



MULTISTATE TAX COMMISSION

ANNUAL REPORT FOR FISCAL YEAR 2014 (July 1, 2013 – June 30, 2014)

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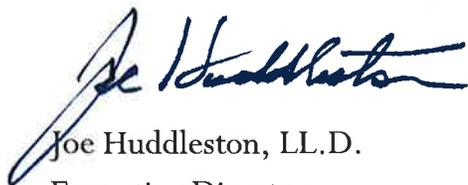
Message from the Executive Director

I am pleased to present the 2014 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, 2013, to June 30, 2014. This annual report presents a convenient compilation of reports presented to the Commission at its 2014 annual meeting in July, as well as the *Financial Statements and Report of Independent Certified Public Accountants for the Years Ended June 30, 2014 and 2013*.

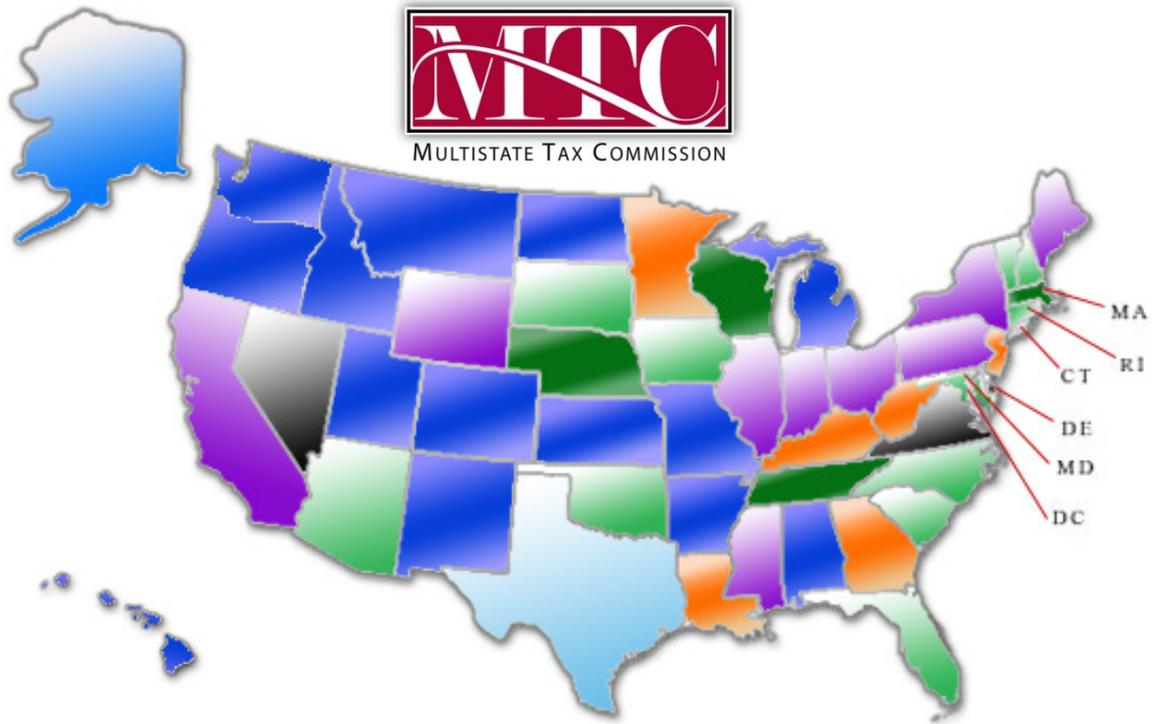
The Multistate Tax Commission (MTC) is an intergovernmental state tax agency whose mission is to achieve fairness by promoting compliance and consistent tax policy and practice, and to preserve the sovereignty of state and local governments over their tax systems. Our vision is that before the end of 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.

We are committed to achieving this vision, but I ask for your continued input and support as the Commission works to achieve it. This 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,



Joe Huddleston, LL.D.
Executive Director



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

*Joint Audit Program Member
 †National Nexus Program Member

Overview of Actions Taken by Multistate Tax Commission

The Commission held its Annual Business Meeting, as required by Article VI of the Multistate Tax Compact, on July 24, 2013, in San Diego, California.

The Commission took the following actions during July 1, 2013 to June 30, 2014:

- Approved the Commission Budget for 2013-2014.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Adopted Amendments to Public Participation Policy and Bylaws Regarding Notice Requirements.
- Readopted Policy Statement 2002-02, *Ensuring the Equity, Viability and Integrity of State Income Tax Systems*, with amendments.
- Adopted a *Resolution in Support of State Consideration of the Streamlined Sales and Use Tax Agreement's Telecommunications Sourcing Rules and Definitions*.
- Elected Julie Magee, Commissioner, Alabama Department of Revenue, as Chair.
- Elected Demesia Padilla, Secretary of Taxation and Revenue, New Mexico, as Vice Chair.
- Elected Rich Jackson, Chairman, Idaho State Tax Commission, as Treasurer.
- Elected Susan Combs, Texas Comptroller of Public Accounts; Andy Dillon, Michigan State Treasurer; Mike Kadas, Director, Montana Department of Revenue; and Carol Nelson, Director, Washington Department of Revenue, as at-large members of the Executive Committee.

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



MULTISTATE TAX COMMISSION

To: Multistate Tax Commission
From: Joe Huddleston, Executive Director
Date: July 23, 2014
Subject: 2014 Executive Committee Annual Report

The Executive Committee met three times during the period July 1, 2013, to June 30, 2014:

- July 25th in San Diego, California
- December 12th in New Orleans, Louisiana
- May 8th in Washington, D.C.

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

The following members of the Commission were elected to serve as Commission officers and members of the Executive Committee for fiscal year 2014:

- 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; Andy Dillon, State Treasurer, Michigan; Mike Kadas, Director, Montana Department of Revenue; and Carol Nelson, Director, Washington Department of Revenue

Michigan State Treasurer Andy Dillon resigned effective October 31st, creating a vacancy in one of the four at-large positions on the Executive Committee. New Michigan State Treasurer R. Kevin Clinton 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 2014:

- Recommended that state legislatures consider NCLS's State Declared Disaster Model Language (Facilitating Business Rapid Response to State Declared Disasters Act)
- Reviewed the efforts and completed work of the Strategic Planning Steering Committee for fiscal year 2013.

- Received a Final Project Report for the Model Statute for Partnership or Pass-Through Entity Income Ultimately Realized by an Entity that is Not Subject to Income Tax.
- Took no action but retained a Model Sales & Use Tax Notice and Reporting proposal pending the final resolution of litigation in Colorado.
- Approved the Nexus Committee's revised National Nexus Program charter.
- Accepted Missouri's and Washington's offer of hosting the Commission's annual meetings in 2015 and 2016, respectively (Missouri and Washington later agreed to switch years).
- Elected R. Kevin Clinton, Michigan State Treasurer, to serve out the unexpired portion of Andy Dillon's at-large position on the Executive Committee.
- Approved a Resolution of Appreciation for past Commission Chair Cory Fong, who resigned as North Dakota's State Tax Commissioner on December 31, 2013.
- Approved the audited financial statements as reported in an independent auditor report for fiscal year July 1, 2012 – June 30, 2013.
- Discussed and concurred with the Executive Director's initiating a design project for a possible Arm's-Length Adjustment Service program.
- Approved the Strategic Planning Steering Committee's revised charter.
- Considered the hearing officer's report regarding proposed Recommended Amendments to Compact Article IV and returned it to the Uniformity Committee for review and consideration of the hearing officer recommended changes.
- Approved a proposed 2014-2015 budget for the Commission.
- Approved Recommended Amendments to Public Participation Policy Section 5(b) for adoption by the Commission and directed that requisite notice be provided so that they would be considered at the Commission's annual business meeting schedule for July 30, 2014.
- Considered the Uniformity Committee's recommendations with respect to the hearing officer's report regarding proposed Recommended Amendments to Compact Article IV; recommend consideration by the Commission of amendments to Section 1(a), Section 1(g), Section 9, Section 17, and adding Section 18(b) and (e), triggering the bylaw 7 survey process for these provisions; returned Section 18(c) and (d) to the Uniformity Committee with direction for further drafting work (Section 18(e) was withheld from the bylaw 7 process pending work on Section 18(c) and (d)).

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding Proposed Amendments to Model Uniform Financial Institutions Apportionment Rule.

The Executive Committee undertook additional actions during fiscal year 2014 that are recorded in the minutes of its meetings.

Report of the Audit Committee and Audit Program

Multistate Tax Commission

July 2014

Rick DeBano, Chair, MTC Audit Committee
Frank Hales, Vice Chair, MTC Audit Committee
Les Koenig, Director, MTC Joint Audit Program

The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2013-2014 fiscal year.

*** AUDIT COMMITTEE ***

The audit committee met three times in fiscal year 6/14. They first met on July 23, 2013 in San Diego, California. There were 46 members, guests and staff present at the meeting. There were 38 individuals representing 19 audit program states present. There were no members of the public present at the meeting.

