127
Total Hours	11136	5121	16257
Average Hours per State	141	106	128

Pennsylvania, Rhode Island, Iowa, and Delaware have joined the audit program for income and franchise tax audits.

The audit program lost four auditors during this period, two to retirement and two others through resignation. The audit program has filled four income tax positions, one started on December 1, 2014, another one on January 5, 2015, and two more on May 11, 2015. We are in the process of interviewing for another sales tax auditor and expect that person to start before September 1, 2015.

Audit program staff provided instruction at two income tax training classes, one computer assisted audit techniques using Excel, and two statistical sampling classes in fiscal year 2015. The audit program held a training session for all staff in Chicago the week of May 11, 2015.



B. National Nexus Program

Strategic Planning

Strategic planning has been the Nexus Committee’s primary focus during FY2015.

The National Nexus Program (“NNP”) provided staffing support — administrative, coordinating, and consultative — for the Nexus Committee’s Strategic Planning Project Team until that team completed its task of identifying appropriate projects for the National Nexus Program. The team produced an important foundational document, “National Nexus Program — Mission, Vision, and Goals.”

The NNP now provides staffing support for the two teams that are responsible for those projects: (1) Membership project, and (2) Improve Multistate Voluntary Disclosure Program project. Both of these projects address the strategic goal area of enhancing the vitality and reputation of the National Nexus Program, and thereby the Commission. Recommendations that will result from the work of these teams will draw on information elicited from non-member and member NNP states, tax practitioners, and taxpayers who use the multistate voluntary disclosure and other NNP services.

The Multistate Voluntary Disclosure Improvement project was scheduled to complete its work by the July 27 Nexus meeting, but it has extended that estimate to December 2015 in order to ensure thorough analysis of the data it has collected, and to allow more time for the Commission’s strategic planning consultant to work with Nexus staff on its internal processes.

Multistate Voluntary Disclosure

The multistate voluntary disclosure statistics for FY 2015 to date (July 1 – March 31, 2015) are —

- Nexus states’ collections.....\$13,838,804 (\$10,757,075 in FY 2014)
- All states’ collections.....\$15,380,979 (\$11,606,862 in FY 2014)

- Nexus states’ executed contracts360 (2,222 in FY 2014)
- All states’ executed contracts.....542 (2,704 in FY 2014)

- Nexus states’ average contract value\$38,441 (\$4,841 in FY 2014)
- All states’ average contract value\$28,378 (\$4,292 in FY 2014)

Please Note: The above amounts include only amounts actually received before the Commission closes its File. Interest on back tax paid and the value of a new taxpayer, both substantial revenue producers, are not included.

Revenue shown for “all states” includes both member and non-member states of the National Nexus Program. The program stopped opening new multistate voluntary disclosures for non-member states on July 1, 2014 at the Nexus Committee’s direction. The “all states” revenue



figure contains revenue from disclosures that concluded in FY2015 and were opened before the cut-off date. Soon the “All states” bullet will no longer appear in reports.

Technical Change to the *Procedures for Multi-State Voluntary Disclosure*

The NNP director sought and obtained input and approval from the Nexus Committee of a technical change to the *Procedures for Multi-State Voluntary Disclosure*. That change addressed taxpayers’ eligibility to use the MTC’s Multistate Voluntary Disclosure process.

Discontinuation of Free Voluntary Disclosure and Establishment of \$500 Threshold

Two Nexus Committee suggestions have speeded up service to member states: the cessation of voluntary disclosure service to non-NNP member states, and the \$500 minimum threshold for estimated back tax liability over the lookback period of a member state. (Note: A number of non-member states have continued to benefit from the service in this fiscal year because applications filed for their states were filed before the July 1, 2014 cut-off date.)

Outreach

A member of the NNP staff made a presentation at a Vertex conference in New Orleans, Louisiana on October 27, 2014, providing an overview of the Multistate Tax Commission’s activities with a focus on the National Nexus Program.

NNP staff continues to urge member states to put a link to the Commission’s multistate voluntary disclosure program on their own voluntary disclosure web pages. Some applicants come to the Commission for multistate voluntary disclosure because of having seen this link on a state voluntary disclosure web page. One state reported having posted this link.

Nexus Schools

Nexus staff taught schools in:

- Little Rock, Arkansas, on September 15 -16, 2014,
- Trenton, New Jersey, on November 13 - 14, 2014,
- Prattville, Alabama (near Montgomery) on February 2 - 3, 2015,
- Atlanta, Georgia, on April 15-16, 2015.

There are presently no Nexus Schools scheduled. Please let a member of the Commission staff know if your state would like to host one.

Technology

The NNP and the Commission’s network administrator, working with a software vendor, have made some much-needed fixes to the NNP’s Multistate Voluntary Disclosure Database, the technological system that is vital to the processing, recording, and reporting of multistate voluntary disclosures information. Further improvements will be worked on.



Staff

The NNP had four full-time employees and two part-time employees in FY2015 until the NNP associate director resigned effective June 5, 2015. This position is unfilled. Part-time, temporary workers were brought in to perform administrative duties for the NNP, such as data entry, photocopying, and filing papers, etc., from time to time for seventy-five hours each. The Commission switched from using temps and hired a regular, part-time employee who will work up to 240 hours in FY2016 to perform this work.

C. Legal Division

The regular duties of the legal division include:

- Providing staff support to two standing committees, uniformity and litigation and related sub-committees or 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.

Uniformity Work

Currently, the legal division is staffing the following uniformity projects, in addition to a uniformity process strategic planning project:

- Formula for the Apportionment and Allocation of Net Income of Financial Institutions (FIWG)
- Sales and Use Tax Nexus (Engaging in Business) Model Act
- Section 1 Model Definition of "Receipts" Regulations
- Section 17 Model Market-Sourcing Regulations
- Tax Undercollection Class Action & Tax Overcollection False Claims Act
- Model Sales and Use Tax Notice and Reporting Statute
- Proposal for project addressing state administrative requirements related to federal adjustments

Litigation Committee Work

The Litigation Committee has held two in-person meetings this year – in Albuquerque in July 2015 and in Kansas City in March 2015. The Legal Division staffs these meetings which this year included discussion of MTC amicus briefs as well as a presentation from federal Judge Duane Benton (March) and presentations on cases pending before the U.S. Supreme Court (July). At the same meetings at which Litigation Committee meetings are held, the Legal



Division also coordinates state attorney training. The Legal Division also held three state attorney informational calls this year.

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:

- Amicus brief on behalf of the Texas Comptroller in *Graphic Packaging v. Hegar* (TX Court of Appeals) filed May 26, 2015
- Amicus brief on behalf of Colorado in *DMA v. Brohl* (10th Circuit) filed May 20, 2015
- Amicus brief on behalf of the Massachusetts Commissioner of Revenue in *First Marblehead Corporation and Gate Holdings, Inc.* (Massachusetts Supreme Judicial Court)
- Amicus brief on behalf of the Maryland Comptroller in *Maryland Comptroller's of the Treasury v. Wynne* (U.S. Supreme Court) petition granted May 27, 2014
- Amicus brief on behalf of the Alabama Department of Revenue in the merits phase of *Alabama v. CSX Transportation, Inc.* (U.S. Supreme Court) petition granted July 1, 2014 (the Commission filed a brief in the petition phase as well)
- Amicus brief on behalf of the Colorado Department of Revenue in *Direct Marketing Association v. Brohl* (U.S. Supreme Court) petition granted July 1, 2014
- Amicus brief on behalf of the Montana Department of Revenue in *Montana v. Priceline.com, Inc.* (Montana Supreme Court)
- Amicus brief on behalf of Tennessee in the *Vodafone Americas Holdings, Inc & Subsidiaries, v. Roberts* case (Tennessee Supreme Court)
- Review of federal legislation including proposed Marketplace Fairness Act and related legislation
- Review of proposed extension of the Internet Tax Freedom Act
- A conference call to review with the Litigation Committee the effects of the Internet Tax Freedom Act on state taxes and inform participants of request from industry on taxes that might apply if the act should lapse
- Ongoing consulting with effected states on the *Gillette* litigation
- Consulting with various state revenue departments concerning legislative proposals affecting corporate income tax and sales tax
- Consulting with various state attorneys concerning ongoing corporate income tax litigation

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. During the fiscal year, the division provided legal assistance to the commission's audit division on a number of challenging audit related issues and has addressed several public participation issues and records requests. Staff supported the Commission's legislative day in May 2014. The



legal division has also provided support for the Commission’s training division by helping to teach the following classes:

- Nexus School - September 15-16, 2014 in Little Rock, Arkansas
- Corporate Income Tax School – October 20-23, 2014 in Burlington, Vermont
- Nexus School – November 23-24, 2014 in Trenton, New Jersey
- Nexus School – February 2-3, 2015 in Montgomery, Alabama
- Nexus School - April 15-16, 2015 in Atlanta, Georgia
- Corporate Income Tax School – April 20-23, 2015 in Salem, Oregon
- MTC Auditor Training – May 12-13, 2015, in Chicago, Illinois

D. Policy Research

Articles & Research

- Submitted article by Bob Schauer and Harold Jennings regarding superiority of statistical sampling versus representative sampling for sales and use tax audits for publication.
- Reviewed submission by Michael Udell of District Economics Group on Single Sales Factor apportionment. This article was published in *Tax Analysts*, July 15, 2014 “Sales Factor Apportionment of Profits to Broaden the Tax Base.”
- Wrote article on trends in state corporate income taxes with Policy research Intern, Tong Liu. This article was published in *Journal of Multistate Taxation and Incentives*, March-April 2015, pp. 6-17, 48.
- Wrote article on long-term trends state and local finances. “Trends in State and Local Finances,” was published in *State Tax Notes*, June 8, 2015, pages 775-792.

Other Activities

- Supports MTC efforts in addressing federal legislation with implications for state and local taxation.
- Monitors state adoption of MTC model statutes, regulations, and guidelines.
- Member of the National Tax Association Advisory Board.
- Organizer of Tax Economists Forum breakfast at Hall of the States on July 9, 2014.
- Participated in National Association of Business Economists webinar on corporate tax inversions September 18, 2014.
- Participated in Regional Economic Modeling Institute (REMI) web-based seminar on impact of corporate inversions on states, September 23, 2014.
- Participated in REMI web-based seminar on sales factor apportionment, October 9, 2014.
- Attended local Tax Economists Forum breakfasts on November 19, 2014, December 3, 2014, March 4, 2015, April 27, 2015, and June 10, 2015.
- Organizer of Tax Economists Forum breakfast on February 4, 2015, and presented on trends in state corporate income taxes.