The audit committee reviewed the status of all the audits in progress. A discussion was held on 8 income tax and 5 sales tax audits that had significant issues. The audit committee expressed its satisfaction with the status of the audits in progress.

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

The audit committee adopted recommendations from the committees on early no change audits and audit selection process. These two committees met several times during fiscal year 2013. The audit program will now implement these adopted recommendations.

The audit committee met on December 10, 2013 in New Orleans. There were 46 members and guests present at the meeting. There were 37 individuals representing 19 member states present.

The audit committee reviewed the status of all the audits in progress. A discussion was held on 16 income tax and 5 sales tax audits that had significant issues. The audit committee expressed its satisfaction with the status of the audits in progress.

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

The audit committee met on March 13, 2014 in Denver. There were 38 members and guests present at the meeting. There were 32 individuals representing 18 member states present.

The audit committee reviewed the status of all the audits in progress. A discussion was held on 12 income tax and 4 sales tax audits that had significant issues. The audit committee expressed its satisfaction with the status of the audits in progress.

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

*** AUDIT PROGRAM ***

PRODUCTIVITY

Audit Program completed 6 and parts of 7 income tax audits for fiscal year end 6/14. The Audit Program also completed 6 sales tax and parts of 9 other audit for the same period. There are 17 income and 29 sales tax audits in progress. There were several income and sales tax cases that were delayed by the taxpayers due to turn over in their tax staffs or taxpayers being sold.

The MTC Audit Program proposed assessments of \$40,850,289 for income tax and \$1,674,931 for sales tax.

STAFFING

Two income tax auditors are no longer in the Commission's employment as of November 1, 2013. These two positions will be filled when the new Audit Director is hired. This will be sometime in early 2014. Mike Bontrager resigned as sales tax auditor effective February 1, 2014 to take a position at Walgreens. Jantha Jamison was hired to fill sales tax auditor position in June 2014.

Please welcome Keith Getschel formerly of Minnesota as new Audit Director. Keith began as Audit Director on June 16, 2014.

TRAINING

Jeff Silver and Larry Shinder participated as instructors in an income tax course in Washington, DC in October, 2013. Jeff and Cathy Felix participated as instructors in an income tax course in Denver in February. Also, Harold Jennings and Bob Schauer conducted in a sampling class in Colorado in October 2013 and a course in Alabama in February.

TRENDS IN PRODUCTIVITY
MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/98- 6/14

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



MULTISTATE TAX COMMISSION

**Litigation Committee Annual Report
Fiscal Year 2014**

The MTC Litigation Committee is chaired by Marshall Stranburg, Florida Department of Revenue. Mark Wainwright and Clark Snelson, Utah Office of the Attorney General, are the committee's co-vice chairs. The committee undertook the following activities during fiscal year 2014.

• **In-Person Meetings**

The Litigation Committee met July 25, 2013 in San Diego, California. Mark Wainwright chaired the meeting. Representatives from sixteen states, approximately 32 people, were in attendance. The meeting included a presentation on *CSX Corp. v. Alabama D.O.R.*, concerning the "4-R Act" and state fuel taxes. The committee then adjourned so that state representatives could attend an informational and training session, which continued on July 26. In that session, representatives heard presentations on U.S. Supreme Court decisions and significant state court decisions affecting taxation.

Our second meeting was in Denver, Colorado on March 13, 2014. Clark Snelson chaired that meeting. The meeting included presentations on the attorney-client privilege in tax disputes and an overview of state severance tax policies and legal disputes. The committee meeting adjourned and state representatives attended an informational and training session conducted for the remainder of the day and a half day on March 14. Approximately 30 attorneys were in attendance from fifteen states. The informational and training session included presentations on centrally-assessed property tax, as part of the Commission's efforts to expand the scope of our training program, and current litigation issues in various states.

• **State Tax Attorney Teleconferences**

During this fiscal year, we continued to host our series of state tax attorney teleconferences to give state representatives information on significant legal developments in state tax law. Those teleconferences were held on:

- September 17, 2013;
- January 8, 2014;
- February 20, 2014, and
- April 9, 2014.

In addition, state attorneys also participated in telephone calls involving presentations on legal issues arising from the interaction between state tax laws and Native American sovereignty and taxation interests.

- **Paul Mines Award**

On July 27, 2013, Shirley Sicilian, General Counsel of the Multistate Tax Commission, was presented with the Paul Mines Award for Contribution to State Tax Jurisprudence.



To: Multistate Tax Commission
From: Lennie Collins, Nexus Committee Chair
Re: Nexus Committee Activities FY 2014

-- Not Confidential --

DRAFT

This report includes open-session activities of the Nexus Committee during fiscal year 2014 (July 1, 2013 through June 30, 2014).

The committee held the following meetings:

- July 23, 2013 (San Diego, California)
- December 10, 2013 (New Orleans, Louisiana)
- January 8, 2014 (teleconference)
- March 13, 2014 (Denver)
- June 13, 2014 (teleconference)

Information Exchange

The committee is focusing more of its activity on information exchange on nexus-related issues, such as discovery techniques and leads. This and strategic planning, which began mid-year, have become the central activities of each Nexus Committee meeting.

Multistate Voluntary Disclosure

The committee requested at its July 2013 meeting that NNP staff discontinue as of July 1, 2014 its long-standing practice of offering multistate voluntary disclosure services to all states without regard to their membership status in the NNP. Staff did so. It notified the affected states (commissioners and voluntary disclosure staff) several times and invited them to continue their work with the NNP as members. None has yet.

The committee continued its routine oversight of the multistate voluntary disclosure service. The National Nexus Program collected \$11.6 million on behalf of all states in fiscal year 2014 (\$10.8 million in fy 2013). With respect only to Nexus-member states, the program collected \$10.8 million (\$9.3 million in fy 2013).

Charter

The Nexus Committee approved the revised Charter of the National Nexus Program at its July 2013 meeting. The Executive Committee approved it at its meeting on July 18, 2013 with only a technical amendment. The revised Charter replaces the current outdated one by removing references to obsolete activities, substituting current ones, and streamlining the language. The Charter served as the starting point for the Nexus Committee's strategic planning.

Strategic Planning

The committee voted at its January 8, 2014 meeting to begin strategic planning with MTC consultant Elizabeth Harchenko.

At its March 2014 meeting it reviewed the Commission's Mission, Vision, Values, and Goals (MVVG); reviewed the Nexus Charter for consistency with the Commission's MVVG; brainstormed a statement of purpose and vision for the Nexus Program; did an environmental scan of Nexus organization and activities; identified potential goals for the Nexus Program; and formed a working group to develop a draft strategic plan for the committee's consideration at its July 2014 meeting. The committee intends to present the plan to the Commission's strategic-planning steering committee with a request that it approve the committee's suggested projects.



MULTISTATE TAX COMMISSION

Maximizing the synergies of multi-state tax cooperation

To: Members, Multistate Tax Commission
From: Ken Beier, Training Director
Date: July 17, 2014
Subject: Training Program Report

The Commission training program reached 357 participants during the year. This includes 266 participants at seven in-person training courses, and the 2013 Annual Conference in San Diego, California. Details on events from the past year and scheduled for the coming year follow. We also encourage you to consider hosting an MTC course in your state.

Courses Offered in 2013-2014

The following MTC courses were offered during the year:

Nexus School

November 18-19, 2013 in Honolulu, Hawaii for 53 students.

January 14-15, 2014 in Boston (Chelsea), Massachusetts for 44 students.

Corporate Income Tax

October 7-10, 2013 in Washington, DC for 34 students.

February 3-6, 2014 in Denver, Colorado for 76 students.

Statistical Sampling for Sales and Use Tax Audits

October 15-18, 2013 in Wheat Ridge, Colorado for 28 students.

February 10-13, 2014 in Hoover, Alabama for 16 students. (Sponsored by the Alabama Local Tax Institute of Standards and Training (ALTIST) at Auburn University.)

March 31-April 3, 2014 in Madison, Wisconsin for 15 students.

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

The training program also supported the 46th Annual Conference in San Diego, California which was attended by 91 participants.

Courses Schedule for 2014-2015

The following courses are currently scheduled:

Nexus School

September 15-16, 2014 in Little Rock, Arkansas

November 13-14, 2014 in Trenton, New Jersey

February 2015 in Montgomery, Alabama

Corporate Income Tax

Fall 2014 in Montpelier, Vermont (pending final arrangements)

April 2015 in Salem, Oregon (pending final arrangements)

Statistical Sampling for Sales and Use Tax Audits

November 17-20, 2014 in Atlanta, Georgia

Computer Assisted Audit Training Using Excel

September 25-26, 2014 in Washington, DC (pending final arrangements)

We encourage states to contact us as early as possibly regarding hosting a class. Some of our courses have a waiting list for potential host states, and we like to get classes on the schedule as early as possible, so that personnel from all states are able to participate. Updates to our schedule and registration information can be found at www.mtc.gov or by contacting MTC Training Manager, Antonio Soto at 202-650-0296.