- Staff support for MTC training program course on Related Party Transactions, March 31- April 3, 2015, in Raleigh, N.C.
- Participated in Executive Board discussion in conjunction with the National Tax Association Spring Symposium in May.
- Interviewed candidates and hired summer policy research intern
- Consulted with Dr. Antje Pflugbeil, First Secretary Finance (Tax) of the German Embassy on the OECD project on Base Erosion and Profit Shifting (BEPS), applying combined reporting and formulary apportionment within Germany; and, among OECD nations.

E. Training

The Training staff supported the following activities since July 1, 2014:

Computer Assisted Audit Techniques Using Excel

September 25-26, 2014 in Washington DC for 36 students from the District of Columbia and the MTC.

Corporate Income Tax

- October 20-23, 2014 in Burlington, Vermont for 51 students from Arizona, Connecticut, Nebraska, New Hampshire, South Carolina and Vermont.
- April 20-23, 2015 in Salem, Oregon for 64 students from Arizona, Idaho, Michigan, Oregon, Rhode Island and the MTC.

Statistical Sampling for Sales and Use Tax Audits

- November 17-20, 2014 in Atlanta, Georgia for 31 students from Alabama, the District of Columbia, Florida, Georgia, South Dakota, Utah, the MTC and the private sector.
- April 13-16, 2015 in St. Paul, Minnesota for 25 students from Michigan, Minnesota, Mississippi, New Jersey, South Dakota, the MTC and the private sector.

Nexus School

- September 15-16, 2014 in Little Rock, Arkansas for 30 students from Arkansas, Iowa, Mississippi, Nebraska, Oregon, and Utah.
- November 13-14, 2014 in Trenton, New Jersey for 21 students from Idaho, New Jersey, West Virginia, Wisconsin and Pennsylvania.
- February 2-3, 2015 in Montgomery, Alabama for 37 students from Alabama, Georgia, Minnesota, Mississippi, Oregon and South Dakota.
- April 15-16, 2015 in Atlanta, Georgia for 38 students from Alabama (City of Birmingham), Florida, Idaho, Iowa, Michigan, Mississippi, North Carolina, North Dakota, Rhode Island, South Carolina, South Dakota, and the MTC. (This session of the course was hosted by the Florida Department of Revenue.)



Related Party Transactions

March 31-April 1, 2015 in Raleigh, North Carolina for 30 students from Alabama, Connecticut, Florida, Georgia, Iowa, Kentucky, Louisiana, New Jersey, North Carolina, and Pennsylvania. This session was prompted by substantial support for training on this topic from states involved with the Arm's Length Adjustment Service Advisory Group. The course was taught by personnel from Royalty Stat, LLC.

The training director was the principal coordinator of the July 30th Annual Meeting Conference in Albuquerque, New Mexico.

II. Administration

Policy Research summer intern Tong Liu, a master's degree candidate in applied economics at Johns Hopkins Institute, completed her internship on August 29th.

Helen Hecht, formerly tax counsel for the Federation of Tax Administrators, began her stint as the Commission's general counsel on July 1st.

Les Koenig retired on July 31st. Les was the long-time director of the Audit Program. Les started with the Commission in July, 1990 and became Audit Director in 1991.

Danette Smith, sales tax auditor, resigned effective July 25, 2014. Danette had held this position with the Commission since April 14, 2008.

Ken Morrow, a senior income tax auditor, retired from the Commission on September 24th. Ken was hired in 1994 and served the Joint Audit Program for 20 years.

Gloria Carrillo, accountant, retired on September 30, 2014. Gloria had been the bookkeeper for the Commission since July, 1989 (shortly after the Commission moved to Washington, D.C. from Boulder, Colorado). The Commission hired Wendy Margolis to fill the accountant's position; she started on October 8th. Wendy has worked in accountant and controller positions for a number of D.C. based associations.

Lindsay Buerkle, auditor (income tax), began her employment on December 1, 2014, and Pamela Downs, auditor (income tax), started her employment on January 5, 2015. Both of these auditors have prior auditing experience in state tax departments.

Gene Marchuk, a senior income tax auditor, retired from the Commission on March 15, 2015.

Alexis Douglas, a sales tax auditor, resigned effective March 15, 2015.



Spencer Clarke, who had been employed as an auditor with the Montana Department of Revenue, started as an auditor (income tax) with the Commission on May 11, 2015. And John Tracy, who had worked as an auditor for the Idaho State Tax Commission, also started as an auditor (income tax) with the Commission on May 11, 2015.

Ben Abalos, associate director of the National Nexus Program, resigned on June 5, having moved out of the area. Ben worked for the MTC for two and one-half years (the first year as the manager of the one-year Data Sharing Initiative project).

Antonio Soto, training manager, retired on June 30 after 16 years with the Commission. Antonio was first hired as a database coordinator for the National Nexus Program. A new events coordinator has been hired and will begin work on August 3, 2015.

Roxanne Bland, counsel, also retired on June 30. Roxanne had been counsel with the Commission for 17 years.

Vishnu Jagdar, a student at Hofstra University, started as a summer policy research intern on June 9th. Vishnu will be conducting research related to the Business Activity Simplification Act of 2015.

Effective March 30 the Commission's Chicago audit office moved from its downtown location to 2800 River Road in Des Plaines, Illinois. This relocation cut operating expenses by reducing the size of the office from 1,958 square feet to 1,476 square feet and by reducing the cost per square foot per year from \$25.02 to \$17.00. The new office is better located for Multistate Tax Commission staff purposes because it is close to Chicago O'Hare International Airport and it avoids the need for staff to travel into downtown Chicago in order to work or visit the office.

The Commission has transitioned to a new communication service provider. The new system allows the staff to take advantage of a fully realized unified communication set up. The transition began in May with backend deployment, and was completed early in July. The website manager oversaw the implementation and transition to the new system.

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

- The Pew Charitable Trusts panel discussion, *State Implications of Federal Corporate Tax Reform*; Washington, D.C. (Huddleston)
- SEATA 64th Annual Conference; *Overview of State Taxation* (Huddleston, panelist); Point Clear, Alabama
- NYU Summer Institute in Taxation: State & Local Tax II; *A View From the State Tax Administrators* (Huddleston, panelist); New York, New York



AUGUST

- Georgetown 37th Annual Advanced State and Local Tax Institute; *Sales Tax Issues, Opportunities, and Traps* (Hecht, panelist); *The Three Great Issues the U.S. Supreme Court Has Not Answered* (Huddleston, panelist); Washington, D.C. (Matson)
- 2014 MSATA Conference; Minneapolis, Minnesota (Huddleston, Getschel)
- Regional Economic Models, Inc. Monthly Policy Luncheon, *The Economic and Fiscal Impacts of Tax Inversions on States*; Washington, D.C. (Dubin)

SEPTEMBER

- 2014 WSATA Conference; Boise, Idaho (Huddleston, Getschel)
- Tax Policy Center, *Business Tax Reform: What Can Be Done?*; Washington, D.C. (Dubin)
- Taxpayers' Federation of Illinois State & Local Tax Conference (Huddleston, luncheon speaker); Chicago, Illinois
- National Association of State Boards of Accountancy (NASBA) CPE Conference; Nashville, Tennessee (Beier)
- 2014 NESTOA Conference; *State Taxation From the FTA-MTC Perspective* (Huddleston, panelist); New Brunswick, New Jersey (Matson, Getschel)

OCTOBER

- COST's 45th Annual Meeting; *Views on the Nation's Most Significant Policy Issues* (Hecht, panelist); Hollywood, Florida
- National Association of State Bar Tax Section's 35th Annual Meeting; *Apportionment – Where Are We Now?* (Hecht, panelist); San Francisco, California
- 2014 Vertex Exchange; *Multistate Tax Commission: Establishment, Programs, and Activities* (Abalos); New Orleans, Louisiana
- Hartman State and Local Tax Forum; *What Hath Moorman Wrought?* (Hecht, panelist), *The Use & Abuse of Equitable Appointment* (Fort, panelist), *Sword or Shield?* (Hecht, panelist); Nashville, Tennessee (Huddleston, Shimkin)

NOVEMBER

- 2014 California Tax Policy Conference; *Uniform or Unique? An Update on the Uniformity Efforts by the Multistate Tax Commission & States* (Hecht, panelist); Coronado, California (Huddleston)
- Crowell & Moring's 2014 National SALT Summit; *Evolving Audit Issues in Transfer Pricing* (Matson, panelist); Washington, D.C.
- IPT Income Tax Symposium; *Southeast State Tax Administrators Panel* (Huddleston, panelist); Fort Lauderdale, Florida
- New England State and Local Tax Forum; *Commissioner's Panel: State of the States* (Huddleston, panelist); Boston, Massachusetts
- National Tax Association's 107th Annual Conference on Taxation, Santa Fe, New Mexico (Dubin)
- COST/BNA Event – Wynne Post-Oral Argument Lunch Discussion (Fort, panelist)



DECEMBER

- American University Kogod School of Business Masters of Taxation Program State and Local Tax Panel (Hecht, panelist), Washington, D.C.
- NYU 33rd Institute on State and Local Taxation; *Apportionment Issues* (Huddleston, panelist), *Audit Issues: Sales Tax and Income Tax* (Silver, panelist); New York, New York
- NYSSCPA Tri-State Taxation Conference; Keynote Address: *Current Multistate Developments and Issues from the Multistate Tax Commission and the States* (Huddleston); New York, New York
- Tax Policy Center, *Are U.S. Corporations Really Over-Taxed?*, Washington, D.C. (Dubin)