NASBA Certification and Continuation Education Credit

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



MULTISTATE TAX COMMISSION

To: Executive Committee, Multistate Tax Commission

From: Wood Miller, Uniformity Committee Chair
Richard Cram, Sales & Use Tax Uniformity Subcommittee Chair
Robynn Wilson, Income & Franchise Tax Uniformity Subcommittee Chair

Re: Uniformity Committee Annual Report to the Commission

Date: June 30, 2014

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, a single state, a taxpayer, taxpayer groups, or any other member of the public. Once members have identified a model to develop, initial drafting takes place in our subcommittees. The subcommittees appoint work groups and drafting groups, as needed. Patricia Calore, Michigan Department of the Treasury, chairs a work group to monitor developments regarding the Marketplace Fairness Act and to recommend possible state implementation strategies for the Act should it be enacted into law. Richard Cram, Kansas Department of Revenue, chairs a work group to draft a remote seller sales tax nexus model statute. Mr. Cram also chairs a membership/industry work group to address private litigation involving transaction tax under- and over collection. All committee, subcommittee, work group and drafting group meetings and teleconferences are public and public participation is encouraged.

Through June 2014, the committee and subcommittees have met twice in person, during the December 2013 meeting in New Orleans, LA. The committee and subcommittees also met in Denver, CO in March 2014. The committee met five times by teleconference. Each subcommittee met once by teleconference. Drafting groups and work groups have met regularly by teleconference.

Projects by Status

Currently before the Commission:

Resolution Adopting Multistate Tax Compact Article IV [UDITPA] Proposed Amendments

Currently in the Public Hearing Process:

Financial Institutions Apportionment, Amendment

Currently before the Executive Committee:

Section 18 Distortion Relief

Under Development or Consideration at the Uniformity Committee and Subcommittees:

Income & Franchise Tax

1. Possible Project on Cloud Computing
2. Possible Project on Electricity
3. Strategic Planning

Sales & Use Tax

1. Sales and Use Tax Model Statute
2. Model Provisions Concerning Class Action and False Claims
3. Marketplace Fairness Act

Project Summaries

Before the Commission

Resolution Adopting Multistate Tax Compact Article IV [UDITPA] Proposed Amendments. The resolution adopts the proposed amendments to the sales factor numerator for sourcing of services and intangibles, definition of “sales,” definition of “business income,” and factor weighting.

In the Public Hearing Process

Financial Institutions Apportionment, Amendment. Early in this project, the subcommittee’s work group, 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 work group’s conceptual recommendations for making these improvements, and directed the work group to draft amendments accordingly. The work group completed a draft of recommended changes to the receipts factor and certain definitions, which the subcommittee has reviewed, amended, and preliminarily approved. The work group 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. The Uniformity Committee approved the draft model at its meeting in December 2013 and voted to submit it to the Executive Committee for approval and submission to public hearing during the Executive Committee’s May 2014 meeting. The Executive Committee approved the project for public hearing. A public hearing was held on June 23, 2014.

Before the Executive Committee

1. Compact Art.IV [UDITPA] amendments. Article IV of the Multistate Tax Compact contains UDITPA virtually word for word. In July 2009, the executive committee directed the uniformity committee to begin drafting model amendments for five of its provisions – sales factor numerator sourcing for services and intangibles, definition of “sales,” definition of “business income,” factor weighting, clarification of section 18 distortion relief – and to report back if the scope of review should be changed. The income & franchise tax uniformity subcommittee began its effort in December, 2009, with a series of educational presentations from guest experts Professor Richard Pomp, Mr. Prentiss Willson, Professor Michael McIntyre, and Professor Charles McClure. The Subcommittee then formed a drafting group, and after two years of intensive work, began making its recommended amendments for each of these five provisions. The executive committee began considering whether to approve these recommendations for public hearing in December, 2011. It asked for uniformity committee clarifications. Those clarifications were made and the executive committee took the matter up again in May, 2012. After discussion at that meeting, the July 2012 meeting, and the December 2012 meeting, the executive committee approved the proposals for public hearing. Public hearing was held March 28,

2013, with Professor Richard Pomp serving as hearing officer. The hearing officer's report, with recommended changes, was issued October 25, 2013. The Executive Committee received the hearing officer's report at its December 2013 meeting and directed the Uniformity Committee to review the report and report back to the Executive Committee. The Uniformity Committee completed its review and reported back to the Executive Committee at its meeting in May 2014. The Uniformity Committee recommended rejecting the hearing officer's proposed changes to Section 17 and 18. The Executive Committee voted to accept the Uniformity Committee's recommendation concerning the proposed changes to Section 17, but rejected the recommendation for Section 18. The Executive Committee voted to accept Professor Pomp's proposed changes to Section 18 and directed the Uniformity Committee to draft language incorporating those changes. The Uniformity Committee will vote on recommended language and refer the matter back to the Executive Committee.

2. Sales and Use Tax Notice and Reporting. At its March, 2010 meetings, the 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 Association v. Brohl*, D.C. No. 10-cv-01546-REB-CBS (10th Circuit). That opinion was issued on August 20, 2013 and held that the federal Tax Injunction Act barred the Court from hearing the case. DMA sought rehearing en banc, which was denied on October 1, 2013. DMA then filed a petition for certiorari in the U.S. Supreme Court on March 5, 2014. As of June 30, 2014, the petition is pending decision by the Court. 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.

Under Development or Consideration at the Uniformity Committee

Income & Franchise Tax Uniformity Subcommittee

1. Strategic Planning. The commission's strategic planning committee has identified four strategic goal areas — areas in which MTC must focus in order to achieve its vision. One of these areas relates to the uniformity process:

Uniformity – Our goal is to increase uniformity in tax policy and administrative practices among the states. Achievement of the MTC's uniformity goal will be reflected by:

- Greater adoption of uniformity recommendations by state and local tax jurisdictions.
- Uniformity projects will have the greatest value to the states and stakeholders.

- More multistate tax issues will be referred first to the MTC for recommendation or resolution by the states, taxpayers and the federal government.

At its July 2012 meeting, the income & franchise tax uniformity subcommittee began considering the current uniformity process: how projects are currently chosen; the current development process and how long it generally takes for each step, from initiation to commission approval; how a project's progress is planned, communicated, and tracked; how the finished product is made accessible to states and the public for consideration; and tools for tracking or recording progress of all current and completed projects. The goal was to get a better understanding of the current process and possible improvements. At its March 2013 meeting, the subcommittee reviewed proposed improvements to the uniformity process web pages and recommended that those changes be made. The strategic planning committee then asked the uniformity committee for recommendations on another project to undertake. The subcommittee suggested that it look into why uniformity recommendations are not more widely adopted. The strategic planning committee approved that proposal in July 2013. A uniformity work group was assigned to collect background information, analyze the information, and propose possible solutions. The team has surveyed states to identify the current rate of adoption for 11 models. The next step is to interview agency staff to understand why those models were or were not adopted in the states. At the December, 2013, meeting, the strategic planning work group outlined its plans to contact states regarding their adoption of uniformity provisions. The work group has now completed those interviews and compiled a list of the factors that influenced the states' decisions to adopt or not adopt certain MTC models. The work group discussed these findings with the Income & Franchise Tax Subcommittee in Denver on March 12. The work group has reached two tentative conclusions. First, political considerations are often the primary factor affecting whether MTC models are adopted by states. Second, it seems that MTC models are sometimes developed despite the fact that many states will not act on them (either the model doesn't apply to the state or the state already has addressed the issue). The work group met on April 30, 2014, and decided to recommend that the Uniformity Committee consider a project to design a front-end information and survey process so that projects that are approved for drafting have a higher potential for adoption by the states.

2. Possible Cloud Computing Project. At the March, 2014 subcommittee meeting, a member of the subcommittee suggested that the MTC investigate potential income and franchise tax issues inherent in the cloud computing industry. The subcommittee voted to do so.

3. Possible Trust Taxation Project. At the March, 2014 subcommittee meeting, Lila Disque, MTC Counsel, made a presentation on the emerging use of trusts as tax shelters analogous to the foreign subsidiaries used by large domestic corporations. The subcommittee voted to have MTC staff prepare a memo outlining the possible scope of a project to explore trust residency and other issues that might benefit from uniform law, and expressing the sense of the committee that this is an appropriate project to pursue.

4. Possible Project to Develop Regulation for Sourcing Electricity Sales. At its March 2014 meeting, the subcommittee heard a presentation by Bruce Fort, MTC Counsel, and Ken Beier, MTC Training Director, regarding a staff proposal to develop a model apportionment rule for sourcing sales of electricity by utilities, traders and wholesalers. Currently, the great majority of state revenue departments have responded to surveys stating they consider electricity to be tangible personal property sourced based on destination. A smaller number of states consider electricity to be a service, and some states consider electricity to be intangible property. Several recent court cases have cast doubt on the states' treatment of the sale of electricity under the rules applicable to tangible personal property, holding that such sales should be "sourced" according to cost of performance rules. Even with a "market-based" sourcing rule, the unique properties of electricity can lead to difficulties in determining where a stream of electricity is delivered and whether the taxpayer is subject to tax in intermediate "grid" locations. Wholesaling and trading activities add additional complexity to the industry. The subcommittee heard a brief description of a model apportionment proposal developed by

the Northeastern States Tax Administrators' Organization in the early 2000's. Only one state has followed that proposal; and only one other state has promulgated rules for apportioning interstate sales of electricity.

After discussion, the subcommittee voted to continue to study the proposed project before determining if development of a model apportionment regulation or statute would be appropriate.

Sales & Use Tax Uniformity Subcommittee

1. Sales and Use Tax Model Statute. 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 & use tax remote seller nexus statute. A work group 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.

2. Model Provisions Concerning Class Actions and False Claims. This project 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 project now encompasses exploring ways to protect retailers from lawsuits in both under and over collection situations. 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 work group 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 resolution, as amended, was referred to the subcommittee, which then referred the draft to the committee.

3. Marketplace Fairness Act. In its current form, the Marketplace Fairness Act provides states with minimal guidance concerning implementation of the Act, including the form and substance of notice requirements, etc. The subcommittee voted to begin work on model language that non-streamlined states can use to implement the act. As of the current date, the work group has performed a thorough review of the MFA and is prepared to draft model language. However, in the wake of hearings held by the Judiciary Committee on March 12, 2014, a new version of the MFA is being drafted in the House, which is expected to differ significantly from the bill as introduced. Given that fact, the work group notified the subcommittee that it would be best to put the project on hold pending further

action from Congress. The work group has reached a point where the project can be easily recommenced when there is progress in the House. A brief work group meeting was held by teleconference on June 18, 2014 for an update on the status of the project. The group continues to monitor the MFA.



MULTISTATE TAX COMMISSION

To: Executive Committee
From: Joe Huddleston
Date: July 24, 2014
Subject: 2014 Annual Report of the Executive Director

This report is a summary of the Commission’s organizational and staff activities for the period July 1, 2013, through June 30, 2014.

I. Programs & Activities

A. Joint Audit Program

The audit division completed 6 and parts of 7 income tax audits for fiscal year 2014. The audit division also completed 6 sales tax audits and parts of 9 other sales tax audits for this fiscal year. There are currently 17 income and 29 sales tax audits in progress. Proposed assessments through for fiscal year 2014 from these audits total \$42,525,220.

The following chart summarizes hourly data for completed audits for fiscal year end June 30, 2014:

Table with 4 columns: Category, Income & Franchise, Sales & Use, Total. Rows include Total Audits, Total States Audited, Total Hours, and Average Hours per State.

Aside from the meetings of the Audit Committee, states in numerous audits have met with staff via teleconferences to discuss particular audits in progress and issues specific to those audits.

Audit division staff provided instruction at two income tax training classes and three sampling class during this fiscal year.

B. National Nexus Program

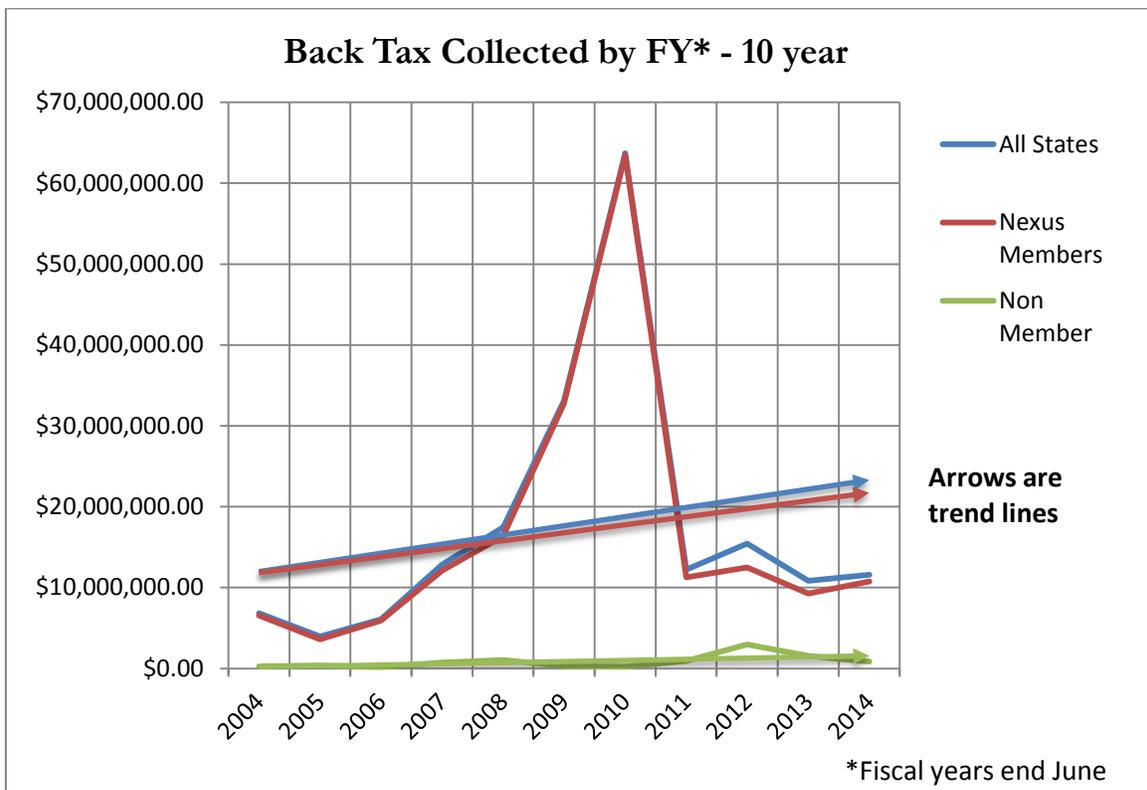
The multistate voluntary disclosure statistics for FY2014 are —

- Nexus states’ collections.....\$ 10,757,075
All states’ collections.....\$ 11,606,862

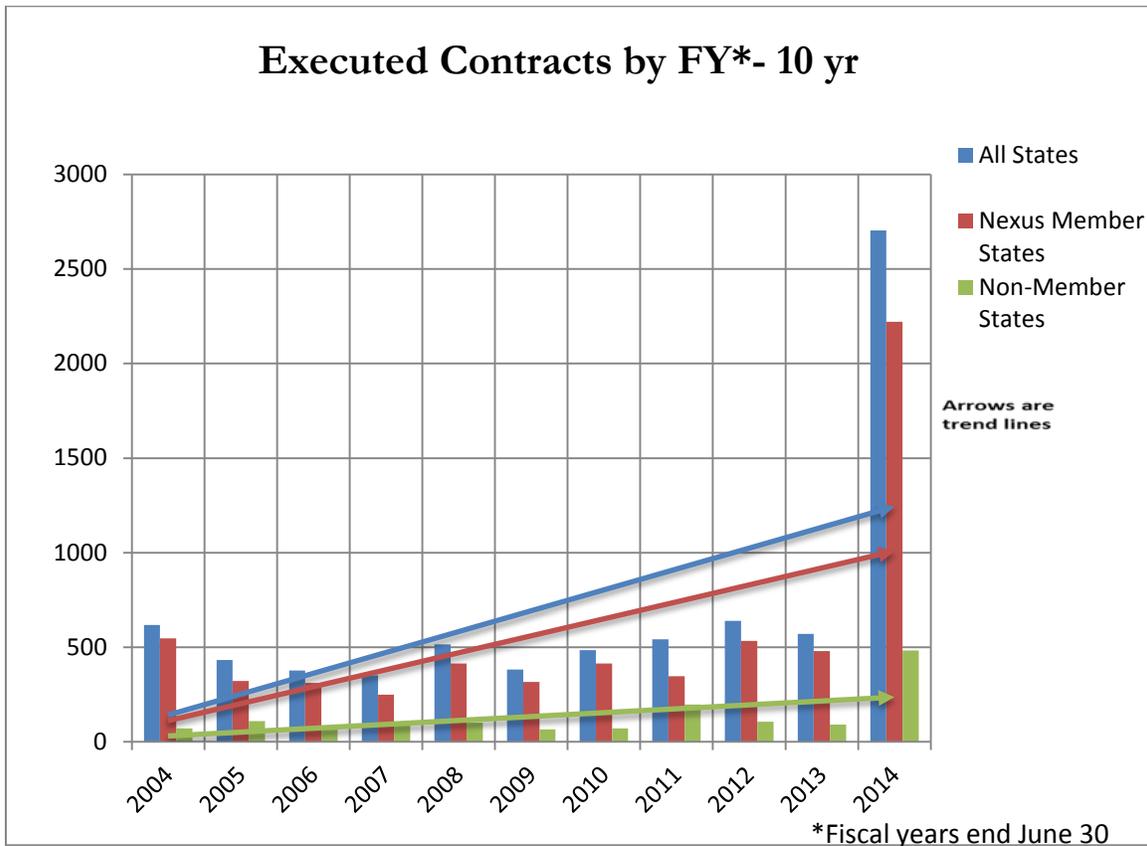
- Nexus states' executed contracts2,222
- All states' executed contracts2,704

- Nexus states' average contract value.....\$ 4,841
- All states' average contract value\$ 4,292

Please Note: All of the above amounts include only amounts actually received before the Commission closes its file; neither interest, which taxpayers pay directly to states after their Commission files are closed, nor the future value of new taxpayers are included.