JANUARY

- FTA 2015 Midwinter and New Commissioners Seminar; *Federal legislation: Reviewing the Bills, Gazing into the 2015 Crystal Ball* (Huddleston, panelist), *Everything You Always Wanted to Know about the MTC* (Matson), *Important Developments in State Tax Litigation* (Hecht); San Antonio, Texas
- 24th Annual Ohio Tax Conference; *Major Trends & Developments in Business Taxation ... Tax Reform in the States including New York's Recent Overall of Its Corporate Tax; Elections & Impact on State Taxes; Federal Legislative Initiatives Including Addressing America's Uncompetitive 35% Corporate Tax Rate & Marketplace Fairness Act; Increased Enforcement; and Expansion of Tax Credits to Retain & Attract Business: A Lively & Free-Wheeling Panel Discussion* (Huddleston, panelist); Columbus, Ohio
- America Bar Association Tax Section Meeting; *Market-Based Sourcing Regulations: Where the Rubber Meets the Road* (Hecht, panelist); Houston, Texas
- PwC Breakfast Briefing, *Tax and Economic Outlook for 2015*, Washington, D.C. (Huddleston, Matson)
- National Economists Club, *A DC Coincident Index in the Age of Big Data*, Washington, D.C. (Dubin)
- The Atlantic – *The Fight Against Fraud: Solving a \$5 Billion Tax Challenge*, Washington, D.C. (Huddleston)
- The Brookings Institution, *Corporate Inversions and Tax Policy*, Washington, D.C. (Dubin)

FEBRUARY

- The Project for Corporate Tax Fairness Briefing and Reception; *Formulary Apportionment—Background, Factors, and States' Experience* (Huddleston); Washington, D.C.
- Deloitte Tax & the Tax Section of The Florida Bar's National Multistate Tax Symposium; *A Lively Debate with Huddleston, Lindholm, and Pomp* (Huddleston, panelist); Orlando, Florida
- FTA Compliance and Education Workshop, Charlotte, North Carolina (Getschel, Matson)



- Cornell State & Local Tax Discussion Group (Huddleston, speaker), New York, New York
- Regional Economic Modeling Institute, *Middle Class Economics*, Washington, D.C. (Dubin)

MARCH

- ABA/IPT Advanced Income, Sales/Use & Property Tax Seminars; *New MTC Rules on COP/Business/Non-Business Income – Effect on MTC and Other States’ Flank Attacks on COP* (Hecht, panelist), *Ask the Collector!* (Huddleston, panelist); New Orleans, Louisiana
- TEI Philadelphia Chapter State & Local Tax Committee Breakfast (Matson, speaker); King of Prussia, Pennsylvania
- PwC’s Twin Cities State & Local Tax Forum (Getschel, panelist); Minneapolis, Minnesota

APRIL

- ABA Real Estate Planning and Real Property Spring Symposia, Washington, DC, *State Tax Issues with Trusts*, (Disque, panelist)

MAY

- Bloomberg BNA online seminar on *2015 Survey of State Tax Departments* (Shimkin, panelist)
- National Tax Association 45th Spring Symposium; Washington, D.C. (Huddleston, Dubin)
- Regional Economic Modeling Institute’s DC Training and Policy Conference; *Roundtable on econometric modeling of changes in federal taxes on states*; Washington, D.C. (Dubin)

JUNE

- BakerHostetler, 26th Annual Legislative Seminar; Washington, D.C. (Huddleston)
- ISA Summer Conference; *Multistate Tax Commission Programs & Activities Update* (Huddleston, speaker); Boston, Massachusetts
- FTA 2015 Annual Meeting; *Transfer Pricing: A Multi-State Problem with a Multistate Solution* (Matson, panelist); *Writing Better Amicus Briefs* (Hecht & Disque, panelists); *Litigation Update* (Hecht, panelist); Minneapolis, Minnesota (Huddleston, Getschel, Shimkin)



Technology Addendum

The Commission's new Exchange 2010 email server continues to coexist with the Exchange 2003 server. Configuration issues with the backup server were resolved, and the migration of mailboxes was completed. Scheduling is in place to gracefully retire the Exchange 2003 server.

The Commission continues to work with a vendor to develop a state contact portal. The application has been tested is in the final stages of remediation of all issues that the deputy executive director and network administrator identified during their testing. A final "shaking out the bugs" of the application is in process.

The network administrator worked with National Nexus Program staff to provide technical support for the voluntary disclosure application system. Coding, acceptance testing, corrections, and implementation of phase two improvements of the Voluntary Disclosure Application were completed.

The software vendor that worked on the voluntary disclosure application system was contracted to migrate the Audit History database, which was built using Access 2000, to a SQL server backend and a web interface for the end user. The database is now hosted in the DC office and is accessible via the Commission's VPN. The migration of the live data brought to light some issues with the applications import and reporting queries. The network administrator is working with the vendor to get these issues resolved.

The network administrator upgraded the software on the MTC secure email systems to version 3.3. Version 4.x is currently available and we will be upgrading to that in the very near future. The network administrator is trying to identify maintenance window dates that will minimize the interruption of downtime to do these upgrades.

All servers in the New York and Chicago offices have been upgraded to Windows Server 2008 r2. The D.C. servers have also been upgraded to Windows 2008 R2 with the exception of three. One of those is the NNP server, which will require assistance from the VDK software vendor to migrate the database to a new server. The other two servers will be migrated to virtual machines once the VMware servers have been fully upgraded.