The large spike in revenue recovered in FY2009 and FY2010 is due to a single taxpayer. Such large taxpayers come forward occasionally; their appearance cannot be predicted.



Nexus Committee

Staff continues to work with the Nexus Committee on various projects, including ongoing amendments to the text of the template multistate voluntary-disclosure agreement and the Procedures of Multistate Voluntary Disclosure, which provides rules for state, the Commission, and taxpayers participating in multistate disclosure. This is often required by changing state policies.

In response to a request from the committee, staff shifted its focus at the first two meetings (July and December) toward presentations of nexus-related issues, such as recent court cases, and facilitating exchange of information at roundtable discussions.

The committee approved participation in strategic planning and appointed a work group that has twice. The full committee has had two ad hoc meetings to work on strategic planning. The NNP director is a member of the work group. Strategic planning will likely be the committee's primary task for the next year. The committee intends to present a proposed project to the Commission's strategic planning Steering Committee at its July 2014 meeting for its consideration.

Strategic Planning for Marketplace Fairness Act

The NNP director and the associate director were working in a small group with consultant Elizabeth Harchenko and state representatives on a strategic plan to prepare for a single sales/use tax audit that may be required under the federal MFA, which has passed the Senate and is under active consideration in the House. However, this project is on hold pending further developments in the U.S. House of Representatives.

NNP staff has dedicated a significant amount of time to strategic planning this fiscal year and will continue to do so at least until December 2014.

Discontinuation of Free Voluntary Disclosure

The Nexus Committee requested that staff discontinue its practice of making multistate voluntary disclosure available to all states without regard to their membership status in the NNP. Staff notified commissioners and voluntary disclosure staff of non-member states that the Commission welcomes their continued participation on a paying basis effective July 1, 2014. The Commission's executive director and the director of the National Nexus Program contacted commissioners to request that they join before the deadline. The director of the National Nexus Program also contacted state staff.

Membership

There are currently thirty-eight member-states (including the District of Columbia) of the National Nexus Program. New Hampshire rejoined in September after five years absence. The Commission provides voluntary disclosure services to non-members as well until July 1, 2014. The California Franchise Tax Board (but not the State Board of Equalization), Delaware, Nevada, Ohio, Illinois, New York, and Pennsylvania were not participating when the Commission ceased offering services to non-members and were therefore unaffected by the change.

Outreach

Nexus 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. Twenty-eight states currently make no direct referral to multistate voluntary disclosure on their own disclosure pages. Minnesota posted a link in FY2014.

Nexus School

Staff taught at nexus schools in Honolulu on November 18 - 19, 2013, and in Boston on January 14 - 15, 2014.

C. Legal Division

The legal division staffs two standing committees: uniformity and litigation. The division also holds regular state tax attorney teleconferences; participates as speakers at conferences, symposiums and institutes; and teaches the commission's corporate income tax and nexus training courses. The division provides individual state support on request by filing amicus briefs in state and federal courts; consulting in litigation matters; and reviewing draft statutes, regulations, and legal briefs. The division also provides legal support for the commission's audit division, training division, and general administration, including analysis of federal legislation affecting state taxation. Since the May 2014 Executive Committee meeting, the legal division has completed a hearing on proposed financial institutional model apportionment regulations, has done extensive work on two amicus briefs in support of the Massachusetts Department of Revenue in state court, and has begun work on an amicus brief in support of Maryland for the *Wynne* case pending before the U.S. Supreme Court.

Uniformity Work

The division has staffed nine uniformity proposals under consideration by the executive and uniformity committees, in addition to a uniformity process strategic planning project:

- *Amendments to UDITPA and Compact Art. IV related provisions:*
 - Definition of "sales" - Compact Art.IV(1)(g)
 - Sales factor sourcing - Compact Art.IV.17
 - Factor weighting - Compact Art.IV.9
 - Definition of "business income" - Compact Art. IV.1(a)
 - Distortion relief - Compact Art. IV.18
- *Model Sales & Use Tax Notice and Reporting Statute* (awaiting resolution of issues in *Direct Marketing Association v. Brohl* cases)
- *Model Remote Seller Nexus Statute* (under development at uniformity subcommittee)
- *Amendments to MTC Model Financial Institutions Apportionment* (hearing held May 8, 2014)
- *Model Provisions Concerning Class Actions and False Claims* (under development at uniformity subcommittee)
- *Uniformity Process Strategic Planning Project*

Litigation Committee Work

Legal division supported the litigation committee by organizing and making presentations for the July 2013 in-person meeting in San Diego, California as well as the in-person meeting in March 2014 in Denver, Colorado. In addition, legal division organized

teleconference information and training sessions for state tax attorneys, with teleconference meetings generally including approximately 50 state attorneys from more than 35 states. There has also been a consistent trend toward increasing attendance.

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:

- *Bridges v. Thomas* (Louisiana Supreme Court) filed September 9, 2013
- *California FTB v. Gillette* (California Supreme Court) filed October 21, 2013
- *IBM v. Michigan Dep't of Treasury* (Michigan Supreme Court) filed Nov. 5, 2013
- *Alabama Dep't of Revenue v. CSX Transportation Inc.* (U.S. Supreme Court) petition granted July 1, 2014
- *Health Net Inc. v. Oregon Dep't of Revenue* (Oregon Tax Court) arguments heard July 22, 2014
- *DirecTV LLC v. Massachusetts Dep't of Revenue* (Massachusetts Supreme Judicial Court) amicus brief filed July 2014.
- *Maryland Comptroller's of the Treasury v. Wynne* (U.S. Supreme Court) petition granted May 27, 2014

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 teaching at the following classes:

- Combined Reporting Training (October 2013 - Washington D.C.)
- Nexus Training (November 2013 - Honolulu, Hawaii)
- Nexus Training (January 2014 - Boston, Massachusetts)
- Corporate Income Tax (February 2014 – Denver, Colorado)

D. Policy Research

Uniformity Project on Revising Model Statute on Apportioning Income of Financial Institutions — The policy research director continues to work with other MTC staff, state revenue agency personnel, and industry representatives to develop a better Model Apportionment statute. Policy research staff helped develop methods for situsing loan bundles for the property factor in the apportionment formula. Policy research staff also wrote a memorandum on possible adoption of alternative apportionment formula for financial institutions.

MTC Review —

- Reviewing submission by Bob Schauer and Harold Jennings regarding superiority of statistical sampling versus representative sampling for sales and use tax audits.
- Reviewing submission by Michael Udell of District Economics Group on Single Sales Factor apportionment; referred this article to Tax Analysts
- Writing article on state and local government finance and trends in state corporate income taxes.

Other Activities —

- Supports MTC efforts in addressing federal legislation with implications for state and local taxation.
- Monitor state adoption of MTC model statutes, regulations, and guidelines.
- Elected to Advisory Board of National Tax Association; collaborated with colleagues on the NTA Budget and Finance Committee to develop new budget tools, budget procedures, and dues and fee structures to be voted on by NTA Board on May 15th.
- Helped organize NTA/UMICH conference on the 100th anniversary of U.S. income tax at the Rayburn House Office Building.
- Organized session on sales taxes for Federation of Tax Administrators Revenue Estimating and Research Conference in Providence, Rhode Island, October 21-24, 2012
- Assisted executive director in preparing for presentation on U.S. fiscal federalism for OECD taxation conference in Marrakech, Morocco; presentation will be basis for future *Review* article.
- Discussant for two papers on interaction between Federal taxes and state taxes at the National Tax Association Annual Meeting.
- Organized Tax Economists Forum breakfast at Hall of States on December 4, 2013.
- Organized Tax Economists Forum breakfast at Pew Charitable Trusts on January 18, 2014.
- Co-presented on the topic of worldwide combined reporting and formulary apportionment at the Tax Economists Forum breakfast at Hall of States, April 10, 2014.
- Organized Tax Economists Forum breakfast at Hall of States on May 21, 2014.

E. Training

The Training staff supported the following training activities this fiscal year:

Corporate Income Tax

October 7-10, 2013 in Washington, DC for 34 students from the District of Columbia, Idaho, Nebraska, South Carolina, and the MTC.

February 3-6, 2014 in Denver, Colorado for 76 students—75 from Colorado and 1 from Montana.

Statistical Sampling for Sales and Use Tax Audits

October 15-18, 2013 in Wheat Ridge, Colorado for 28 students from Colorado, South Dakota, Wisconsin, Wyoming and the private sector.