The network administrator is working with a vendor to upgrade the software of the firewalls in the D.C. office. The current version of the software needs to be upgraded as support from the software vendor will end soon. In addition, the firewall management software will be installed on an additional appliance, which will free up processor and memory resources on the enforcement points to provide better throughput through the firewalls. During the preparation and staging phase of this upgrade a software bug was identified. The issue has been escalated to the software creators for resolution. In the meantime, the network administrator has rebuilt and exported the firewall rule base and NAT tables. This rebuild has been sent to the vendor and the network administrator and the vendor agree that rebuilding the firewall rule base and NAT tables would be the best way to proceed. Although there is more possibility for configuration errors initially, it will provide a much "cleaner" install.



The network administrator has begun the process of upgrading the VMWare environment. This includes the three (3) VMWare servers. The servers will be upgraded to VSphere 5.5. They currently have VSphere 4.1 installed. The RAM has been upgraded from 16 GB each server to 48 GB each server. This will help to accommodate virtual machines with much higher memory requirements. The Cybernetics data storage (which contains the virtual hard drives for the virtual machines) will have the disk stores rebuilt and reformatted.

The network administrator, with a few staff members, is testing a file sharing/syncing software. This software is being evaluated on its abilities to provide synchronization of files for remote users as well as auditors in the field. It also is being evaluated for its ability to securely share large files with others outside the MTC domain.

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

Website

The Commission's new website was successfully launched in August 2014. The transition of web content and files occurred with minimal website disruption. The new website offers a simple reformat design, easy-to-navigate functionally and an updated content centered usability.

The overall website structure was improved to feature the following sections:

- Homepage – The site's homepage is the focal point for the Commission's latest information. This page includes a rotational image slider, upcoming events listing, search box feature and a Quick Resources section.
- The Commission – This section includes information about the organizational structure and compact members and states. This section will also host recent information regarding the commission changes to the Bylaws, Public Participation Policy, Executive Officers and Annual Reports.
- Nexus Program – The Nexus program will host information regarding the Voluntary Disclosure Program, Nexus Committee agendas and state amnesties.
- Audit Program – The Joint Audit Program section will focus on information of the Audit Committee and taxpayer-Initiated Joint Audits
- Uniformity – The uniformity section of the website has been completely revamped with updated and archived content. The newly created Current Uniformity Projects webpage will be the home for Uniformity Committee projects and working groups. This section also includes an archived section of the Uniformity Committee and Subcommittees agendas.
- Events and Training – A listing of the most recent Commission events along with state tax-related conferences, meeting, courses, and seminars. The Training Program will include Nexus School, Statistical Sampling for Sales and Use Tax Audits, Corporate Income Tax and Computer Assisted Audit Techniques using Excel course information and online registration.



- Resources – this section will include Employment Opportunities, Policy Research, and the TsepWin statistical analysis application.
- A search box is always available at the top of the page throughout the website to easily located webpages.

The new website has received overwhelming positive feedback from those we've heard from, and we continue to hunt down and eliminate missing links and other minor bugs. We will continue to monitor the site growth and online activity with cross-platform testing.

The commission website serves as a main communication channel for the most recent news, brief hearings, course trainings, and committee meetings. The site supports committees and ad hoc groups by ensuring the agenda and meeting materials are available to the public. We have developed a webpage named "Past Commission Meetings" that serves as an active archive webpage for previous meeting and agendas. The webpage is located under the Events and Training section of the main navigation.

The website manager continues to improve the functionality and features of the website, particularly the Events Calendar section and mobile functionality. On the Events Calendar webpage, multiple-day events now display on each of the days during the events. The feature is now viewable on the website, using "calendar view" in the Events section. The mobile version of the website will now allow users to view the Commission website, and be able to navigate as well as pan to all the information (previously, there was no ability to use horizontal scrolling to view information off screen to the right). The mobile website has been calibrated for Android and iOS devices.

The Uniform Sales & Use Tax Certificate form is one of the most popular items on our website. It has now been updated. The form has been re-organized to display the most recent and relevant information. The document is now also fillable form, allowing users to type information directly on the document.

The training manager and website manager met with our online registration vendor to improve the online registration functionality. Some the online updates include data management, attendee reporting, and staff online evaluation.

Changes to the homepage "slider" were made regarding transition and linking. The slider image on the homepage was designed to attract users with the most recent Commission events and information. We decrease the transition timing of the slider so users can view the details of the slider in a reasonable time. We also made slider image "clickable" so that the selection will lead the user to the appropriate webpage for ease of use.



**Financial Statements and Report of Independent Certified
Public Accountants for the Years Ended June 30, 2015 and
2014**



MULTISTATE TAX COMMISSION

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

**For the Years Ended
June 30, 2015 and 2014**

LSWVG

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

MULTISTATE TAX COMMISSION

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June 30, 2015 and 2014

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Linton Shafer Warfield & Garrett, P.A.
Certified Public Accountants & Business Consultants

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, 2015 and 2014, 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.