February 10-13, 2014 in Hoover, Alabama for 16 students—10 from Alabama (4 from local governments and 6 from the Department of Revenue), 4 from local governments in Louisiana, 1 from the South Carolina Department of Revenue and 1 private sector participant. This session was sponsored by the Alabama Local Tax Institute of Standards and Training (ALTIST) at Auburn University.

March 31-April 3, 2014 in Madison, Wisconsin for 15 students—6 from Wisconsin, 4 from Nebraska, 2 from New Hampshire, 2 from Arizona and 1 from New Jersey.

Nexus School

November 18-19, 2013 in Honolulu, Hawaii for 53 students from the Hawaii Department of Taxation

January 14-15, 2014 in Boston (Chelsea), Massachusetts for 44 students—40 from Massachusetts, 3 from New Hampshire and 1 from West Virginia.

The training director was the principal coordinator of the July 24th annual meeting conference in San Diego, California.

The training staff supports registration activities for all regular in-person meetings of the Commission.

The training director made a presentation on Sourcing of Sales of Electricity to the Uniformity Subcommittee on Income and Franchise Tax on March 11, 2014 in Denver, and continues to support educational efforts on this topic which were requested by the Uniformity Committee.

F. Arm's-Length Adjustment Service Project

The Arm's-Length Adjustment Service (ALAS) Project was launched in March with the recruitment of an advisory group for this design effort. Eight states and the District of Columbia are participating in the project: Alabama, D.C., Florida, Georgia, Hawaii, Iowa, Kentucky, New Jersey and North Carolina. Additional states are welcome to join the project as well. Dan Bucks has been retained as the project facilitator.

The first meeting of the ALAS Advisory Group was held in St. Louis, Missouri, on Monday, June 2, 2014. They held a teleconference on June 25. Their second in-person meeting is planned for Monday, July 28th, in conjunction with the Commission's annual meeting in Albuquerque, New Mexico.

The project will evaluate a range of potential services that would support states in the pre-audit, audit, and post-audit phases of addressing transfer pricing issues. The actual services to be proposed will emerge out of the work and discussions with the states over the next year.

The objective of this effort will be to complete a design for an operational Arm's Length Adjustment Service to submit to the executive director by early April 2015. After review of the design with tax administrators of interested states, a final service design will be available for action by the Commission at its annual meeting in 2015.

II. Administration

On October 22, 2013, two income tax auditors were terminated for failure to meet performance goals. These two income tax audit positions remain vacant.

General Counsel Shirley Sicilian tendered her resignation on November 19, 2013, effective December 31, 2013. Shirley was hired in 2003 as deputy general counsel and became general counsel in July 2006. Shirley joined KPMG LLP in January 2014 as the national director of state and local tax controversy for its Washington National Tax practice.

Mike Bontrager, Senior Sales Tax Auditor, resigned January 31, 2014, to take a position with private industry. Mike had been with the Commission since November 2004.

Keith Getschel, who was the assistant commissioner for business taxes with the Minnesota Department of Revenue, has been hired as the incoming director of the Joint Audit Program. He started on June 16, 2014. Les Koenig, the current director, will retire on July 31 of this year.

Jantha Jamison began employment with the Commission on June 16, 2014, as a sales tax auditor. Jantha worked for the Nebraska Department of Revenue since 1997, most recently as a senior auditor.

Two summer interns are working in the Commission's headquarters. Stephen Emerick, an information technology major at Northern Virginia Community College, has been working with the network administrator and website manager since late May. Tong Liu, a master's degree candidate in applied economics at Johns Hopkins Institute is working with the director of Policy Research; she began in June.

Helen Hecht, who was tax counsel for the Federation of Tax Administrators, has been hired as general counsel and started on July 1, 2014.

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

- SEATA 63rd Annual Conference; *Alternative Apportionment* (Sicilian); *Multistate Tax Commission Update* (Huddleston); Hilton Head, South Carolina

AUGUST

- BNA State Tax Advisory Board Roundtable; Participant (Matson); Washington, D.C.
- Georgetown Advanced State and Local Tax Institute; *The Presumptive Correctness of Tax Assessments* (Laskin); *SALT Implications of Federal Tax Reform* (Huddleston); *MTC Compact Litigation and Refund Opportunities* (Sicilian); Washington, D.C. (Shimkin)
- Florida Tourist Development Tax Association 18th Annual Conference; *Sales Tax Enters the 21st Century* (Beier); Clearwater, Florida
- 2013 Annual Meeting of MSATA; Oklahoma City, Oklahoma (Huddleston)

SEPTEMBER

- 2013 Annual Meeting of NESTOA; Philadelphia, Pennsylvania (Huddleston)

OCTOBER

- 2013 FTA Revenue Estimating and Research Conference; Springfield, Illinois (Dubin)
- 2013 WSATA Conference; *Multistate Tax Commission Update* (Fort); Salt Lake City, Utah
- National Association of State Bar Tax Sections Annual Conference (Laskin, presenter); Washington, D.C.
- Bloomberg BNA Online Seminar: *Revising UDITPA and the Multistate Tax Compact*; (Sicilian)

- Hartman State and Local Tax Forum; *Burden of Proof in State Taxation* (Fort); Nashville, Tennessee (Huddleston, Sicilian)
- Pennsylvania Institute of Certified Public Accountants 2013 Multistate Tax Conference; *Multistate Tax Commission Update* (Shimkin); Malvern, Pennsylvania
- Tax Executives Institute 68th Annual Conference; *Effect of the Gillette Decision and Current MTC Projects on Taxpayers* (Matson); New Orleans, Louisiana

NOVEMBER

- Tax Analysts Conference: *The Project to Rewrite UDITPA: Does Model Legislation Have an Expiration Date?* (Sicilian); Washington, D.C. (Huddleston, Matson, Dubin, Disque)
- COST 2013 Mid-Atlantic Regional State Tax Seminar; *Everything You Wanted to Know, But Were Afraid to Ask, About the MTC* (Matson); McLean, Virginia
- 2013 California Tax Policy Conference; Moderator: *Shave and a Haircut: (Two) Thoughts on the Future of the Multistate Tax Compact after Gillette* (Huddleston); San Jose, California
- AICPA 2013 National Tax Conference; State & Local Tax Committee; Presenter (Shimkin); Washington, D.C.
- 2013 New England State and Local Tax Forum; *State of the States* (Huddleston); Newton, Massachusetts
- National Tax Association 106th Annual Conference on Taxation; Discussant: *Interacting Federal and State Taxes* (Dubin); Tampa, Florida

DECEMBER

- International Tax Dialogue (ITD) Global Conference on Tax and Intergovernmental Relations, *Tax Administration: Striking the Right Balance – A U.S. Multistate Perspective* (Huddleston), Marrakech, Morocco

JANUARY

- 23rd Annual Ohio State Tax Conference; Columbus, Ohio (Huddleston)

FEBRUARY

- NYU State Tax Group lunch meeting, New York, New York (Huddleston)
- Deloitte and Florida Bar Tax Section's National Multistate Tax Symposium; Orlando, Florida (Huddleston)
- Memphis Lunch Group of the Institute for Professionals in Taxation, *The Multistate Tax Commission Programs & Projects: A National Overview of Issues Facing Taxpayers and State Revenue Departments* (Huddleston), Memphis, Tennessee

MARCH

- D.C. Bar State and Local Tax Committee Luncheon, discussion of federal legislation on state and local tax issues (Matson, panelist), Washington, D.C. (Abalos)
- Cornell State & Local Tax Discussion Group, *Current Tax Events* (Huddleston), New York, New York
- Tax Executive Institute's 64th Midyear Conference, Washington, D.C. (Huddleston)
- American Enterprise Institute and International Tax Policy Forum, *Economic Effects of Territorial Taxation*, Washington, D.C. (Dubin)

APRIL

- Crowell & Moring's D.C. Tax Executives Luncheon, *Multistate Tax Commission Update and National Issues in State Taxation* (Huddleston), Tysons Corner, Virginia
- Tax Economists Forum, *It's Time to Adopt World Wide Formulary Apportionment & Combined Reporting* (Dubin, co-presenting), Washington, D.C. (Huddleston, Matson)
- The Office of Tax Policy Research at the University of Michigan, the Center for Business and Economic Research at the University of Tennessee and the Department of Economics at the University of Georgia, Conference on Subnational Government Competition, Knoxville, Tennessee (Huddleston)
- 11th Annual New Mexico Tax Research Institute Tax Policy Conference, *UDIPTA – Past Present and Future* (Fort, panelist), Albuquerque, New Mexico

MAY

- American Bar Association Section of Taxation May Meeting; *Aftershave: Multistate Tax Compact Election Litigation Sweeps the Nation* (Laskin, panelist); Washington, D.C. (Huddleston)
- National Tax Association 44th Spring Symposium; Washington, D.C. (Dubin)
- Bloomberg BNA Online Seminar, *Analyzing Bloomberg BNA's 2014 Survey of State Tax Departments* (Shimkin, panelist)
- Bloomberg BNA Online Live Event, *State Taxation in the Digital Age* (Shimkin, panelist)

JUNE

- OECD International Tax Conference; Washington, D.C. (Huddleston)
- Tax Economists Forum, Urban Institute; Washington, D.C. (Dubin)
- Bloomberg BNA-Baker McKenzie U.S. Transfer Pricing Primer; Washington, D.C. (Matson)
- Federation of Tax Administrators Annual Meeting; *Market Sourcing Issues – Emerging Rules* (Fort, panelist); *UDITPA Update – Past, Present and Future* (Laskin, panelist); *SCOTUS, SALT and the Road Ahead* (Fort, panelist); St. Petersburg, Florida (Huddleston, Matson)

- Tax Analysts Conference: *U.S. State Tax Considerations for International Tax Reform* (Huddleston, panelist); Washington, D.C. (Matson, Dubin, Disque)
- Indiana Tax Competitiveness and Simplification Conference; *Sales and Use Tax* (Laskin, panelist); Indianapolis, Indiana
- IRS-Tax Policy Center Research Conference, *Advancing Tax Administration*; Washington, D.C. (Dubin)
- Tax Economists Forum, Deloitte; *State Implications of Federal Tax Reform*; Washington, D.C. (Dubin)

Technology Addendum

The Technology Committee was inactivated by the Executive Committee in June of 2011; during the time this committee is inactive, the Executive Director is responsible for providing this technology update with this report.

The Commission's new Exchange 2010 email server continues to coexist with the Exchange 2003 server. Configuration issues with the backup server have been resolved, and the migration of mailboxes is close to completion. The remaining mailboxes need to be cleaned up before migrating to minimize the possibility of corruption during the migration.

The Commission continues to work with Quality Assessment Solutions, LLC, on the state contact portal. The application has been tested and QAS, LLC is in the final stages of remediation of all issues that the deputy executive director and network administrator identified during their testing. Active Directory testing is complete and the final data synchronization should occur soon.

The network administrator has also been working with National Nexus Program staff to provide technical support for the voluntary disclosure application system. A second Statement of Work has been signed with the software Development Company and work has begun on an extensive list of corrections and improvements to the voluntary disclosure application system. Upon completion of this second round of improvements, the online application will be addressed with the software development company.

The software vendor that is doing work on the voluntary disclosure application system has also been contacted to migrate the Audit History database, which currently is in Access 2000, to a SQL server backend and a web interface for the end user. This will allow the Audit Historical data to be viewed, added and edited by internal users that have permissions to do so.

The need for a way to securely transfer large (over 10 MB) files has continues to be an issue for commission staff. The network administrator has an initial meeting with a vendor this week to discuss a possible solution. Other vendors will be contacted to determine the best possible and most fiscally feasible solution.

The normal maintenance of server hardware in the various offices occurs on a regular basis.

The laptops and computers for the entire MTC staff have been received and configured. The majority of the audit staff has been issued new laptops. The network administrator continues to deploy laptops and desktops to the legal and support staff.

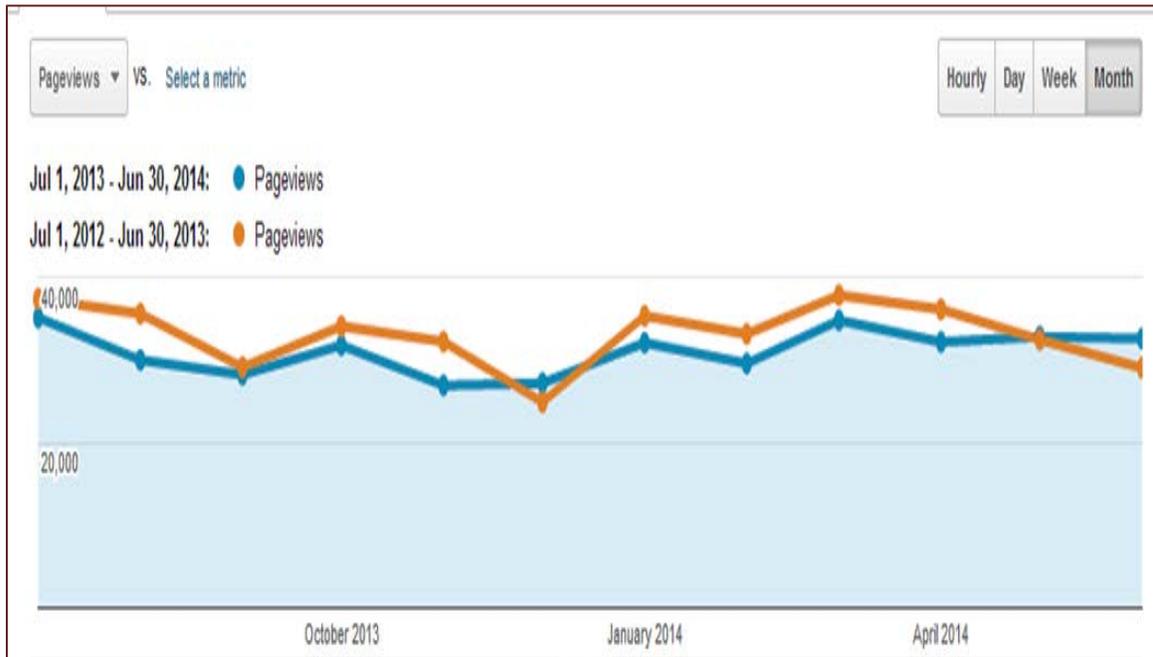
The Commission continues to maintain its current website while building a new infrastructure. The staff has made steady improvement in transitioning to a new website with an updated content management system (CMS).

In April, the website manager and deputy executive director completed Content Administrator Essential Training online for the Kentico CMS. The training provided an in-depth view of the web content system. The website manager also completed Developer Essential Training online later in April.

The new website is currently in the last phase of testing. We have completed our content migration phase from our old CMS to the new CMS. The new website will include a new look and feel, redesigned content locations, and overall increase of website performance. The new website will allow reformatting of the uniformity content. We have improved the content layout for ease of use of locating information.

The following chart tracks pageviews by month over the last fiscal year (blue) and has a comparative overlay of the previous fiscal year (gold):

Website Pageviews



MULTISTATE TAX COMMISSION

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

**For the Years Ended
June 30, 2014 and 2013**

LSWG

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

MULTISTATE TAX COMMISSION
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June 30, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, and the changes in its fund balances and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Linton Shafer Warfield & Garrett

Rockville, Maryland
November 7, 2014

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 1,008,392	\$ 916,354
Accounts receivable		
Schools	-	8,135
Accrued interest	26,435	23,697
Prepaid expenses	20,056	34,995
Total Current Assets	<u>1,054,883</u>	<u>983,181</u>
Property and Equipment - at Cost		
Office furniture and equipment	637,664	625,025
Leasehold improvements	236,147	236,147
Less: accumulated depreciation and amortization	<u>(697,555)</u>	<u>(679,437)</u>
Property and Equipment - Net	<u>176,256</u>	<u>181,735</u>
Other Assets		
Investments	4,505,799	4,410,660
Expense account advances	7,600	8,400
Deposits	6,165	6,165
Total Other Assets	<u>4,519,564</u>	<u>4,425,225</u>
TOTAL ASSETS	<u>\$ 5,750,703</u>	<u>\$ 5,590,141</u>

LIABILITIES

	<u>2014</u>	<u>2013</u>
Current Liabilities		
Accounts payable	\$ 57,315	\$ 17,714
Accrued salaries and vacation pay	361,464	389,399
Unearned membership, program and registration fees	<u>256,053</u>	<u>193,396</u>
Total Current Liabilities	<u>674,832</u>	<u>600,509</u>
 TOTAL LIABILITIES	 <u>674,832</u>	 <u>600,509</u>
 Commitments and Contingencies - Note 3		
 Fund Balances		
Unappropriated	3,305,308	3,218,704
Appropriated	599,921	587,421
Restricted	<u>1,170,642</u>	<u>1,183,507</u>
Total Fund Balances	<u>5,075,871</u>	<u>4,989,632</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 5,750,703</u>	 <u>\$ 5,590,141</u>

The accompanying notes are an integral part of these statements.