Auditor's Responsibility (continued)

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, 2015 and 2014, 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
August 25, 2015

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

ASSETS

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 951,850	\$ 1,008,392
Accounts receivable		
Other	204	-
Accrued interest	22,180	26,435
Prepaid expenses	28,521	20,056
Total Current Assets	<u>1,002,755</u>	<u>1,054,883</u>
Property and Equipment - at Cost		
Office furniture and equipment	546,106	637,664
Leasehold improvements	236,147	236,147
Less: accumulated depreciation and amortization	<u>(622,352)</u>	<u>(697,555)</u>
Property and Equipment - Net	<u>159,901</u>	<u>176,256</u>
Other Assets		
Investments	4,507,923	4,505,799
Expense account advances	6,000	7,600
Deposits	5,484	6,165
Total Other Assets	<u>4,519,407</u>	<u>4,519,564</u>
TOTAL ASSETS	<u>\$ 5,682,063</u>	<u>\$ 5,750,703</u>

LIABILITIES

	<u>2015</u>	<u>2014</u>
Current Liabilities		
Accounts payable	\$ 30,785	\$ 57,315
Accrued salaries and vacation pay	378,749	361,464
Unearned membership, program and registration fees	<u>150,495</u>	<u>256,053</u>
Total Current Liabilities	<u>560,029</u>	<u>674,832</u>
 TOTAL LIABILITIES	 <u>560,029</u>	 <u>674,832</u>
 Fund Balances		
Unappropriated	3,376,052	3,305,308
Appropriated	612,421	599,921
Restricted	<u>1,133,561</u>	<u>1,170,642</u>
Total Fund Balances	<u>5,122,034</u>	<u>5,075,871</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 5,682,063</u>	 <u>\$ 5,750,703</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,

	2015	2014
Revenue - Unappropriated and Appropriated		
Membership assessments and program fees	\$ 5,808,700	\$ 5,633,586
Interest and dividends	146,743	127,354
Realized gain (loss) on investments	2,942	365
Unrealized gain (loss) on investments	(24,901)	61,523
Other income (loss)		
Training fees	286,926	206,465
ALAS fees	55,884	12,351
Conference fees	20,085	20,415
Loss on disposal of fixed assets	(4,777)	(21,953)
Total Revenue	6,291,602	6,040,106
Expenses - Unappropriated and Appropriated		
Auditing and payroll services	17,143	16,331
Business insurance	21,574	17,406
Conferences and training schools	152,021	124,280
Depreciation	72,086	69,458
Bond amortization	76,010	67,649
Employee benefits	788,234	884,857
Miscellaneous	26,759	26,928
Consumable and durable supplies	74,586	31,111
Postage	19,485	22,094
Printing and duplicating	25,918	15,918
Professional services	307,438	238,863
Publications and electronic resources	43,592	45,478
Recruitment	1,500	545
Rent	233,804	241,559
Repairs and maintenance	16,529	21,212
Retirement plan	438,415	426,412
Salaries	3,562,694	3,436,204
Software licenses	7,014	9,139
Staff training	15,474	10,488
Subscriptions, publications, dues	46,478	46,657
Unified communications	31,933	28,766
Travel	372,798	293,081
Allocation of administrative expenses	(143,127)	(133,434)
Total Expenses	\$ 6,208,358	\$ 5,941,002

(continued)

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

	<u>2015</u>	<u>2014</u>
Excess of Revenue Over (Under) Expenses	\$ 83,244	\$ 99,104
Transfer (to) from Appropriated Fund Balance	(12,500)	(12,500)
Total Amount Transferred	<u>(12,500)</u>	<u>(12,500)</u>
 FUND BALANCE - Unappropriated -		
Beginning of Year	<u>3,305,308</u>	<u>3,218,704</u>
 FUND BALANCE - Unappropriated -		
End of Year	<u>\$ 3,376,052</u>	<u>\$ 3,305,308</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, 2015 and 2014

	Equipment Reserve	Enterprise Automation Project	Total
Fund Balance - June 30, 2013	\$ 31,706	\$ 555,715	\$ 587,421
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, 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	<u>\$ 56,706</u>	<u>\$ 555,715</u>	<u>\$ 612,421</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, 2015 and 2014

	<u>4R Project</u>	<u>Nexus Program</u>	<u>Total</u>
Fund Balance - June 30, 2013	\$ 42,694	\$ 1,140,813	\$ 1,183,507
Revenue	-	781,619	781,619
Expenses	<u>-</u>	<u>794,484</u>	<u>794,484</u>
Revenue Over (Under) Expenses	<u>-</u>	<u>(12,865)</u>	<u>(12,865)</u>
Fund Balance - June 30, 2014	42,694	1,127,948	1,170,642
Revenue	-	797,921	797,921
Expenses	<u>-</u>	<u>835,002</u>	<u>835,002</u>
Revenue Over (Under) Expenses	<u>-</u>	<u>(37,081)</u>	<u>(37,081)</u>
Fund Balance - June 30, 2015	<u>\$ 42,694</u>	<u>\$ 1,090,867</u>	<u>\$ 1,133,561</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	2015	2014
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	\$ 46,163	\$ 86,239
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	75,575	73,590
Bond amortization	76,010	67,649
Loss on disposal of property and equipment	11,537	21,956
Unrealized (gain) loss on investments	24,901	(61,523)
Realized (gain) loss on sale of investments	(2,942)	(365)
Changes in assets and liabilities		
Accounts receivable		
Schools	-	8,135
Other	(204)	-
Prepaid expenses and accrued interest	(4,210)	12,201
Expense account advances and deposits	2,281	800
Accounts payable	(26,530)	39,601
Accrued salaries and vacation pay	17,285	(27,935)
Unearned membership, program and registration fees	(105,558)	62,657
Net Cash Provided by Operating Activities	114,308	283,005
Cash Flows From Investing Activities		
Purchase of property and equipment	(70,758)	(90,066)
Proceeds from sale of property and equipment	-	-
Purchase of investments	(151,559)	(2,226,283)
Proceeds from sale of investments	51,467	2,125,382
Net Cash (Used in) Investing Activities	(170,850)	(190,967)
Net Increase (Decrease) in Cash and Cash Equivalents	(56,542)	92,038
Cash and Cash Equivalents - Beginning of Year	1,008,392	916,354
Cash and Cash Equivalents - End of Year	\$ 951,850	\$ 1,008,392
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, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014 was \$480,239 and \$466,518, 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>
2016	\$ 386,185
2017	363,726
2018	369,258
2019	377,770
2020	238,061