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

	<u>2014</u>	<u>2013</u>
Revenue - Unappropriated and Appropriated		
Assessments	\$ 5,633,586	\$ 5,641,741
Interest and dividends	127,354	175,806
Realized gain (loss) on investments	365	(18,288)
Unrealized gain (loss) on investments	61,523	(69,354)
Other income		
Training fees	206,465	215,570
Miscellaneous	10,813	16,922
Total Revenue	<u>6,040,106</u>	<u>5,962,397</u>
Expenses - Unappropriated and Appropriated		
Accounting	16,331	15,356
Bonds and insurance	17,406	16,355
Conferences and training schools	124,280	133,203
Depreciation	69,458	91,628
Bond amortization	67,649	67,665
Employee benefits	884,857	964,301
Miscellaneous	26,928	18,594
Consumable supplies	31,111	40,535
Postage	22,094	23,015
Printing and duplicating	15,918	20,274
Professional services	238,863	234,535
Publications and electronic resources	45,478	29,492
Recruitment	545	2,385
Rent	241,559	230,476
Repairs and maintenance	21,212	19,256
Retirement plan	426,412	434,060
Salaries	3,436,204	3,610,640
Software licenses	9,139	5,474
Staff training	10,488	9,657
Subscriptions, publications, dues	46,657	44,945
Unified communications	28,766	44,715
Travel	293,081	283,499
Allocation of administrative expenses	(133,434)	(117,399)
Total Expenses	<u>\$ 5,941,002</u>	<u>\$ 6,222,661</u>

(continued)

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

	2014	2013
Excess of Revenue Over (Under) Expenses	\$ 99,104	\$ (260,264)
Transfer (to) from Appropriated Fund Balance	(12,500)	21,666
Transfer from Restricted Fund Balance	-	-
Total Amount Transferred	(12,500)	21,666
 FUND BALANCE - Unappropriated - Beginning of Year	 3,218,704	 3,457,302
 FUND BALANCE - Unappropriated - End of Year	 \$ 3,305,308	 \$ 3,218,704

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, 2014 and 2013

	Federal Tax Information Data Sharing Initiative	Equipment Reserve	Enterprise Automation Project	Total
Fund Balance - June 30, 2012	\$ 34,166	\$ 19,206	\$ 555,715	\$ 609,087
Transfer (to) from Unappropriated Fund Balance	<u>(34,166)</u>	<u>12,500</u>	<u>-</u>	<u>(21,666)</u>
Net Amount Transferred (To) From From Unappropriated Fund Balance	<u>(34,166)</u>	<u>12,500</u>	<u>-</u>	<u>(21,666)</u>
Fund Balance - June 30, 2013	<u>\$ -</u>	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		<u>\$ 44,206</u>	<u>\$ 555,715</u>	<u>\$ 599,921</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Changes in Fund Balance
Restricted Funds
For the Years Ended June 30, 2014 and 2013

	4R Project	Nexus Program	Total
Fund Balance - June 30, 2012	\$ 42,694	\$ 1,082,071	\$ 1,124,765
Revenue	-	758,799	758,799
Expenses	<u>-</u>	<u>700,057</u>	<u>700,057</u>
Revenue Over (Under) Expenses	<u>-</u>	<u>58,742</u>	<u>58,742</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>
Transfer to Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2014	<u>\$ 42,694</u>	<u>\$ 1,127,948</u>	<u>\$ 1,170,642</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over (under) expenses	\$ 86,239	\$ (201,522)
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided by operating activities		
Depreciation	73,590	95,482
Bond amortization	67,649	67,665
Loss on disposal of property and equipment	21,956	2,761
Unrealized (gain) loss on investments	(61,523)	69,354
Realized (gain) loss on sale of investments	(365)	18,288
Changes in assets and liabilities		
Accounts receivable		
Schools	8,135	38,985
Fees	-	225,000
Prepaid expenses and accrued interest	12,201	35,779
Expense account advances	800	(800)
Accounts payable	39,601	(40,893)
Accrued salaries and vacation pay	(27,935)	37,174
Unearned membership, program and registration fees	62,657	(276,879)
Net Cash Provided by Operating Activities	283,006	70,394
Cash Flows From Investing Activities		
Purchase of property and equipment	(90,067)	(15,562)
Proceeds from sale of property and equipment	-	1,000
Purchase of investments	(2,226,283)	(2,176,889)
Proceeds from sale of investments	2,125,382	1,462,667
Net Cash (Used in) Investing Activities	(190,968)	(728,784)
Net Increase (Decrease) in Cash and Cash Equivalents	92,038	(658,390)
Cash and Cash Equivalents - Beginning of Year	916,354	1,574,744
Cash and Cash Equivalents - End of Year	\$ 1,008,392	\$ 916,354
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, 2014 and 2013

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 \$500 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

Assessments and audit reimbursements 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. Assessments received prior to July 1st for the following year are unearned and considered deferred income until recognized as revenue in the following year.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2014 and 2013

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, 2014 and 2013

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, 2014 and 2013 was \$466,518 and \$469,129, 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 January 31, 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>
2015	\$ 364,677
2016	360,904
2017	337,686
2018	342,441
2019	350,146

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, 2014 and 2013 was \$379,844 and \$366,187, 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. For the years ended June 30, 2014 and 2013 the Enterprise Automation fund balance was \$555,715.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2014 and 2013

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 \$67,500 has been authorized in subsequent years. The purpose of this fund is to provide support for purchases of computer equipment for the Commission's audit program and information technology department. For the years ended June 30, 2014 and 2013, the Equipment Reserve fund balances were \$44,206 and \$31,706, respectively.

The Commission's Executive Committee authorized the Federal Tax Information Data Sharing Initiative fund in the amount of \$86,556 during the year ended June 30, 2011. The purpose of this fund is to establish and monitor the operation of the Commission as an agent and representative of those states requesting contractor services with respect to federal tax information (FTI). For the years ended June 30, 2014 and 2013, the Federal Tax Information Data Sharing Initiative fund balances were \$0.

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. For the years ended June 30 2014 and 2013, 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. For the years ended June 30 2014 and 2013, the National Nexus program fund balances were \$1,127,948 and \$1,140,813, 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.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2014 and 2013

6. Deferred Compensation Plan (continued)

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).

7. Investments

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

	Cost 2014	Market 2014	Cost 2013	Market 2013
Investments				
Mutual funds	\$ 1,429,699	\$ 1,445,879	\$ 1,433,386	\$ 1,425,381
Money market funds	38,482	38,482	25,111	25,111
Corporate bonds	309,539	309,356	320,207	312,336
Corporate stock	212,612	253,025	214,719	214,460
US Government and Agency securities	<u>2,449,942</u>	<u>2,459,057</u>	<u>2,431,587</u>	<u>2,433,372</u>
Total Investments	<u>\$ 4,440,274</u>	<u>\$ 4,505,799</u>	<u>\$ 4,425,010</u>	<u>\$ 4,410,660</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, 2014 and 2013, the Commission paid investment fees of \$23,813 and \$23,762, 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, 2014 and 2013

10. Concentration of Credit Risk

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

11. Subsequent Events

Management has evaluated subsequent events through November 7, 2014, the date that the financial statements were available to be issued. There were no significant events to report.

ADDITIONAL INFORMATION



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

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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, 2014, and have issued our report thereon dated November 7, 2014, 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
November 7, 2014

MULTISTATE TAX COMMISSION

Schedule of Expenses
For the Year Ended
June 30, 2014

	Unappropriated and Appropriated Funds				Restricted Funds			
	General Expenses	Audit Program	Administrative Expenses	Training and Education	Unappropriated and Appropriated Funds	National Nexus Program	Total Restricted Funds	Total All Funds
Accounting	\$ 11,500	\$ -	\$ 4,831	\$ -	\$ 16,331	\$ -	\$ -	\$ 16,331
Bonds and insurance	-	-	17,406	-	17,406	-	-	17,406
Conferences and training schools	98,300	10,514	52	15,414	124,280	9,344	9,344	133,624
Depreciation	-	4,003	65,455	-	69,458	4,132	4,132	73,590
Bond amortization	67,649	-	-	-	67,649	-	-	67,649
Employee benefits	132,691	563,701	164,186	24,279	884,857	101,656	101,656	986,513
Miscellaneous	9,246	6,949	8,596	2,137	26,928	764	764	27,692
Consumable supplies	3,143	11,187	14,074	2,707	31,111	1,939	1,939	33,050
Postage	5,109	9,418	2,279	5,288	22,094	7,713	7,713	29,807
Printing and duplicating	3,067	4,428	-	8,423	15,918	669	669	16,587
Professional services	195,086	-	39,377	4,400	238,863	8,974	8,974	247,837
Publications and electronic resources	4,807	24,237	16,434	-	45,478	457	457	45,935
Recruitment	-	545	-	-	545	-	-	545
Rent	33,069	83,485	125,005	-	241,559	138,285	138,285	379,844
Repairs and maintenance	340	178	20,694	-	21,212	238	238	21,450
Retirement plan	78,517	269,986	66,715	11,194	426,412	40,106	40,106	466,518
Salaries	607,542	2,176,050	562,344	90,268	3,436,204	324,239	324,239	3,760,443
Software licenses	155	14	8,970	-	9,139	-	-	9,139
Staff training	3,593	325	6,195	375	10,488	1,300	1,300	11,788
Subscriptions, publications, dues	21,297	9,602	14,933	825	46,657	8,910	8,910	55,567
Unified communications	6,994	13,333	6,519	1,920	28,766	2,184	2,184	30,950
Travel	68,597	169,769	23,543	31,172	293,081	10,140	10,140	303,221
Allocation of administrative expenses	351,252	682,922	(1,167,608)	-	(133,434)	133,434	133,434	-
Total Expenses	\$ 1,701,954	\$ 4,040,646	\$ -	\$ 198,402	\$ 5,941,002	\$ 794,484	\$ 794,484	\$ 6,735,486

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