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, 2015 and 2014 was \$386,126 and \$379,844, 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, 2015 and 2014 the Enterprise Automation Project fund balance was \$555,715.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2015 and 2014

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 \$80,000 has been authorized in subsequent years. The purpose of this fund is to provide support for purchases of computer equipment for the Commission's audit program and information technology department. As of June 30, 2015 and 2014, the Equipment Reserve fund balances were \$56,706 and \$44,206, 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, 2015 and 2014, the 4R Project fund balances were \$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, 2015 and 2014, the National Nexus program fund balances were \$1,090,867 and \$1,127,948, 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 twenty 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, 2015 and 2014

7. Investments

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

	Cost 2015	Market 2015	Cost 2014	Market 2014
Investments				
Mutual funds	\$ 1,463,859	\$ 1,417,088	\$ 1,429,699	\$ 1,445,879
Money market funds	52,143	52,143	38,482	38,482
Corporate bonds	298,707	298,502	309,539	309,356
Corporate stock	276,299	332,834	212,612	253,025
US Government and Agency securities	<u>2,386,638</u>	<u>2,407,356</u>	<u>2,449,942</u>	<u>2,459,057</u>
Total Investments	<u>\$ 4,477,646</u>	<u>\$ 4,507,923</u>	<u>\$ 4,440,274</u>	<u>\$ 4,505,799</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, 2015 and 2014, the Commission paid investment fees of \$24,667 and \$23,813, 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, 2015 and 2014

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 August 25, 2015, the date that the financial statements were available to be issued. There were no significant events to report.

ADDITIONAL INFORMATION



**Report of Independent Certified Public Accountants
on Additional 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, 2015, and have issued our report thereon dated August 25, 2015, which expressed an unmodified opinion on those financial statements. 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 the 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
August 25, 2015

MULTISTATE TAX COMMISSION

Schedule of Expenses
For the Year Ended

June 30, 2015

	Unappropriated and Appropriated Funds				Restricted Funds			
	Total				Total			
	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	-	\$ 5,143	\$ -	\$ 17,143	\$ -	\$ -	\$ 17,143
Business insurance	-	-	21,574	-	21,574	-	-	21,574
Conferences and training schools	96,706	13,645	2,631	39,039	152,021	18,130	18,130	170,151
Depreciation	-	12,164	59,922	-	72,086	3,489	3,489	75,575
Bond amortization	76,010	-	-	-	76,010	-	-	76,010
Employee benefits	121,952	489,139	141,609	35,534	788,234	89,237	89,237	877,471
Miscellaneous	277	7,809	9,789	8,884	26,759	96	96	26,855
Consumable and durable supplies	4,361	23,457	42,456	4,312	74,586	845	845	75,431
Postage	4,325	8,472	3,127	3,561	19,485	5,750	5,750	25,235
Printing and duplicating	6,569	2,974	931	15,444	25,918	157	157	26,075
Professional services	230,096	24,345	29,197	23,800	307,438	24,668	24,668	332,106
Publications and electronic resources	2,421	26,421	14,750	-	43,592	21	21	43,613
Recruitment	-	950	550	-	1,500	60	60	1,560
Rent	52,067	75,894	105,843	-	233,804	152,322	152,322	386,126
Repairs and maintenance	272	550	14,706	1,001	16,529	334	334	16,863
Retirement plan	90,594	264,960	69,423	13,438	438,415	41,824	41,824	480,239
Salaries	738,782	2,153,986	561,556	108,370	3,562,694	330,441	330,441	3,893,135
Software licenses	-	524	6,490	-	7,014	-	-	7,014
Staff training	5,515	1,249	8,710	-	15,474	1,860	1,860	17,334
Subscriptions, publications, dues	25,635	9,877	10,141	825	46,478	7,912	7,912	54,390
Unified communications	11,011	13,586	7,103	233	31,933	3,134	3,134	35,067
Travel	73,509	229,867	34,608	34,814	372,798	11,595	11,595	384,393
Allocation of administrative expenses	311,089	696,043	(1,150,259)	-	(143,127)	143,127	143,127	-
Total Expenses	\$ 1,863,191	\$ 4,055,912	\$ -	\$ 289,255	\$ 6,208,358	\$ 835,002	\$ 835,002	\$ 7,043,360

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